

This document comprises a registration document (the "**Document**") relating to AB "Ignitis grupė" (the "**Company**" and, together with its subsidiaries, the "**Group**") for the purposes of the Prospectus Regulation (EU) 2017/1129, as amended (the "**Prospectus Regulation**"), and the Law on Securities of the Republic of Lithuania, as amended (the "**Law on Securities**") and the rules promulgated thereunder. This Document has been filed with, and was approved by the Bank of Lithuania (in Lithuanian: *Lietuvos bankas*, the "**BoL**") on 4 September 2020. The BoL only approves this Document as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the company that is the subject of this Document.

The Company accepts responsibility for the information contained in this Document. To the best of the knowledge and belief of the Company, Mr Darius Maikštėnas (Chief Executive Officer) and Mr Darius Kašauskas (Director of Finance and Treasury), the information contained in this Document is in accordance with the facts and contains no omissions likely to affect its import.

This Document should be read in its entirety. See the section entitled "*Risk Factors*" for a discussion of certain risks relating to the Group and its business and industry.



AB "Ignitis grupė"

(a public limited liability company incorporated and existing under the laws of the Republic of Lithuania, company code 301844044)

No representation or warranty, express or implied, is made and no responsibility or liability is accepted by any person other than the Company, as to the accuracy, completeness, verification or sufficiency of the information contained herein and nothing contained in this Document is, or shall be relied upon as, a promise or representation by any of the Company's advisers or any of their respective affiliates as to the past, present or future. The delivery of this Document shall not, under any circumstances, create any implication that there has been no change in the business or affairs of the Company taken as a whole since the date of this Document or that the information contained herein is correct as of any time subsequent to its date. No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company. Without limitation, the contents of the Company's website, the contents of any website accessible from hyperlinks on the Company's website or any other website referred to in this Document are not incorporated into, and do not form part of, this Document and information contained therein should not be relied upon by any person.

This Document may be combined with a securities note and summary to form a prospectus in accordance with the Prospectus Regulation. A prospectus is required before an issuer can offer transferable securities to the public or request the admission of transferable securities to trading on a regulated market. However, this Document, where not combined with a securities note and summary to form a prospectus, does not constitute an offer or invitation to sell or issue, or a solicitation of an offer or invitation to purchase or subscribe for, any securities in the Company in any jurisdiction, nor shall this Document alone (or any part of it), or the fact of its distribution, form the basis of, or be relied upon in connection with, or act as any inducement to enter into, any contract or commitment whatsoever with respect to any offer or otherwise.

The distribution of this Document may be restricted by law in certain jurisdictions. No action has been taken by the Company that would permit possession or distribution of this Document in any jurisdiction where action for that purpose is required. Persons into whose possession this Document comes are required by the Company to inform themselves about and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. In the United States, this Document may not be distributed nor may copies of it be made available without the Company's prior written consent other than to people who have been retained to advise in connection with this Document or persons reasonably believed by the Company to be "qualified institutional buyers" ("**QIBs**") as defined in Rule 144A under the US Securities Act of 1933, as amended (the "**US Securities Act**").

The securities referred to in this Document have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in or into the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act.

The contents of this Document are not to be construed as legal, financial or tax advice. Each recipient of this Document should consult his, her or its own legal, financial or tax adviser for advice.

A list of defined terms used in this Document is set out in Part 12 ("*Definitions*") and a glossary of technical terms used in this Document is set out in Part 13 ("*Glossary*").

This Document speaks as of the date hereof. The date of this Document is 4 September 2020.

TABLE OF CONTENTS

	Page
RISK FACTORS	1
1. RISKS RELATING TO THE GROUP AND ITS BUSINESS	1
2. RISKS RELATING TO LEGISLATION AND REGULATION	17
3. RISKS RELATING TO COMMODITIES AND MARKETS	25
4. RISKS RELATING TO THE FINANCIAL CONDITION OF THE GROUP	27
5. RISKS RELATING TO THE POLITICAL AND ECONOMIC ENVIRONMENT	29
IMPORTANT INFORMATION ABOUT THIS DOCUMENT	32
1. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS.....	32
2. ENFORCEMENT OF CIVIL LIABILITIES	34
3. PRESENTATION OF FINANCIAL INFORMATION AND OTHER INFORMATION	36
PART 1 – DIVIDEND POLICY	41
1. DIVIDEND POLICY	41
2. RECENT DIVIDENDS	41
3. LEGAL AND REGULATORY REQUIREMENTS	42
PART 2 – MARKET OVERVIEW	44
1. MACROECONOMIC OVERVIEW OF THE BALTIC REGION AND POLAND	44
2. THE BALTICS.....	45
3. POLAND.....	58
PART 3 – SELECTED FINANCIAL INFORMATION	64
1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	64
2. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME.....	66
3. CONSOLIDATED STATEMENT OF CASH FLOWS	67
4. ALTERNATIVE PERFORMANCE MEASURES.....	69
PART 4 – BUSINESS OVERVIEW	85
1. OVERVIEW.....	85
2. COMPETITIVE STRENGTHS	86
3. STRATEGY	91
4. ORGANISATIONAL STRUCTURE	95
5. HISTORY AND DEVELOPMENT OF THE GROUP	97
6. THE GROUP'S BUSINESS	99
7. EMPLOYEES	127
8. LICENCES	128
9. INSURANCE	128
10. RISK MANAGEMENT	129
11. ENVIRONMENTAL MATTERS.....	130
12. LEGAL PROCEEDINGS	130
PART 5 – OPERATING AND FINANCIAL REVIEW	134
1. OVERVIEW.....	134
2. BASIS OF PREPARATION AND RESTATEMENT OF 2017 AND 2018 FINANCIAL STATEMENTS AND H1 2019 INTERIM FINANCIAL STATEMENTS.....	138
3. OPERATING SEGMENTS	139
4. SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS	140
5. CURRENT TRADING AND RECENT DEVELOPMENTS.....	175
6. EXPLANATION OF STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS.....	175
7. RESULTS OF OPERATIONS.....	178
8. PROPERTY, PLANT AND EQUIPMENT	189
9. INVESTMENTS	190
10. LIQUIDITY AND CAPITAL RESOURCES	191
11. CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES.....	194
12. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK.....	195
13. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS	196
PART 6 – MANAGEMENT AND CORPORATE GOVERNANCE	204
1. GENERAL OVERVIEW	204
2. SUPERVISORY BOARD.....	204

3.	COMMITTEES OF THE SUPERVISORY BOARD	206
4.	MANAGEMENT BOARD	209
5.	CHIEF EXECUTIVE OFFICER AND DIVISION HEADS	212
6.	ADDITIONAL INFORMATION IN RELATION TO THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS	213
7.	CORPORATE GOVERNANCE.....	219
8.	SECURITIES DEALING CODE.....	220
	PART 7 – REGULATION.....	221
1.	REGULATION APPLICABLE TO THE COMPANY AND ITS GROUP DUE TO THE COMPANY BEING A STATE-OWNED ENTITY AND IMPORTANT IN RELATION TO THE NATIONAL SECURITY INTEREST OF THE REPUBLIC OF LITHUANIA ..	221
2.	REGULATION GOVERNING THE GROUP'S BUSINESSES IN THE REPUBLIC OF LITHUANIA.....	225
	PART 8 – RELATIONSHIP WITH THE PRINCIPAL SHAREHOLDER AND RELATED PARTY TRANSACTIONS.....	245
1.	THE PRINCIPAL SHAREHOLDER	245
2.	RELATED PARTY TRANSACTIONS	245
	PART 9 – DESCRIPTION OF THE SHARE CAPITAL OF THE COMPANY AND APPLICABLE LITHUANIAN LEGISLATION.....	247
1.	INCORPORATION	247
2.	SHARE CAPITAL	247
3.	MAJOR SHAREHOLDERS	247
4.	SUMMARY OF RIGHTS ATTACHING TO SHARES	248
5.	ARTICLES OF ASSOCIATION	251
	PART 10 – INDEPENDENT AUDITORS	255
	PART 11 – GENERAL INFORMATION.....	256
1.	DOCUMENTS AVAILABLE FOR INSPECTION.....	256
2.	SIGNIFICANT CHANGE	256
3.	SIGNIFICANT SUBSIDIARIES	256
4.	MATERIAL CONTRACTS.....	257
	PART 12 – DEFINITIONS.....	259
	PART 13 – GLOSSARY	266
	FINANCIAL STATEMENTS	F-1

RISK FACTORS

The Group is subject to a number of risks. Recipients of this Document should carefully consider the risks and uncertainties described below, together with the other information contained in this Document. The occurrence of any of the events or circumstances described in these risk factors, individually or together with other circumstances, could have a material adverse effect on the business, results of operations, financial conditions and prospects of the Group. All these risk factors and events are contingencies that may or may not occur. The Group may face a number of these risks simultaneously, and one or more risks described below may be interdependent. In accordance with Article 16 of the Prospectus Regulation, the most material risk factors have been presented first in each category, but the order in which the remaining risk factors within each category are presented is not necessarily an indication of the likelihood of these risks actually materialising, of the potential significance of these risks or of the scope of any potential harm to the business, results of operations, financial condition and prospects of the Group.

The risk factors are based on assumptions that could turn out to be incorrect. Furthermore, although the Company believes that the risks and uncertainties described below are the most material risks and uncertainties concerning the Group, the business of the Group or the industries in which the Group operates as at the date of this Document, they are not the only risks and uncertainties relating to the Group, the business of the Group or the industries in which the Group operates. Other risks, factors or circumstances not presently known to the Company or that the Company currently deems to be immaterial could, individually or cumulatively, prove to be important and could have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

Recipients of this Document should read and carefully review the entire Document and should reach their own views before making an investment decision with respect to any securities referred to in this Document. Furthermore, each recipient of this Document should consult his, her or its legal adviser, independent financial adviser or tax adviser for legal, financial, business, investment or tax advice.

1. RISKS RELATING TO THE GROUP AND ITS BUSINESS

1.1 ***The Group's financial performance could be adversely affected by changes in tariffs set for the regulated markets of electricity and gas distribution, which are the principal components of the Group's Networks segment.***

A substantial portion of the Group's revenues, and a majority of the Group's adjusted EBITDA, are generated from its Networks business segment, which principally comprises the Group's electricity and gas distribution businesses. For the year ended 31 December 2019, 37.9 per cent. of the Group's revenues and 69.5 per cent. of its adjusted EBITDA (40.0 per cent. and 74.9 per cent., respectively, for the six-month period ended 30 June 2020) were derived from the Group's Networks business segment. Tariffs for electricity and gas distribution on the regulated market in Lithuania are set by the NERC by establishing the upper limit for tariffs of the distribution services. Specific prices for distribution are established by the Group within the limits approved by the NERC.

With respect to both electricity and gas distribution, the NERC sets price caps and allowed revenues, as applicable, for the provision of network services annually on an *ex ante* basis with the weighted average cost of capital ("**WACC**") set for five-year periods (subject to the cost of debt component being recalculated annually) on the basis of a reasonable return on the regulated asset base ("**RAB**"). The current price setting period for electricity runs through the end of 2021, while the current price setting period for gas runs until the end of 2023. The allowed tariffs are calculated to compensate for operating expenses and taxes (other than corporate income tax), technological losses (which encompass network losses, electricity for own needs and commercial losses), RAB depreciation and amortisation and provide a reasonable return calculated as the RAB times the WACC. For the electricity distribution business, the RAB component of the calculation is currently based on the historical cost model for part of the RAB and on the long-run average incremental cost ("**LRAIC**") model for the remaining part of the RAB, while, for the gas distribution business, the RAB component is based on the historical cost model. The key elements that have the most material impact on the Networks segment's results are the calculation of the RAB value, depreciation and amortisation and the WACC.

The current regulatory period for electricity was originally due to expire at the end of 2020 but was extended for one year without revision to the price caps or methodology for the RAB model. The NERC

has not revised significantly its methodology for the RAB model for electricity distribution since the beginning of the current regulatory period in 2016, and there can be no assurances as to whether the current methodology for electricity distribution will continue to be applied for periods subsequent to the expiration of the current period, expected to be at the end of 2021. A change by the NERC in methodology for the RAB component for electricity distribution pricing in a manner that results in lower price caps for our electricity distribution business would have an adverse effect on the results of operations of the Networks business segment, and accordingly the Group, which could be material.

The NERC sets tariffs according to the principles set out in the regulatory price setting methodology. However, there may sometimes be disagreements regarding the correct application of the methodology. For example, the Group's tariffs in 2019 were reduced because when calculating the allowable level of income from distribution activities for 2016 and 2017, the NERC did not account for a portion (approximately EUR 53 million) of the cost of capital of the Group (returns from 2016 and 2017 were adjusted on the basis of historical cost RAB rather than the RAB value based on the LRAIC model), which the Group then appealed, contending that the NERC had unreasonably reduced the amount of the Group's income in 2019 and 2020 by approximately EUR 26.5 million each. The NERC noted that the impact of the adjustments should be assessed when setting the price caps for electricity distribution for the next price setting period and that the LRAIC model should be applied for the new price setting period in order to maintain an integral financing level of reasonable and necessary investments for the renewal of LRAIC-optimised assets. As per the NERC explanation, the network elements which have been optimised applying the LRAIC model, but have not been renewed by the Company during the current price setting period from the funds included in set price caps, should be assessed by determining the cost of capital calculated using the LRAIC model for the new price setting period, provided that the Company plans to invest in the renewal of these network elements during the next price setting period (2022–2026). However, there can be no assurance that the NERC will return the amounts as indicated in its letter or that the NERC will not make adjustments of this nature in the future, and the basis for the Group to appeal this in the future could be weakened if the NERC were to change the regulatory methodology for calculating the RAB component after the expiration of the current regulatory period at the end of 2021.

Any tariffs approved by the NERC may not reach the levels required to support the Group's expected return on investments. In addition, the Group may not receive approval to increase tariffs for any given regulatory period, and the WACC may be set at a level which would negatively impact the regulated tariffs and prevent the Group from maintaining or improving its profit margins. Any adverse changes in the tariffs set and regulated by the NERC could have a material adverse effect on the Group's business, results of operations and financial condition.

For a discussion of other regulatory risks faced by the Group, see paragraph 2 of this section titled "*Risk Factors*" ("*Risks relating to legislation and regulation*") below.

1.2 *The Group is subject to the risk of investments and operating expenses being higher than the allowed levels by the regulator. As the Group's Networks segment depends on the availability and reliability of its distribution network the Group is also subject to the risk of deterioration in its network reliability indicators (which could lead to penalties for the Group).*

The Group's overall performance in its Networks segment depends on various factors, some of which are beyond the Group's control. The performance of the Group's Networks segment depends heavily on the availability and reliability of the distribution network in Lithuania, and while the Group performs regular maintenance and repair work to ensure the network's safe and reliable operation, there can be no assurance that the distribution network will always remain functional. Any damage, whether man-made or natural, to the infrastructure or any technical issues with the distribution system could interfere with the overall performance of the Group's energy distribution business.

As the Group's customer base continues to grow, its existing energy distribution networks might not be sufficient to handle the increased demand in energy supply, and the Group could be forced to invest in improving or expanding its existing infrastructure and upgrading the relevant technological solutions employed to meet the needs of its customers.

In particular, the Group is subject to the risk that actual operating expenses (particularly maintenance expenses and salary expenses) could be higher than anticipated in any period. As part of the regulatory tariff framework, operating expenses are included in the calculation of the maximum tariff set by the NERC for each price setting period. The amount allowed for operating expenses is set by the NERC for

the first year of the price setting period, subject to annual adjustments for inflation and wage cost increases. If the Group's actual operating expenses are higher than those contemplated in the tariff calculation, the Group will generally not be compensated (save in the case of higher costs as a result of new regulations). This will therefore result in a reduction in the Networks segment's profit margins for the period. Although in recent years the Group's actual operating expenses have been lower than the amounts provided for in the calculation of the tariff, it is possible that in the next price setting period the headroom for operating expenses provided for in the calculation of the tariff will be set at a lower level.

The Group is also subject to the risk that its actual investments required for the Networks segment is higher than anticipated. The Group generally recovers the investments required in connection with the Group's Networks assets indirectly through the calculation of the RAB using the LRAIC model for purposes of the tariff calculation (as discussed above in paragraph 1.1. of this section titled "*Risk Factors*" ("*The Group's financial performance could be adversely affected by changes in tariffs set for the regulated markets of electricity and gas distribution, which are the principal components of the Group's Networks segment*"). This model sets the RAB value at the end of the price setting period by reference to the replacement cost value, which provides the Group with the required funding resources to maintain planned network investments. However, to the extent the actual investments required in connection with the Networks segment exceeds the amount assumed in the LRAIC model, the Group may be unable to recover some of this expenditure.

The Group is also subject to the risk of not meeting network reliability targets, principally SAIDI and SAIFI. SAIDI measures the average duration of unplanned interruptions in electricity or gas transmission and SAIFI measures the average number of unplanned long interruptions per customer. If the Group does not meet network reliability targets, the NERC has the ability to charge the Group penalties for each quality indicator separately. The maximum penalty amount per indicator would be an amount equal to 2 per cent. times the WACC (for example, if the WACC were 5.28 per cent., the penalty would be 2 per cent. of this (being 0.11 per cent.), and a WACC of 5.17 per cent. would be applied). Therefore, in addition to any impact on operating expenses, failures in the reliability and efficiency of the distribution network could have a direct impact on the returns allowed to the Group during the period.

Any material increases in relation to operating expenses or investments that are not compensated under the regulatory pricing mechanism, or any material deterioration in the Group's network reliability indicators, could have a material adverse effect on the Group's business, results of operations and financial condition.

1.3 *The Group's growth strategy contemplates significant expansion of its Green Generation capacity, which will increasingly expose the Group to risks specific to the acquisition, development and operation of renewable energy generation projects, including those with which it has more limited experience.*

The Group's Green Generation segment, which is focused on the generation of electricity through renewable energy resources and on expanding the Group's green generation capacity, is currently the Group's second largest contributor to the Group's adjusted EBITDA (representing 7.6 per cent. and 16.7 per cent. of the Group's revenue and adjusted EBITDA, respectively, in the year ended 31 December 2019 and 6.7 per cent. and 18.4 per cent. of revenue and adjusted EBITDA for the six-month period ended 30 June 2020, respectively). The Green Generation segment is a key part of the Group's growth strategy, and the Group anticipates that the portion of revenue and adjusted EBITDA that this segment represents will increase over the near to medium term. The Group's target is to reach 1.6 to 1.8 GW of installed Green Generation capacity by 2023 and 4 GW of installed Green Generation capacity by 2030 (compared to 1.1 GW as at the Latest Practicable Date), and the Group is continuing to grow this segment through the development and acquisition of new projects in various stages of development in support of this target.

The Group acquired two of its current operating wind farms (Eurakras and Tuuleenergia) in 2016 and the other two (Vėjo gūsis and Vėjo vatas) in 2018. It is in the process of developing two additional wind farms (one in Mažeikiai, Lithuania, and one in Pomerania, Poland), with total remaining investments of approximately EUR 80 to 85 million for the Mažeikiai wind farm as of 30 June 2020 and total remaining investments of approximately EUR 40 million for the Pomerania wind farm as of 30 June 2020. The Group has also just completed the development of one waste-to-energy/biomass CHP plant in Lithuania (the Kaunas CHP Plant), which commenced commercial operations in August 2020 and is expected to be fully operational in the fourth quarter of 2020, and is developing an additional waste-to-

energy/biomass CHP plant in Lithuania (the Vilnius CHP Plant). The Group has a growing pipeline of renewable projects at various stages of consideration, with target technologies including onshore wind, offshore wind, waste-to-energy, biomass and solar.

The scale of the anticipated expansion of the Green Generation segment will increasingly expose the Group to a variety of risks specific to the acquisition, development and operation of renewable energy generation projects, and there can be no assurance that the Group will be successful in managing these risks. These include risks of:

- being unable to identify and consummate suitable renewable energy acquisition and development opportunities in order to achieve the Group's growth targets;
- being unable to obtain, or facing delays in obtaining, requisite regulatory licences or authorisations for renewable energy projects;
- inability to obtain the requisite financing to fund the development of new renewable energy generation projects, whether due to volatility in credit and capital markets or otherwise;
- construction risks arising from renewable energy development projects, particularly from a technical perspective in relation to the timing of construction phases, that may cause an increase in costs or delays to commencement of power generation, including, for example, the risk that necessary equipment and labour may not be available to meet the Group's requirements whether due to market fluctuations in the demand for equipment or labour, the cost and availability of specific equipment, the failure of a contractor to perform its contracted services or otherwise;
- fluctuations in market prices of electricity after any subsidised tariffs expire;
- generation yield assessments for renewable energy generation projects not reflecting actual results;
- a "cannibalisation effect" through which the increasing penetration of renewable technologies with zero marginal cost variable causes a decline of wholesale electricity prices;
- fluctuations in the cost of balancing;
- the capture price effect;
- ineffectively staffing and managing the Group's expanded operations and facing unanticipated difficulties in the integration of existing management teams and operations, particularly in new market segments with which the Group has less experience;
- inability to keep pace with technological changes in the rapidly evolving renewable energy sector;
- increased competition; and
- failing to effectively manage expansion in other jurisdictions in which the Group has less experience, including risks related to navigating new regulatory regimes; entering into contracts governed by the laws of other jurisdictions with which the Group is not familiar; lack of brand recognition in foreign markets; fluctuations in currency exchange rates; foreign exchange controls which restrict or prohibit the repatriation of funds; technology export and import restrictions or prohibitions; increased trade barriers, including import and export controls, tariffs, customs and duties; and potentially adverse tax consequences.

The Group acquires assets at various stages of development. With respect to new developments, as land use is often subject to various zoning and other relevant ordinances and regulations in Lithuania and the other jurisdictions that the Group operates in, the Group might not always be able to find or secure sites that can be used for its development projects in full compliance with the relevant land use regulations. In some instances, the Group may complete the acquisition of projects even if it is aware of a failure to fully comply with some aspects of the land use regulations, based on the Group's own risk assessment.

There can be no assurance that the Group will not face fines or other penalties in respect of any such non-compliance.

The Group may also encounter issues in relation to connecting new developments to the grid, such as being unable to secure grid connections in a timely manner or not meeting the requirements of the transmission system operation ("TSO") or distribution system operator ("DSO") in relation to the grid connection, which may result in a breach of the Group's contractual obligations and potentially lead to the termination of the relevant agreements.

The feasibility of Green Generation development projects also depends on climate and weather conditions. For example, the viability of any renewable energy power plant construction project will be dependent on the wind patterns, water current, solar radiation and other relevant conditions in a particular location, and such conditions could change in a particular location during different times of the year. All of the above factors together limit the Group's choice of development projects. Additionally, other participants in the energy market could also be trying to secure the same projects targeted by the Group, making securing suitable projects a competitive process. Any failure to identify and secure suitable projects in a timely manner will hinder the Group's expansion plan.

In relation to project acquisitions, although the Group undertakes due diligence reviews, such reviews may not reveal all existing or potential risks and liabilities and there can be no assurance that the Group's acquisitions are not or will not become subject to liabilities of which it is unaware at the time of purchase. While the Group seeks to obtain warranties and indemnities from sellers where practical and appropriate, there can be no assurance that the Group 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 the Group's liabilities. Additionally, certain risks revealed when conducting due diligence (whether or not deemed material by the Group at the time) could be deemed to be disclosed to the Group and, therefore, the Group might not have the benefit of the warranties and indemnities in the relevant acquisition agreement in respect of any losses connected with these risks. The acquisition of businesses or assets with risks or liabilities of which the Group was or may be unaware, or which the Group did not accurately 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.

In addition, as the Group expands into jurisdictions and/or market segments outside of its core historical operations, it may face additional operational and other difficulties with which it has limited experience. Pursuing these activities may consume significant management time and resources, and there can be no assurance that the Group will achieve its targeted return on investments. For example, the Group is actively considering investment in offshore wind projects, which are typically more expensive than onshore wind projects and involve additional technological complexities. There can be no assurance that the Group will be successful in leveraging its experience with other power projects to expand into these new areas.

Furthermore, once the Group has increased its generation capacity through acquiring or developing a new Green Generation asset, it is subject to the risk that it will be unable to secure long-term power purchase agreements or subsidies (renewable energy tariffs) or similar arrangements with respect to the new capacity, or that such power purchase agreements or subsidies might be terminated by the Group's counterparties.

The actual results of new developments may differ materially from those assumed in the business case at the time the Group's investment in the project is approved for a variety of reasons, including assumptions in relation to investment requirements, electricity prices, load factors, capture price effects, balancing costs and other matters later proving to be incorrect.

Any failure to successfully execute the expansion of the Group's Green Generation segment as a result of any of the above factors could lead the Group to miss the targets that it has set out to achieve and could have a material adverse effect on its business, results of operations and financial condition.

1.4 ***The Group participates in capital intensive projects and volatility in the credit or debt and equity capital markets may adversely affect the Group's access to bank financing and/or debt or equity capital for purposes of future proposed developments; additionally the Group has capital intensive infrastructure requirements and any increase in the price of the required***

materials, equipment, components or services could translate into an increase in the cost of energy production and distribution.

The Group participates in investment projects that are capital intensive, including renewable energy development projects in its Green Generation segment (such as its current development of two waste-to-energy/biomass CHP plants in Vilnius and Kaunas and wind farms in Lithuania and Poland), and also faces significant capital requirements for the modernisation and renewal of the Group's distribution network in its Networks segment. The Group is at times required to seek external financing for the capital required for these projects. For example, the Group entered into a guaranteed loan facility with the European Investment Bank ("**EIB**") in the amount of EUR 190 million on 5 December 2016 in connection with the development of the waste-to-energy/biomass CHP plant in Vilnius (which has a total investment budget of approximately EUR 350 million), a guaranteed loan facility with Swedbank in the amount of EUR 120 million (of which 51 per cent. is attributable to the Group and 49 per cent. is attributable to the Group's commercial partner, Fortum) on 31 May 2017 in connection with the development of the waste-to-energy CHP plant in Kaunas (which has a total investment budget of approximately EUR 157 million) and a secured loan agreement with the EIB in the amount of PLN 258 million (approximately EUR 60 million) on 9 March 2020 for the development of the wind farm in Poland (which has a total investment budget of approximately EUR 130 million). The Group had utilised EUR 140 million, EUR 95 million and PLN 190 million (approximately EUR 43 million) of these facilities, respectively, as at 30 June 2020. Volatility in the credit or capital markets may adversely affect the Group's access to debt or equity capital for purposes of future proposed developments, and consequently its ability to grow its business fully through such developments, which in turn could adversely affect the Group's business operations, prospects, financial condition and operational results.

The Group may be required to invest significant resources in preparation and execution in connection with its projects, including costs associated with due diligence and other types of consulting particularly in connection with a project's economical, legal or technical feasibility, and there can be no assurance that the Group will always complete these investment projects after making the initial investments or that the Group will achieve the anticipated rates of return from these projects. The Group might be forced to postpone, terminate or withdraw from such projects should the circumstances require, and these projects could also be subject to delays or higher costs than anticipated. The Group's investments in any such capital intensive projects could require a significant amount of cash to be paid up front and, even if the projects are not eventually completed, this could restrict the Group's cash flow and expose the Group to liquidity risk or other financial or operational risks, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Furthermore, the Group's operations are capital intensive because the distribution of energy requires the support of adequate infrastructure, which is often expensive to construct and maintain. In the year ended 31 December 2019, the Group's investments for the distribution network comprised in the Networks segment was EUR 179.0 million, representing approximately 39.5 per cent. of the Group's investments for the year. The Group expects the amount of investment for the Networks segment to be approximately EUR 175.0 million in the year ending 31 December 2020. A substantial portion of the cost of infrastructure development relates to the purchase of the materials, equipment and components required for the construction and maintenance of the Group's infrastructure, and the prices of these depend on many factors that are beyond the Group's control, including raw material costs, transportation costs and overall supply and demand. Any increase in the price of the required materials, equipment, components or services could translate into an increase in the cost of energy production and distribution, which could have a material adverse effect on the Group's business, results of operations and financial condition.

1.5 *The Republic of Lithuania, which, as at the date of this Document is the sole shareholder of the Company has and will continue to have great influence over the management of the Group and may pursue decisions that reflect Government policy, and its interests may differ from or conflict with those of other shareholders.*

As at the date of this Document, the Republic of Lithuania, through the Ministry of Finance, is the sole shareholder of the Company (the holding company of the Group) and has control over the Group's business matters. The Government resolution on 18 March 2020 approving the conversion of the Company into a public limited liability company (AB), for the purpose of implementing an initial public offering of the Company, is subject to the requirement that, following any such public distribution of shares, the Republic of Lithuania shall own not less than $\frac{2}{3}$ of the shares and represent not less than $\frac{2}{3}$ of the voting power at the General Meeting of Shareholders of the Company. After receiving all necessary

approvals required by law from the National Security Commission and the Government, on 30 June 2020 the Ministry of Finance exercised its right as the sole shareholder of the Company and adopted a resolution to convert the Company from a private limited liability company into a public limited liability company, which became effective on 28 July 2020 when the updated version of the Articles of Association was registered.

As a result, the Republic of Lithuania will continue to be the controlling shareholder of the Company and possess sufficient voting power and have a significant influence over all matters requiring shareholder approval, including the election of members of the Supervisory Board, approval of significant corporate transactions and delay, deferral or prevention of a change of control, giving the Republic of Lithuania continuous effective control over the activities of the Group. According to the latest amendments to the Law on the Management, Use and Disposal of Assets owned by the State and Municipality, not less than half of members of the Supervisory Board shall be independent members, and the remaining members might be nominated by the Republic of Lithuania as the controlling shareholder. Nonetheless, at least one civil servant has to be elected to the Supervisory Board of the Company. Currently, five members of the Supervisory Board, including the Chairman of the Supervisory Board, are independent members and two are nominated by the Republic of Lithuania. The Republic of Lithuania is currently in the process of selecting the remaining two independent members of the Supervisory Board. The Chairman of the Supervisory Board will in the case of a split vote of the Supervisory Board have the deciding vote. Therefore, the Republic of Lithuania does not have absolute control over the management of the Group. Please see paragraph 4 of Part 4 ("*Business Overview*"). However, the Republic of Lithuania, as the controlling shareholder of the Company, has and will continue to have, indirectly, the power to affect the Group's operations, for example, through the appointment of new or additional Supervisory Board members. Therefore, the Republic of Lithuania could influence the Group's decision making process to align the Group's business practices with Government policy. As the Group is mentioned directly in the National Independence Energy Strategy as an entity tasked with implementation of some of the key components in the National Independence Energy Strategy, any changes at the national strategic level could potentially impact the Group's strategic direction. In addition, as the Company has strategic control over its subsidiaries, the Republic of Lithuania's influence on the Company's Supervisory Board also gives it a degree of control over the business of the Group's subsidiaries, including strategic direction, management and budget.

Additionally, the Government of the Republic of Lithuania could influence the business of the Group by adopting new legislation with which the Group is bound to apply.

The interests of the Government may sometimes conflict with the Group's objectives as a commercial enterprise and the Republic of Lithuania might prioritise national policy goals above the Group's commercial interests when exerting its influence over the Group and may urge the Company to take or not to take certain actions that the Company would otherwise decide differently. For example, the Group is subject to the Government's dividend policy for state-owned companies, under which the Group's ability to reinvest a proportion of its profits might be limited. Furthermore, changes to the members of the Company's Supervisory Board are currently, and will continue to be, influenced by the Government as sole shareholder, and such changes may be made for national, political, rather than commercial, reasons.

In addition, certain of the Group's business activities, such as mergers and acquisitions, establishment of new legal entities, increase of share capital of the Company, reorganisations and equity injections into the Group's principal subsidiaries all require approval of the Ministry of Finance as the Company's sole shareholder at the Company's General Meeting. In addition, in accordance with the Law on the Protection of the Objects of National Security Importance, the Company, or any other Group entity, may be directed by the Republic of Lithuania to purchase entities or assets relevant to national security from other entities important for national security and the Company is required to obtain the prior approval of the National Security Commission for transactions meeting certain criteria, including, but not limited to, transactions that exceed 10 per cent. of the Company's prior year's revenue. Please see paragraph 1.2 of Part 7 ("*Regulation*"). Additionally, certain actions of the Company (for example, an increase of share capital or a corporate reorganisation) would require the approval of the Government in addition to the Ministry of Finance, in accordance with the decision of the Government No. 665 dated 6 June 2012.

Any reorganisation of the Government could lead to changes in the operations of the Group as the Government might after its reorganisation have a materially different strategic focus and different priorities for the Group, resulting in potential adverse consequences to the Group, including changes in

the Group's business strategies that negatively impact its financial condition, as well as other initiatives that conflict with the Group's commercial interests.

The abovementioned politically driven situations and events might at times interfere with the Group's commercial interests and could have a material adverse effect on the Group's business, results of operation and financial condition.

1.6 *The Group is party to certain development partnership arrangements and may enter into further partnerships or joint venture arrangements in certain circumstances and therefore could be dependent on the actions of commercial partners.*

The Group is currently party to a development partnership arrangement with Fortum Heat Lietuva, UAB ("**Fortum**") in connection with the development and operation of a waste-to-energy plant in Kaunas (the "**Kaunas CHP Plant**"). Fortum owns a 49 per cent. interest in the plant, while the Group holds 51 per cent. (although the Group understands that Fortum may be in the process of seeking to dispose of its interest as part of a wider withdrawal from the Baltic region, which could result in the Group having a new development partner). The Group also plans to sell up to 49 per cent. of its interest in its waste to energy and biomass fired plant in Vilnius (the "**Vilnius CHP Plant**") once construction has completed.

Additionally, the Group has signed a letter of intent ("**LOI**") with an international strategic partner to co-develop a 700 MW offshore wind project in Lithuania, with the auction process expected to take place in 2023 and an estimated completion date in 2028. The LOI contemplates that the Group will own 51 per cent. of this project.

The Group may enter into further partnership arrangements or joint ventures in the future. In particular, part of the Group's strategy in connection with the expansion of its Green Generation portfolio is its asset rotation programme, whereby the Group sells down a portion of its interest in a project (typically after construction has completed) in order to recycle capital and capture development premium. The entry into these partnership and joint ventures gives rise to a number of counterparty risks.

Certain decisions relating to sites held through partnership/joint venture arrangements may depend upon the consent or approval of the Group's commercial partner. Additional matters, including dividend distributions and share transfers, could also require the commercial partner's consent. The Group's commercial partners may have economic or business development interests that are inconsistent with the Group's objectives. The Group may have disputes with its commercial partners and may not be able to resolve all the issues that arise with respect to such disputes, or the Group may have to provide financial or other inducements to its commercial partners in order to obtain a resolution in its favour. Such disputes may create impasses on decisions and lead to delays in the completion of the project, or the project being operated in such a way that it will not achieve its highest potential rate of return. Additionally, the Group's partnership arrangements may contain provisions that give rise to additional capital requirements from the Group in certain circumstances. For example, the Group's agreement with Fortum in respect of Kaunas CHP provides that, in a deadlock situation, Fortum has the right to put its shares to the Group (and the Group has an equivalent call option in respect of Fortum's shares), which if exercised would result in the Group having full responsibility for the project's capital requirements.

Partnership arrangements and joint ventures also subject the Group to the risk that a partner breaches agreements related to the partnership/joint venture which causes a default and results in liability for the Group. In addition, a default by a partner could constitute a default under a mortgage or other loan financing documentation relating to the asset, which could result in a foreclosure and the loss of all or a substantial portion of the investment made by the Group.

Disputes could also potentially result in litigation or arbitration which may distract the management team from their managerial tasks. In addition, projects may require financing to be provided by commercial partners. If a partner were to fail to provide such financing when required, the Group may be forced to make up such shortfall out of its own resources to avoid additional cost or delay to the project. Should any of the aforementioned events occur, they could have a material adverse impact on the Group's business, financial condition, results of operations and prospects.

1.7 *The Group's overall energy generation and the demand for the Group's energy supply are both subject to climatic conditions that are not within the Group's control.*

Both the Group's overall energy generation levels and the demand for energy could be adversely impacted by climatic conditions that are not within the Group's control.

In relation to the Group's generation volumes, the Group's electricity output from many of the power generation facilities in its Green Generation segment, including its hydro power, wind facilities, waste-to-energy/biomass facilities and solar power facilities, is subject to changes in climatic and other environmental conditions.

The Group's electricity output from its wind farms is subject to fluctuations in wind conditions. There can be no assurance that the wind conditions at the Group's wind farms will be consistent with the Group's operational assumptions, or that climatic and environmental conditions will not change significantly from the prevailing conditions at the time the Group's operational assumptions are made. Long-term predictions are subject to uncertainties due to, among other things, the placement of wind measuring equipment, the amount of data available, the extrapolation and forecasting methods used to estimate wind speeds and differences in atmospheric conditions and errors in meteorological measurements. Moreover, even if the actual wind conditions at the wind farms are consistent with the Group's long-term predictions, wind conditions over a limited period of time may substantially deviate from the long-term average due to natural wind fluctuations, causing significant short-term volatility in the performance of the Group's wind farms.

The Group's "run-of-river" hydro power generation facility, Kaunas HPP, is particularly subject to fluctuations in water flows. There can be no assurance that the water inflows at the plant will be consistent with the Group's operational assumptions, or that climatic and environmental conditions will not change significantly from the prevailing conditions at the time the Group's operational assumptions are made. Water flows vary each year and depend on factors such as precipitation, rate of snowmelt and seasonal changes. Additionally, as part of managing its generation activities to achieve desired returns, the Group itself sometimes takes actions to alter the water flow. While the relevant government authorities do permit water flow variations, this is on the condition that the Group constantly monitors the levels of fish and birds in the relevant area and, if the Group fails to fulfil these obligations, it could lose the right to effect these variations.

The Group's pump storage hydro power generation facility, Kruonis PSHP, pumps water from the Kaunas reservoir using electricity during the off peak period (typically at night) when electricity prices are relatively low and generating electricity during the peak period (typically during day time) when electricity prices are higher. Although the "peak" and "off peak" periods are principally affected by the time of day, they may also be affected by weather and other seasonal factors.

Solar power facilities are subject to fluctuations in the amount of sunshine and to weather conditions that result in solar panels being covered for long periods of time (such as snow and dirt).

The Group's business is subject to seasonality in respect of temperature and seasons in a number of respects. The Group's generation is typically lower in the summer than in the winter, due to factors including Kaunas HPP's dependence on water flows (as discussed above); Kruonis HPSP generation being affected by maintenance performed mainly in the summer period; and both Vilnius and Kaunas CHPs, and the boilers at the Elektrėnai Complex typically not operating at full capacity during the summer due to less demand for heat. Demand (which also impacts the Group's electricity and gas supply businesses, comprised within its Customers and Solutions segment) is affected significantly by air temperature. Energy consumption is generally higher when the weather is colder, and therefore, in addition to the general seasonality of higher consumption in the winter than in the summer, the Group is subject to the risk that its results will be negatively affected by rising air temperatures between years.

Should any of the above conditions fluctuate too much or deviate from the Group's operational assumptions, the Group's electricity and heat generation, as well as demand for electricity, gas and heat, could be negatively affected, which could have a material adverse effect on the Group's business, results of operations and financial condition.

1.8 ***The Group's power plants, distribution networks, infrastructure, machinery and other equipment and components require ongoing maintenance and investment, which costs may increase 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 processes tends to increase as plants, equipment and components grow older. Certain parts of the Group's distribution network have deteriorated in recent years due to lower annual investments in respect of these assets being funded by the regulatory framework than that which would be required to maintain the assets at their existing technical level. There is a risk that the quality of distribution services provided in some locations may not correspond to the safety and service level requirements set out in applicable legislation. These may lead to service interruptions, losses and damages requiring reallocation of resources or additional investment from the Group on unplanned repair and maintenance, as well as legal, regulatory or administrative proceedings arising from incidents due to the deterioration of the Group's assets.

Although the Group seeks to implement and maintain robust inspection and maintenance programmes, including proactively repairing and replacing equipment and components before they fail, and modernising its power plants and distribution networks, there can be no assurance that the Group will be successful in its efforts or that operations and maintenance and investment costs will not increase over time. Additionally, if any assets were to deteriorate to the point that they were no longer operational, they might need to be written off. Any of the foregoing could have a material adverse effect on the Group's business, results of operations and financial condition.

1.9 ***The Group faces significant competition from other renewable energy companies.***

The renewable energy sector, which is the focus of the Group's Green Generation segment and a key component of the Group's growth strategy, is a competitive environment. While the Group has considerable experience developing and operating hydro assets, and more recently has gained experience developing and operating onshore wind assets and waste-to-energy/biomass plants, some of the Group's competitors may have more experience than it does in running renewable energy operations and therefore have a competitive advantage over the Group. In addition, barriers to entry are relatively low in Lithuania and other jurisdictions in which the Group operates its Green Generation segment and the Group may face even greater competition in the future. In the renewable energy sector, competition is focused on bidding for new or acquiring existing sites, securing delivery and installation of key equipment and on-grid pricing. Certain competitors may have better access to local government support and to financial, infrastructure or other resources than the Group, enabling them to be more competitive in the development and acquisition of new renewable energy projects.

In addition, the Group may encounter competition from energy producers focused on renewable energy sources with respect to which the Group currently has limited exposure, such as offshore wind and solar power. Although the Group has a growing pipeline of renewable projects at various stages of consideration that includes these technologies, there can be no assurance that the Group will successfully develop capacity in the future to compete with more experienced competitors in these areas. If the Group is unable to maintain and increase its competitiveness in the renewable energy sector, or its efforts to compete against other renewable energy companies are unsuccessful, this could have a material adverse effect to the Group's business, results of operations, financial condition and prospects.

1.10 ***The Group's development of new energy technologies might not be commercially successful, and the Group might not be able to recover its investments should such development projects fail.***

As part of its overall strategy of establishing itself as a market leader in sustainable and smart energy and developing innovative energy solutions for its customers, the Group makes investments in the development of new business activities and energy technologies in which it has limited expertise, such as renewable energy solutions, energy storage solutions, energy saving financing solutions or charging station for electric vehicles. Such developments are often capital and labour intensive and require long-term capital commitment. In committing to the development of new energy technologies, the Group makes certain assumptions regarding the technological, legal, financial and economic environment. The actual development of the energy technologies might deviate from the assumptions that are made, resulting in the Group failing to achieve its development goals and recover its investments. Moreover, a

failure in the development of these technologies, or a failure to keep pace with new energy technologies in the market, could harm the Group's branding and market positioning as a leader in smart energy and renewable energy solutions, which could have a material adverse effect on the Group's business, results of operations and financial condition.

1.11 *The Group relies on infrastructure that is owned and operated by third parties, which exposes the Group to risks associated with the accessibility and reliability of such infrastructure.*

With respect to its electricity distribution business, the Group relies on transmission cables and other interconnection facilities owned and operated by the state-owned TSO for the Republic of Lithuania, Litgrid AB. Were the TSO to restrict the Group's accessibility to the cables and facilities, the Group's interconnection and transmission capacity could be greatly reduced, causing the provisions of its services to be interrupted or suspended.

Similarly, with respect to its gas distribution business, the Group relies on state-owned AB Klaipėdos Nafta ("**KN**") for the transmission infrastructure for LNG and on AB Amber grid ("**Amber grid**") for the transmission infrastructure for natural gas.

In the event of any failure in the electricity or gas transmission infrastructure, which is beyond the Group's control as they are operated by third parties, the Group may not be able to provide services to its customers as contracted and, although the Company may be able to recover compensation from the TSO, this could cause substantial disruption to the Group's business and the Group's reputation might be harmed. Failure by the Group to access the transmission infrastructure operated by the TSO, KN or Amber grid (as the case may be), whether as a result of restricted accessibility imposed by these third parties or due to system failure, could have a material adverse effect on the Group's business, results of operations and financial condition.

1.12 *System failure, power outage, capacity limitation, natural disaster or other emergencies at the Group's power plants and other facilities may materially interrupt its business operations and harm the Group's reputation.*

The Group's power plants and other facilities, including its natural gas and waste-to-energy/biomass, heat and power plants, hydropower facilities, wind farms, distribution infrastructure and information systems controlling these facilities are subject to system failure, power outage, capacity limitation and physical damage due to natural disasters such as storms, floods or earthquakes, as well as a number of other emergencies that could interrupt the generation and distribution of energy and other aspects of the Group's business. As most of the Group's assets are located in Lithuania, the effects of these events could have a more severe impact on the Group than they would have on companies with more geographically diverse operations.

There can be no assurance that emergencies will not occur or that the precautionary measures implemented by the Group will always be able to prevent or contain the emergencies, particularly in relation to natural disasters that are beyond the Group's control. Any such emergency may cause loss in power generation, interruption to natural gas and electricity supply or other services provided by the Group, which may result in customer dissatisfaction and harm to the Group's reputation and may lead to reduced revenue, increased maintenance and repair costs or other financial and legal liabilities, as well as various other fines, costs or expenses, which could have a material adverse effect on the Group's business, results of operations, financial condition and reputation.

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 conducts regularly, including such additional activities that the governmental authorities in Lithuania and the other countries in which the Group operates may require. Any physical damage to the Group's facilities may be costly to repair and the Group may not have sufficient insurance to cover all potential losses and liabilities (see paragraph 1.15 of this section titled "*Risk Factors*" below). As a result, any disruption of the Group's services due to emergencies at its power plants and other facilities could result in a material adverse effect on its business, results of operations, financial condition and reputation.

Furthermore, the Group's existing electricity distribution infrastructure may fail in the event of strong wind, heavy rain and storms in Lithuania. Any such failure could cause disruptions to the Lithuanian

electricity supply. Any such failures could result in a material adverse effect on the Group's business, results of operations, financial condition and reputation.

1.13 *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 adverse impact on the Group's results of operations and financial condition.*

The Group undertakes significant investments 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). For example, the Group has experienced some delays in relation to the construction of the Vilnius CHP Plant, which was originally scheduled for completion in January 2020 but is now scheduled for completion in the first half of 2021, due to delays encountered with the Group's contractors primarily during the design phase. The risk of default by counterparties will be heightened 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 work done by the counterparties, 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 across Lithuania and other Baltic markets as well as Finland and Poland. The Group's key counterparties, end-consumers or suppliers could default on or dispute their contractual obligations with the Group, which could have a material adverse effect on its business, results of operations and financial condition.

1.14 *Warranties and operation and maintenance services from suppliers of equipment and components, which protect the Group against any non-performance of the equipment and components, may be limited by the ability of the suppliers to satisfy their contractual obligations. Warranties are also subject to an aggregate maximum cap and expiration.*

The Group depends upon its suppliers to ensure the safe and effective operation and maintenance of equipment and components that are essential to the Group's operations. When purchasing these services, equipment and components, such as turbines, wind blades and distribution pipelines, and the related services, the Group typically obtains warranty protection from the supplier. In respect of the Group's wind assets, operation and maintenance services for the turbines are supplied by the turbine supplier companies. The Group is therefore subject to counterparty risk with respect to these suppliers.

There can be no assurance that the Group's suppliers will be able to fulfil their contractual obligations. In addition, warranties generally expire within two years (sometimes extended to five years) after the date the equipment or component is commissioned (although the operation and maintenance agreements with the turbine supplier companies in respect of wind turbines typically have a duration of 12 to 15 years). If the Group seeks warranty protection and the supplier is unable or unwilling to perform its obligations under the warranty, whether as a result of the supplier's financial condition or otherwise, or if the term of the warranty has expired, the Group may not receive the expected contractual protections that it anticipated when entering into the warranty agreements. Also, in the event that the Group receives warranty payments from its suppliers, these payments are typically subject to an aggregate maximum cap that could just be a fraction of the total purchase price of the equipment or components. The Group might not be made whole for any losses in excess of the aggregate maximum cap that it sustains. Moreover, equipment warranties and guarantees do not cover consequential damages (except for cases when damages incurred relate to injury to health, loss of life or other non-pecuniary damages), such as lost revenues, that could follow from equipment failures or defects. In addition, the timing of any payments under warranties and performance guarantees may adversely affect the Group's cash flows.

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

1.15 ***The Group's current insurance coverage may not be sufficient to cover all losses it may sustain.***

The Group has property and machinery insurance for its significant assets, including the power plants in the Elektrėnai Complex. However, as at the Latest Practicable Date, it has incomplete insurance in place for its hydro plants or electricity and natural gas distribution assets. Please see paragraph 9 of Part 4 ("*Business Overview*"). "Rizikos cesija", a Lithuanian consultant, carried out a risk assessment report on the Group's insurance policies in 2019 that identified the lack of asset insurance covering the hydro plants as a potential high risk given the wide range of accidents that may occur at these power plants.

In response to the findings of the risk assessment report, the Group is considering to insure Group's assets and potential liability under a master insurance policy with expanded coverage, which is expected to become effective in the second quarter of 2021 and includes insurance covering risks relating to cyberattack, fraud and terrorism, as well as, potentially, the hydro plants. However, this expanded insurance cover is not yet in place and there can be no assurance that the Group will be able to obtain this coverage on the terms contemplated.

While to date the Group has not experienced any material losses relating to operational hazards, unforeseen interruptions or other accidents relating to the Group's uninsured assets, there can be no assurance that the Group will not face any such incidents in the future and that the Group's business will not be adversely affected by the costs associated with any accidents or any other unexpected occurrences at its facilities for which insurance coverage is not available or is insufficient, which could have a material adverse effect on the Group's business, results of operations and financial condition.

1.16 ***The Group is subject to information and operational technologies failures, data security breaches or other cybersecurity attacks which may disrupt the Group's operations, damage the Group's reputation, cause loss of revenue, result in misappropriation or loss of information, require the Group to incur significant expense and expose the Group to liability and regulatory scrutiny.***

The Group's business and operations may be negatively affected by failures of the Group's key information technologies ("**IT**") and operational technologies ("**OT**"), unauthorised access to confidential information and a distortion of information during data transfers or a disruption of activities during the introduction of any new IT or OT system. IT and OT systems are vulnerable to a number of threats, such as software or hardware failures or malfunctions, physical damage to vital IT and OT infrastructure, computer virus infection, data security breaches, malicious hacking or other cybersecurity attacks, as well as other cybersecurity threats that arise due to the Group's software not being state-of-the-art or always up-to-date. There are also concerns in the energy sector regarding the security and integrity of data which is handled through an energy company's IT and OT systems. This is exacerbated by the energy sector's increasing dependence on IT and OT systems and 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. The growth of cloud services also exposes the Group's IT infrastructure to additional cyber threats. While the Group has dedicated personnel overseeing its IT and OT systems, there can be no assurance that the systems will always function in a manner. A significant or extended disruption of, breach of security of, or failure of, the Group's IT and OT systems may disrupt the Group's operations, damage the Group's reputation, cause it to lose revenue, result in misappropriation or loss of proprietary, personal and confidential information and require the Group to incur significant expense to remediate or otherwise resolve these issues. Any security or privacy breach of the IT or OT systems may also expose the Group to liability and regulatory scrutiny.

In addition, the energy industry has become increasingly dependent on digital technologies to conduct certain production and distribution activities. The Group depends on digital technologies to perform many of its operations and to process and record financial and operating data. At the same time, as a state-owned market participant in the energy sector, the Group is a potential target for advanced state-level cyberattacks. The Group's technologies, systems and networks, and those of its vendors, suppliers and other business partners, may become the target of cyberattacks or information security breaches that could result in the unauthorised release, gathering, monitoring, misuse, loss or destruction of proprietary and other information, or other disruption of business operations. In addition, certain cyber incidents may remain undetected for an extended period, and there can be no assurance that the Group's systems for protecting against cyber security risks will be sufficient. To reduce or mitigate risks mentioned, the Group continuously monitors and looks to enhance its measures to ensure the security of Group's IT and OT

systems, and most of the Group's OT systems are isolated and cannot be accessed remotely through the internet, but there still can be no assurance that the Group has adequate measures against novel or advanced cyberattacks.

Unreliability of certain IT and OT systems might disrupt or hinder the functionality of systems essential for the Group's business operations, which the Group has experienced in the past. Such incidents could impact the Group's operations at various levels; for example, disruption to the Group's invoicing systems could result in delay or inaccuracy in invoicing, or failure of the computerised electrical grid could impact the stability of electricity distribution within Lithuania.

There are also risks related to outsourcing of IT and OT functions by the Group to third parties, which are most prevalent in respect of IT and OT 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 for essential IT and OT services, which the Group might find itself vulnerable to high development and/or support expenses as demanded by the third-party provider. There is also a risk in service continuity if such third-party provider ceases to exist or cannot honour its contractual obligations to the Group, and the Group might have to incur additional costs to secure services from alternate providers, and the Group's operations might be interrupted in the meantime.

Data breaches can also occur as a result of non-technological 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. In response to the General Data Protection Regulation ("GDPR"), the Group has prepared procedures, policies and other governance documents required under the GDPR and apply them in its business processes that involves data processing and incorporates the relevant principles when purchasing or designing new data processing or other IT or OT systems. While as part of the Group's policy all newly purchased or designed data processing or other IT or OT systems must comply with the GDPR, the Group is still in the process of auditing and updating its legacy systems to ensure compliance with the GDPR, which, *inter alia*, involves removing and depersonalising data stored or remained in the legacy systems. There can be no assurance that all of the Group's existing data processing or other IT and OT systems are currently in full compliance with the GDPR. The Group's procedures and policies also address other GDPR-related requirements, such as appointing data protection officers, recording data processing activities, performing data protection impact assessments when initiating new projects and provide training relating to the relevant internal procedures and policies. However, some members of the Group might still be in the process of implementing the Group's GDPR procedures and policies so there can be no assurance that all members of the Group have already fully implemented all of the Group's internal GDPR procedures and policies. Additionally, while the Group requires its contractors to implement the Group's data processing requirements when handling data received from the Group, there can be no assurance that its contractors will always comply fully with the Group's procedures and policies.

Any failure of the Group's IT or OT systems, violation of the GDPR requirements or any data breaches, including through human error or an IT or OT system fault, may result in significant fines, loss of confidence by the Group's business counterparties, or claims from customers and/or employees and financial sanctions. The occurrence of any or all of these may in turn have a material adverse effect on the Group's business, results of operations, financial condition and reputation.

1.17 *The Group outsources certain services essential to its operations to third-party service providers, and the lack of competition in the markets of certain such services might result in reduced bargaining power and increased cost of operations for the Group.*

The Group relies on third-party service providers for services essential to its operations, including operations and maintenance of its assets and software engineering. For example, in the Group's Networks segment, approximately 95 per cent. of maintenance activities for the electricity distribution network and 90 per cent. of maintenance activities for the gas distribution network are outsourced to third -party contractors. Maintenance of the Group's wind assets is also outsourced to third parties (with the suppliers of the turbines providing maintenance for the turbines and other third-party contractors providing maintenance for the remainder of the components of the wind assets). Additionally, the entire software development life cycle of the Group's software and the development of its custom-built applications and systems are historically outsourced to third-party service providers. While the Group has not in the past experienced any failure in performance by these third-party service providers that caused major disruption to the Group's operations, any such incidents in the future, particularly performance failures

by the third-party contractors responsible for the operations and maintenance of the Group's electricity and gas distribution network, could result in disruption in the provision of the Group's electricity and gas distribution services, which could lead to significant negative financial impact on the Group as the Group derives a significant portion of its revenue from its distribution services. Other negative impacts on the Group could include unexpected costs for the Group or lower efficiency levels in, or damage to, the Group's assets.

Some of these services are dominated by a limited number of players in Lithuania and certain locations where the Group operates in, resulting in the Group's lack of bargaining power when negotiation for the fees for the provisions of such services. The Group might sometimes find itself having to pay a premium for the same service in certain markets that lack competition as opposed to in markets where there is sufficient competition. Additionally, the Group might be vulnerable to demand for increased service fees made by third-party suppliers as it might be difficult to identify alternative service providers for the essential services, and, if available at all, this might consume substantial resources and might cause interruption to the Group's operations during the period of identifying alternative providers for the essential services.

Additionally, many of the Group's maintenance contracts are long-term contracts but some of these do not contain unilateral termination rights on behalf of the Group, which could limit the Group's flexibility to change contractors in response to market conditions or the quality of performance by the contractor in certain situations.

Any failure in performance by, or increased costs in relation to, third-party service providers could have a material adverse effect on the Group's business, results of operations and financial condition.

1.18 *The Group's operations could have negative impacts on local communities and may as a result face significant opposition from relevant parties.*

The Group's activities during its ordinary course of business might sometimes negatively impact local communities. For example, local communities might consider the Group's energy infrastructure development projects to have caused visual, air or noise pollution in the area, or they might deem that their water sources to have been polluted by the operations of the Group's hydro power plants. The building or installation of the Group's energy distribution networks might also occupy spaces that the local communities could otherwise use for purposes that they consider to be important. Should the local communities or other interested groups or stakeholders become dissatisfied with the Group due to any actual or perceived adverse impact caused by the Group's operations, the Group might face significant opposition from these parties, which could be in the form of submissions during the Environmental Impact Assessment process prior to a project being allowed to proceed, claims or proceedings brought against the Group, newly enacted local regulations limiting the activities of energy companies, organised protests or rallies, vandalism to the Group's properties, etc., and in extreme cases the Group might even be forced to relocate certain of its plants or facilities in response to demands of local communities.

Any of the above consequences due to opposition from local communities or other relevant parties may cause the Group having to pay compensation to the local communities or other regulatory or administrative fines, and may cause delay in the timeline or suspension of development projects, damage to the Group's reputation or impact the profitability of the Group's projects due to increased cost of development, which may in turn have a material adverse effect on the Group's business, results of operations and financial condition.

1.19 *The Group may not be able to hire or retain a sufficient number of qualified staff, including members of its senior management team.*

Experienced and capable personnel in the energy industry is 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, especially its engineers and IT specialists, the Group may have difficulty, and may have to incur significant costs, in replacing them. Historically, the Group's remuneration policy (set by the Supervisory Board and the Nomination and Remuneration Committee) was oriented to a remuneration median 20 per cent. lower than the local labour market. That led to the current situation when compensation packages of senior executives are significantly lower than in the local labour market. This may in turn hinder the Group's competitiveness in the labour market, especially when wages have inflated considerably in Lithuania in recent years. Although the Group's remuneration policy has now

been adjusted, the Group still might not always be able to offer compensation packages that meet the expectations of the candidates that it is looking to hire or employees that it is looking to retain. If the Group were to lose members of its senior management team, including its Management Board, they may be difficult to replace in a timely manner and the Group might be unable to replace them with persons of commensurate experience and skills. For further information regarding the Supervisory Board and Management Board, please see paragraphs 2 and 4 of Part 6 ("*Management and Corporate Governance*"). The Group's failure to hire or retain a sufficient number of experienced, capable and reliable personnel, especially those in management positions with appropriate professional qualifications, or to recruit or retain 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.

1.20 *The Group may face strikes or other labour disputes that could materially adversely affect the Group's business.*

While the Group has never experienced any strikes or other labour disputes in the past and considers its relations with the employees to be good, there can be no assurance that strikes or other labour disputes will not occur in the future. As at 31 December 2019, there were eleven trade unions operating in the Group. Seven of these trade unions operate in AB "Energijos skirstymo operatorius" ("**ESO**") and the other four in AB "Ignitis gamyba" ("**GEN**"). 22 per cent. of the Group's employees are unionised and ESO and GEN employees are covered by two collective bargaining agreements.

Certain collective bargaining agreements will expire in the relative near term, including the one with ESO that is valid until 9 January 2021 and the one with GEN that is valid until 6 May 2022. There can be no assurance that strikes or other labour disputes will not arise while new collective bargaining agreements are being negotiated. Potential strikes or labour disputes might not be resolved satisfactorily in a timely manner or at all, and they could interfere with the Group's operations, including resulting in delay in or suspension of the Group's provisions of services, reduction in the Group's energy production capacity or need of significant financial resources to maintain or restore normal operations. Therefore, any strikes or labour disputes in the future could lead to a material adverse effect on the Group's business, results of operations and financial condition.

1.21 *The Group may be unable to detect or prevent ethical misconduct or breaches of applicable anti-corruption and sanctions law committed by its employees, counterparties or other third parties.*

The Group has implemented compliance policies and procedures with respect to applicable anti-corruption, anti-money laundering and sanctions laws. While the Group is not currently subject to any investigations regarding breaches of the applicable laws, it has in the past been involved in investigations launched regarding alleged corruptive behaviours or other misconducts of certain of the Group's employees. The investigations launched in the past did not result in charges brought against the Group or other penalties; however, there can be no assurance that the Group's employees, counterparties or other third parties involved in the Group's activities will not violate its compliance policies and procedures or any other applicable laws in the future which may implicate the Group, and the Group may not always be able to detect or prevent any such misconduct or breach of laws. The Group has conducted certain internal and external assessments in relation to its anti-corruption policies in 2018 and 2019, which have indicated that the Group's controls require improvement in some areas, including gift and entertainment, third-party supplier and agent management, risk governance and organisation, corporate policies and procedures, as well as training and awareness. Although the Group has sought to implement the recommendations made in these assessments, there can be no assurance that these actions have been sufficient to address the risk throughout the Group's organisation.

Any incidents of ethical misconduct or non-compliance with applicable laws by the Group's employees, suppliers, customers, agents, joint venture partners or other third parties may subject the Group to significant fines, may prevent the Group from participating in certain projects or activities, may result in loss of trust in the Group by the general public or may lead to other consequences, including, but not limited to, the termination of certain business functions or existing contracts, which may in turn lead to a material adverse effect on the Group's business, results of operations and financial condition.

2. RISKS RELATING TO LEGISLATION AND REGULATION

2.1 *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 and regulations of the Republic of Lithuania and other jurisdictions in which it operates, including Latvia, Estonia, Poland, Finland and the EU. Please see Part 7 ("*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, such as the fees it is allowed to charge for its products and services, including electricity and natural gas distribution, ancillary and power reserve services (such as secondary and tertiary power reserve services and isolated regime services) provided to the TSO, public electricity supply, gas B2C supply, designated LNG supply and heat production activities. As a public service provider, the Group is subject to extensive governmental and other relevant regulations in Lithuania.

For the six-month period ended 30 June 2020 and the year ended 31 December 2019, 63.9 per cent. and 62.6 per cent., respectively, of the Group's revenue and 84.5 per cent. and 82.0 per cent., respectively, of the Group's adjusted EBITDA depended on regulated tariffs (including final electricity and natural gas prices). This includes:

- the electricity and gas distribution businesses of the Group's Networks segment (which comprised 69.5 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019);
- most of the activities of the Group's Flexible Generation segment, currently comprising Tertiary Power Reserve Services and Isolated Regime Services provided to the TSO (representing 94.1 per cent. of the segment's adjusted EBITDA and 8.0 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019);
- secondary reserve services delivered by Kruonis PSHP and certain other regulated activities in the Green Generation segment (comprising 12.5 per cent. of the Green Generation segment's adjusted EBITDA and 2.1 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019); and
- approximately 60 per cent. of the Customers and Solutions segment's adjusted EBITDA in the year ended 31 December 2019 (constituting 2.5 per cent. of the Group's adjusted EBITDA), principally in relation to gas B2C supply and designated LNG supply, and currently public electricity supply, although this business is in the process of being deregulated. Please see paragraph 2.6 of the section titled "*Risk Factors*".

Each of these businesses involves different tariff methodologies to be applied by the Regulator. There can be no assurance that the current methodologies regulating the tariff establishment mechanisms will remain unchanged.

Any new regulation or any changes in the existing regulations or requirements of the Government or other regulatory authorities in Lithuania or the other jurisdictions in which the Group operates may require significant changes in its business in ways that it cannot predict. New regulations or requirements might cause the Group to restructure or otherwise change its business practices. Any changes of the methodologies regulating the tariff establishment mechanisms might impact the profitability of the Group's regulated activities. Changes in regulations could therefore have a material adverse effect on the Group's business, results of operations and financial condition. In addition, any introduction of new laws and regulations or any changes thereof regarding infrastructure projects during the period when the Group is carrying out any such projects might require the Group to make material changes to its development plans, which could lead to significant delays and increase of development expenses.

Additionally, the waste incineration facilities in Kaunas CHP Plant and Vilnius CHP Plant developed by the Group might become subject to unfavourable regulation by the Governmental entities (including NERC) or municipality level legislative changes. The Government is seeking to amend the Law on Waste Management, which might restrict or impose additional requirements and regulation on the operations of the Group's waste incineration facilities. In addition, based on current regulation, the Group expects that the heating business of the Vilnius CHP Plant will become fully regulated once operational due to its relatively large size and its high prospective market share in the local heating sector. Additionally, the

electricity and waste portions of the CHP Plants' business could become regulated in the future as well. Regulation of the prices achieved by the Group for heating (and potentially other aspects of the business) will likely lead to lower profitability for the Vilnius CHP Plant than would be achieved in the absence of such regulation.

If the Group fails to respond swiftly and appropriately to changes in applicable laws and regulations, regulatory or administrative penalties might be imposed, and significant operating costs relating to adaptation to the new laws and regulations might be incurred, which could have a material adverse effect on its business, results of operations and financial condition.

See also paragraph 1.1 of this section titled "*Risk Factors*" ("*The Group's financial performance could be adversely affected by changes in tariffs set for the regulated markets of electricity and gas distribution, which are the principal components of the Group's Networks segment*") above for a further discussion of the regulatory regime applicable to the Group's Networks segment.

2.2 *The Group is subject to changes in the demand for the power reserve services and other ancillary services provided by the Group's Flexible Generation segment and uncertainties in relation to the ability to participate in new services, including the new capacity remuneration mechanism.*

The majority of the Group's Flexible Generation business comprises regulated services, primarily the provision of system services to the TSO in Lithuania, to ensure the flexibility and stability of Lithuania's electricity system. This business currently principally comprises the provision of Tertiary Power Reserve Services and Isolated Regime Services to the TSO. The provision of these services by GEN contributed 5.6 per cent. of the Group's revenues and 8.2 per cent. of the Group's adjusted EBITDA for the year ended 31 December 2019 (3.7 per cent. and 5.9 per cent., respectively, for the six-month period ended 30 June 2020).

The Group participates in auctions on an annual basis to provide Tertiary Power Reserve Services to the TSO. Considering the current installed capacities available to bid in the auction and regulations of the auction, currently at least one of the Group's Flexible Generation power units is required to provide the Tertiary Power Reserve Services.

At the end of 2019, the Ministry of Energy and the TSO introduced the Isolated Regime Services, which are anticipated to be in place until 2025 (when it is expected that Lithuania will be synchronised with the grid of Continental Europe) in Lithuania, to enable the national electricity system in Lithuania to operate without interconnections with other countries. GEN is providing this service in 2020. The capacities that are dedicated by the Group for the provision of this service must be kept available to the market and operated under the instruction of TSO in cases when the Lithuanian power system is isolated from IPS/UPS synchronous zone.

However, this business is subject to changes in the nature and volume of services sought by the TSO. The Group anticipates that in the future, particularly following the synchronisation of the Baltic states with the network system of continental Europe, there will be changes in the services sought by the TSO, and the provision of Tertiary Power Reserve Services and Isolated Regime Services may no longer be required to the extent that they are currently (or at all). The success of the Flexible Generation segment going forward may therefore be subject to winning the provision of other ancillary services to support the energy system in Lithuania; however, there can be no assurance that the Group will be successful in winning the auctions for the provision of these services.

In particular, the Group anticipates that in the future its Flexible Generation segment will compete in auctions in relation to capacity provision under the newly established capacity remuneration mechanism. This mechanism should provide payments to generators in exchange for being ready to generate electricity, in order to minimise the risk of a shortfall in generation in the market. Generators will be able to bid for participation in this mechanism by way of auction. Following the passing of the law related to this mechanism in June 2020, the first capacity auction in relation to this service is expected to be organised later in 2020 or in 2021 (subject to approval of the new mechanism by the European Commission (the "**Commission**")). However, participation in this new capacity remuneration mechanism remains subject to a number of uncertainties, in particular:

- there can be no assurance that the Commission will provide approval for the new mechanism as state aid;
- the timing of the first auctions may be delayed, as the Adequacy Study in respect of the capacity requirements is currently being revised and its conclusions are currently unclear;
- the technical requirements for the units participating in the auctions are not finalised currently;
- even once the auctions are organised (assuming the mechanism is approved by the Commission), there can be no assurance that the Company will be successful in winning any portion of the tenders.

The services required by the TSO and the overall regulatory regime with respect thereto are subject to change, and there can be no assurance that any such changes will not make the provision of the services less profitable for the Group or make it less likely that the Group will be selected as the provider of these services.

Additionally, the new ancillary service opportunities that the Group anticipates will become available to it as a result of the synchronisation of the Baltic states with the network system of continental Europe could become available later than expected in the event that the synchronisation project runs behind schedule.

To the extent the Group's existing power reserve and ancillary services are no longer required to the same extent (or at all) in the future, or the Group is not selected as the provider of these services, and the Group is unable to replace these with new ancillary services (such as the capacity remuneration mechanism), this has the potential to impact the Group's revenue significantly and negatively and result in a significant impairment of the Group's assets comprising its Flexible Generation segment, which could in turn have a material adverse effect on the Group's business, financial condition and results of operations.

2.3 *The Group is subject to a variety of legal, regulatory, administrative and arbitration proceedings, which could materially and adversely impact the Group's reputation, and there can be no assurance as to their outcome and could lead to significant financial liabilities.*

In the ordinary course of its business, the Group has become subject to a number of legal, regulatory, administrative and arbitration proceedings. Please see paragraph 12 of Part 4 ("*Business Overview*"). Such proceedings could materially and adversely impact the Group's reputation, and hence its prospects and results of operations. Also, 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, in particular with respect to GEN and ESO, for health and safety claims or the relevant workers' compensation arrangements may not be adequate to meet the costs that may arise 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 conditions.

2.4 *The Group is subject to risks arising from noncompliance with EU state-aid rules.*

The Group is subject to the EU state-aid rules, which prohibit the Group from receiving any state or public aid which would distort or threaten to distort competition by favouring the Group or its goods or services unless such state or public aid falls within one of the exemptions set out in the Treaty on the Functioning of the EU ("**TFEU**"). The Group is currently the subject of several proceedings in relation to the application of EU state-aid rules:

- On 3 June 2019, the Commission initiated proceedings against GEN pursuant to Article 108(2) of the TFEU on the basis that payments to GEN for (i) mandatory electricity generation and (ii) holding strategic electricity power reserves during the period from 2013 to 2018 were in contravention of Article 107(3) of the TFEU and the Guidelines on State aid for Environmental Protection and Energy 2014 to 2020 ("**EEAG**").
- On 28 October 2013, the Ministry of Energy notified the Commission of support measures for the construction and operation of a LNG Terminal in the Klaipėda Seaport (SA.36740

(2013/NN) to KN. UAB LITGAS ("**LITGAS**"), as KN's subsidiary at the time and beneficiary of purchase obligation, was the beneficiary of these support measures. On 20 November 2013 the Commission adopted Decision C(2013) 7884 in which the support measures provided (the "**2013 Decision**"), were approved. On 1 January 2019, the benefit of the support measures approved by the Commission under the 2013 Decision was transferred to IGN following the acquisition of and subsequent merger of LITGAS with IGN. On 28 July 2016, Achemos Grupė UAB and Achema AB brought an action to the court against the 2013 Decision, which was dismissed in September 2019. In November 2019, Achema AB appealed the dismissal and such appeal is ongoing.

- On 9 July 2018 the Ministry of Energy notified the Commission of amendments to the support measures approved by the 2013 Decision. Under the amendments IGN was obliged to supply LNG to keep the LNG Terminal operational at all times and a supplement was set and approved by the NERC, to be collected from all users of natural gas (the "**LNG Supplement**"). The LNG Supplement was introduced for the benefit of IGN in order to enable its operations to be financed by all natural gas customers as remuneration for the performance of this service, deemed to be a "service of general economic interest". The notification submitted on 9 July 2018 (the "**2018 Notification**") covered: (i) state aid provided for the period from 2016 to 2019, which was notified late, and (ii) the period from 2019 to 2024. The Commission made an assessment in relation to the 2018 Notification and on 31 October 2018, it adopted the Decision C(2018) 7141 (the "**2018 Decision**") approving the state aid measures set out in the 2018 Notification on the grounds that such measures do not contravene Article 106(2) of the TFEU. On 4 July 2019, AB Achema and UAB Achema Gas Trade appealed the 2018 Decision to the court. On 6 February 2020, IGN submitted an appeal in support of the Commission's decision.

If any of the above proceedings or any future proceedings in relation to other state aid received by the Group result in decisions against the Group, the support measures received by the Group may be considered inappropriate, and the Group may be required to repay some or all payments received as part of the support measures. For additional information on the Group's designated supply function, please see below paragraph 2.5 of this section titled "*Risk Factors*" and paragraph 6.4 of Part 4 ("*Business Overview*"). Any such repayment could have a material adverse effect on the Group's business, results of operations and financial condition.

2.5 *The designated supplier model relating to the LNG Terminal is subject to approval by the Commission and review of the Government.*

The Group, through its subsidiary, IGN, performs the designated supply function for Lithuania's LNG Terminal, which involves ensuring the LNG Terminal is operational at all times providing baseload LNG deliveries (around four conventional LNG cargoes per year until 2024). To ensure the fulfilment of this designated supply function, IGN entered into a contract with Equinor, valid until 2024, to purchase the requisite annual LNG cargoes. For additional information, please see paragraph 6.4 of Part 4 ("*Business Overview*"). IGN through the LNG Supplement is receiving state aid for the compensation of the price difference between the contracted price and the local market gas import price, any technical losses that exceed the losses of which the Group would normally incur when performing supply function for other terminal user and any additional costs or expenses relating to the guaranteed long-term contract entered into in relation to providing the designated supply function.

In October 2018, the Commission adopted the 2018 Decision and approved the state aid received by IGN in relation to its designated supply function for (i) the period from 2016 to 2019, which the Republic of Lithuania was late to notify the Commission, and (ii) the period of 2019 to 2024.

In addition, while the Government has appointed IGN as a designated supplier and has approved the volumes of the annual LNG deliveries for the LNG Terminal for the period of 2016 to 2020, the volume of the annual LNG deliveries for the remaining period (i.e., 2021 to 2024) shall need to be approved again by the Government this summer. There is a risk that, if the Government determines that the local market is able to sustain the uninterrupted operation of the LNG Terminal without any designated supply or with a reduced designated supply volume, the Government may only approve a reduced volume of annual LNG deliveries from IGN as a designated supplier for the period of 2021 to 2024, which would be a volume lower than what IGN has anticipated and secured by the contract with Equinor. If any of these events occurs, IGN may lose part or all of the state aid for the designated supply function, face a reduced or terminated revenue stream from acting as a designated supplier for the LNG Terminal and

potentially have LNG supplies that are in excess of its needs or acquired above market price. In the event state aid is not applied to the designated supply quantities for the years 2021 to 2024, this could have a material adverse effect on the Group's business, results of operations and financial condition.

2.6 *The Group is subject to risks relating to the liberalisation and deregulation of the electricity market in Lithuania.*

The Group is exposed to increasing competition in the electricity market in Lithuania. The electricity market is fully liberalised and, other than public supply (i.e. supply to household customers), is fully deregulated in Lithuania. Please see paragraph 6.1 of Part 4 ("*Business Overview*"). 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 strategy and consequently the Group's revenues. As the number of electricity suppliers in the market increases, the Group might lose its existing electricity supply customers to other suppliers, particularly in the B2C market, which is currently in the process of being deregulated, and might see a decrease in its revenue and profitability.

The public electricity supply (B2C) market currently remains regulated and the public supply of electricity to household customers in Lithuania is mainly provided by the Group (through its Customers and Solutions segment). This business represented approximately EUR 0.2 million (or 0.1 per cent.) of the Group's adjusted EBITDA in the year ended 31 December 2019. As the principal public supplier, the Group supplies electricity to consumers on the basis of public tariffs set by the Law on Electricity. In recent years, the public tariff was lower than the tariffs available from independent electricity suppliers and, therefore, the Group supplied substantially all of the electricity to the B2C market in Lithuania (approximately 1.7 million customers as at 31 December 2019).

On 7 May 2020, the Parliament of the Republic of Lithuania approved the amendments to the Law on Electricity in relation to the gradual deregulation of public supply of electricity to household customers, which will be implemented in three phases beginning from 1 January 2021, 2022 and 2023, respectively. Under these amendments, the current electricity supply price regulation for household customers will be abolished while the tariffs for electricity distribution and transmission included in the final price will remain regulated, and household customers will have the choice to select an independent electricity supplier. If household customers fail to choose a supplier within a predefined period, they will be automatically shifted to the supply of last resort service performed by the electricity distribution system operator (currently the Group through ESO). The Group may lose market share in the Lithuanian B2C market as a result of such deregulation and if customers choose other independent electricity suppliers in the absence of a public tariff.

The Group cannot anticipate all of the various risks 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 deregulation of the Lithuanian electricity market could thus have an adverse effect on the Group's business, results of operations and financial condition.

2.7 *The Group is subject to EU regulation of the energy market, including the credit and cash settlement requirements for trading of commodities and financial instruments.*

The Group, through its subsidiaries IGN, Ignitis Polska sp. Z o. o., Ignitis Latvia SIA, Ignitis Eesti OÜ and UAB Gamybos optimizavimas, trades financial and/or physical products on wholesale electricity markets. Relevant EU regulations, such as the EU Regulation (EU) No 1227/2011 on Wholesale Energy Market Integrity and Transparency (the "**REMIT**"), MiFID II and the EU Regulation on European Market Infrastructure Regulation, require compliance with the wholesale commodity trading rules, including potential cash margining requirements. Producers who own power generation facilities which are larger than 100 MW are also subject to REMIT. These regulations have significantly modified financial and commodity instrument rules promulgated based on the rules of the European Federation of Energy Traders and of the International Swaps and Derivatives Association ("**ISDA**"). Some of the changes to the rules have significantly impacted the Group's business and operations. For example, changes to the credit and cash settlement requirements have required the Group to put forward increased cash reserves to cover all of the Group's mark-to-market wholesale forward sales of electricity on the Nasdaq OMX Commodities Exchange that are intended for hedging the electricity it has purchased for its supply portfolio in case of increase of power price and in connection with its proprietary trading

activities. The Group's maximum mark-to-market exposures during recent years were EUR 2.6 million in 2017, EUR 20.0 million in 2018 and EUR 13.0 million in 2019 (not including changes in collateral requirements), with hedged volumes steadily increasing over this period. Due to the amount of the Group's hedged volume and the volatility of power prices, such requirements could result in significant liquidity needs. As a result, the Group might be required to allocate additional resources to meet the relevant EU regulations and might restrain its liquidity. Also, as trading of commodity derivatives is a regulated activity under MiFID II, the Group has an obligation to ensure that any Group entities participating in commodity derivatives trading meet the relevant licensing requirements or satisfy the conditions to be exempted from such licensing requirements. Any failure of the Group to comply with the latest EU regulations, including any changes to credit and cash settlement requirements or licensing requirements for trading of commodities and financial derivative instruments, could result in regulatory and administrative fines and penalties, which could have a material adverse effect on the Group's business, results of operations and financial condition.

2.8 *As the Company is a state-controlled company, the Group is subject to public procurement regulations, which could make the procurement process more time-consuming, and any violation of the regulations could render existing contracts to be declared null and void and subject the Group to fines or other administrative penalties.*

As the Company is a state-owned company, the Group is bound by the provisions of applicable public procurement laws in many areas of its business. The public procurement laws apply, *inter alia*, to the procedure for selecting the Group's suppliers, construction contractors and service providers, as well as requiring specific conditions to be included in the purchase agreements used by the Group.

The Group has submitted a request to the Commission pursuant to Article 35(1) of Directive 2014/25/EU concerning certain of its electricity generation and wholesale activities carried out in Lithuania that are not regulated by the national authority. On 28 July 2020, the Commission adopted a decision stating that Directive 2014/25/EU shall not apply to contracts awarded by contracting entities intending to enable the production and wholesale of electricity produced from conventional sources and renewable sources, except that production and wholesale of electricity produced from renewable sources that are carried out in Lithuania are subject to the first and second support schemes. The relevant Lithuanian authorities have been notified of this decision, and the Group has been granted an exemption from the public procurement rules relating to certain of its electricity generation and wholesale activities in accordance with the Commission's decision, in respect of which the Group continues to evaluate the implications and practical applications. Therefore, although the Group has been granted an exemption from application of public procurement rules in specific areas of its Green Generation and Flexible Generation segments, the Group is still bound by the public procurement laws in other areas of its business.

The provisions of these laws are often difficult to interpret and apply, and may, in particular, lead to a more time-consuming procurement process for the Group. Also, any non-compliance with the public procurement regulations may subject the Group to fines or other administrative penalties. For example, the Public Procurement Office carried out an investigation in 2017 regarding the public procurement of "vehicle rental and maintenance services" performed by the Group and identified certain breaches of applicable public procurement laws. The Group phased out the use of the rental vehicles under the contracts, initiating procurement procedures and entering into contracts for new vehicles in line with Public Procurement Office recommendations while letting the contracts for the original vehicles expire, and as a result no penalties were imposed.

In addition, any of the Group's existing contracts deemed to be 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 the contracting parties. If the Group were found to be in breach of the public procurement regulations, or if any of the Group's existing contracts were found to be in violation of the regulations and declared null and void, the Group may have to pay fines imposed by the authority and sustain commercial losses or be subject to other administrative penalties, any of which may have a material adverse effect on the Group's business, results of operations and financial condition.

2.9 *The Group is subject to Anti-Money Laundering ("AML") laws and regulations, and any non-compliance could result in severe penalties, sanctions or suspension of activities.*

The Group is subject to a variety of AML laws and regulations, both in Lithuania and other jurisdictions. Due to the nature of its business, UAB Elektroninių mokėjimų agentūra ("**EMA**"), a subsidiary of the

Group, which is a licensed payment institution and provides payment aggregation services, including services for collection of payments for utility services and other periodic payments from the Group's customers and their distribution to service providers, is particularly subject to the risk of non-compliance with AML laws and regulations. Failure to comply with such laws and regulations might result in a fine of up to 10 per cent. of the Group's consolidated annual gross revenues. In the case of any systematic, repeated or serious violations of the AML laws and regulations, the Group can be fined up to EUR 5.1 million and EMA's activities can be suspended temporarily or permanently depending on the circumstances. EMA and other members of the Group are exposed to risks from unintentional breach of the AML laws and regulations by its employees, suppliers, customers, agents, joint venture partners or other third parties involved in its projects or activities. Any incidents of non-compliance with applicable laws and regulations by the employees, suppliers, customers, agents, joint venture partners or other third parties may subject EMA, the Group and members of the Group's Management Board to significant fines, may prevent EMA or the Group from participating in certain projects or activities (including as a result of not meeting public procurement criteria), may result in reputational damage and loss of trust in EMA, the Group and the Group's Management Board (as two of the members are appointed as non-executive board members in EMA) by investors, customers and other business partners or may lead to other consequences, including, but not limited to, the termination of certain business functions or existing contracts, in each case could have a material adverse effect on the Group's business, results of operation, financial condition and reputation.

2.10 ***The Group may fail to achieve energy saving targets under the Energy Efficiency Directive pursuant the Group's contracts with the Lithuanian Ministry of Energy.***

On 25 October 2012, the EU 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 EU in order to ensure the achievement of the EU 2020 target of a 20 per cent. improvement in energy efficiency.

In November 2016, the Republic of Lithuania adopted the requirements of the Energy Efficiency Directive by implementing the Law on Energy Efficiency. Pursuant to this law, ESO concluded two agreements with the Lithuanian Ministry of Energy requiring ESO to, *inter alia*, achieve the following targets by the end of 2020:

- 1,636 GWh through an agreement on implementation of energy efficiency measures; and
- 1 per cent. of energy supplied during the last calendar year prior to the signing date of the agreement (15 November 2017 and 31 October 2019) through an agreement on implementation of educational and consulting measures.

Although the Group believes ESO is on track to achieve these targets, there can be no assurance that it will do so. If ESO fails to achieve any such targets, it may receive a warning or a fine of up to 5 per cent. of its annual revenue for violating the agreement on implementation of energy efficiency measures, and a warning or a fine of up to 3 per cent. of its annual revenue for violating the agreement on educational and consulting measures.

GEN and other Group companies engaged in energy supply activities have also entered into agreements on implementing educational and consulting measures with the Lithuanian Ministry of Energy and are subject to the same terms as ESO as outlined above.

Any failure of the Group, ESO, GEN or any other Group company engaged in energy supply activities to achieve the required energy saving targets could have a material adverse effect on the Group's business, results of operations and financial condition.

2.11 ***The Group's activities require various administrative authorisations and licences that may be difficult or costly to obtain, maintain or renew, or the Group's grant are subject to conditions that may become significantly more stringent.***

The Group requires various administrative authorisations and licences at both the local and national levels to carry out its businesses in Lithuania and other jurisdictions in which it operates or intends to commence operations. Please see paragraphs 2.3(h) and 2.3(i) of Part 7 ("*Regulation*"). For example, electricity and gas supply permits/licences, electricity and gas distribution licences, power generation

permits/licences which are all required for the Group's operations. Obtaining and maintaining these authorisations and licences could be difficult and the conditions attached to obtaining and maintaining them are subject to change and may not always be predictable. As a result, the Group may incur significant expenses in order to comply with the requirements associated with obtaining and renewing these authorisations and licence, such as the cost of preparing applications for authorisations and making necessary investments associated with installing equipment or other infrastructure that are required before the authorisation can be issued. Failure to obtain such authorisations or licences might result in significant delay or suspension of the Group's activities, which may in turn have a negative impact on its business activities and profitability. For further detailed information, please see paragraphs 6.1 and 6.4 of Part 4 ("*Business Overview*").

In addition, the Group often invests resources prior to obtaining the necessary authorisations and licences, 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 authorisations or licences. Additionally, while licences for the distribution and supply of electricity and natural gas and the generation of electricity are currently granted for an indefinite period, there is a risk that the regulatory framework might change and the Group might be required to reapply for these licences 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 (in respect of which the combined adjusted EBITDA was approximately EUR 0.5 million in the year ended 31 December 2019). On 31 May 2018, permanent use permits were issued to the wind farms, but the decision was challenged and remains currently under review in court. Please see paragraph 12 of Part 4 ("*Business Overview*").

Furthermore, holding certain administrative authorisations or licences subject the Group to additional regulatory requirements. For example, EMA is a licensed payment institution, and it is therefore subject to various laws and regulations applicable to participants in financial services. If the Group or any of its subsidiaries failed to comply with such laws or regulations, the Group might face revocation of the relevant authorisations or licences or other administrative penalties.

Any failure to obtain, maintain or renew all necessary administrative authorisations and licences for the Group's business operations, or any changes to the current authorisation and licensing framework or regulatory regime and any non-compliance thereto could result in operational challenges for the Group and have a material adverse effect on its business, results of operations and financial condition.

2.12 *The Group is subject to environmental, health and safety ("EHS") laws and regulations and may be exposed to significant liabilities if it fails to comply with such laws or regulations.*

The Group is subject to various environmental, health and safety laws and regulations in the jurisdictions in which it operates governing, *inter alia*: 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 the Group's facilities; the environmental impact of windfarms, including noise and shadowing emissions and impact on wildlife; the strategic environmental assessment or environmental impact assessment that might be required in relation to the Group's power plant developments; the health and safety of the public and the Group's employees relating to potential injury or death in case of accidents. The EHS-related risks are particularly pertinent to ESO, GEN, Vilniaus kogeneracinė jėgainė UAB ("**VKJ**") and Kauno kogeneracinė jėgainė UAB ("**KKJ**") as their employees are more likely to be working in an inherently higher risk environment (e.g., power distribution or generation facilities) or exposed to waste or hazardous materials relating to power generation activities (e.g., waste for generation from the waste-to-energy plants). There can be no assurance that lethal accidents will not happen even when the Group is complying with all relevant EHS laws and regulations. The Group is also required to obtain environmental and safety permits from various governmental authorities for its operations, which may require periodic renewal or review of their conditions as well as continuous monitoring and reporting of compliance with such conditions. There can be no assurance that the Group will be able to renew such permits or that changes to the Group's permit requirements will not be imposed. Violations of these laws, regulations or requirements 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. 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. Additionally, there is a risk that the Group from time to time might not comply with industry standards such as the Good International Industry Practice standards, which could

adversely affect its reputation and require additional expenditure to come into compliance. The Group may not at all times be in full compliance with such laws and standards and the Group might incur significant costs and liabilities should they fail to do so, which will result in material adverse effect on the Group's business, results of operations and financial condition.

2.13 *The Group could be adversely affected by challenges to its tax incentives or transfer pricing arrangements or otherwise incur unforeseen taxes, tax penalties and sanctions.*

The Group currently benefits from certain tax incentives that were adopted by the Republic of Lithuania in order to increase the efficiency, competitiveness and energy efficiency of national companies. This corporate income tax incentive allows companies investing in fundamental technological renewal to reduce taxable profits by up to 100 per cent. since 2009. This incentive significantly impacts the income tax expenses for ESO, as ESO has had sufficient amounts of unused investment relief to cover 100 per cent. of its taxable profit since 2018. However, eligibility for these incentives is subject to challenge by the Lithuanian tax authorities. While ESO has a non-binding explanation from the tax authorities in relation to the application of these incentives, there can be no assurance that ESO's ability to rely on these incentives will not be challenged in the future, or that the relevant incentives will not be withdrawn or amended in the future. Also, the Kaunas CHP Plant currently benefits from being built in a tax-free zone, such that it is not subject to corporate income tax, but there can be no assurance that this will not be changed in the future.

In addition, as the Group is operating multiple segments across related business lines, it undertakes significant intra-group transactions and enters into intra-group contractual arrangements among the Group entities. Under the applicable transfer pricing regulations, companies must conduct any intra-group transactions on an arm's length basis and provide sufficient documentation thereof in accordance with the applicable regulations. Any non-compliance with transfer pricing regulations (including due to insufficient documentation) could result in material adverse effect on the Group's business, results of operations, financial condition and reputation.

Moreover, any introduction of any new tax laws or any amendment to the existing tax laws, or any changes in interpretations or application of tax regulations by the respective tax authorities may have a significant impact on the Group's business, result of operations or financial condition.

3. RISKS RELATING TO COMMODITIES AND MARKETS

3.1 *The Group's business could be adversely affected by fluctuations and, in particular, decreases in energy prices.*

Prices could fluctuate greatly depending on the macroeconomic environment and other relevant factors, such as prices for other energy sources, which, in turn, are affected by, amongst other factors, prices in neighbouring countries (such as Poland, Sweden, Finland, Estonia, Latvia, etc.), imports from Russia, weather, temperatures, wind flow, the hydrological situation and other climatic conditions. The electricity price is also affected by demand, gas prices, cross border capacities (such as the "NordBalt" interconnection and the "LitPol Link" interconnection) and carbon credits traded under the EU emission trading scheme and coal prices.

The Group's business is exposed to fluctuations in the market prices of electricity and natural gas, in respect of both the prices that it achieves for the unregulated portion of the electricity produced by its Green Generation and Flexible Generation segments (which represented 14.9 per cent. and 25.2 per cent. of the Group's revenue and adjusted EBITDA, respectively, in the year ended 31 December 2019 and 13.2 per cent. and 27.5 per cent., respectively, of revenue and adjusted EBITDA for the six-month period ended 30 June 2020), and to the electricity and natural gas supply and trading activities of its Customers and Solutions segment (which represented 46.1 per cent. and 4.1 per cent. of the Group's revenue and adjusted EBITDA, respectively, in the year ended 31 December 2019 and 46.1 per cent. and (1.4) per cent., respectively, of revenue and adjusted EBITDA for the six-month period ended 30 June 2020).

Effects on the Group's energy generation business

The portion of the generation from both the Green Generation segment (primarily from the Group's hydro assets and wind generation in Estonia) and the Flexible Generation segment that is unregulated and not supported by relevant support schemes (e.g., feed-in tariffs) is sold primarily on the Exchange, with

prices governed by prevailing market prices for the Lithuanian price area. As the Group's Green Generation portfolio expands, an increasing percentage of the segment's overall generation will have exposure to market prices (including the generation from the Group's waste-to-energy/biomass CHP plants currently under construction). The Group's revenue and EBITDA for these segments will generally be negatively affected by declines in the market price for electricity in the Group's target markets. The Group is also subject to the risk that electricity prices decrease while the price of natural gas and CO₂ increase, resulting in an increase in the Group's cost base and lowering margins.

Effects on the Group's trading and supply business

The Group is also exposed to price fluctuations for electricity and natural gas as a result of its wholesale trading activities and its electricity and natural gas supply activities, comprised within its Customers and Solutions segment. In particular, the Group is subject to the risk that electricity and gas price fluctuations decrease the Group's effective margins and have an adverse effect on the Group's hedging activities. Moreover, the Group plans to expand its trading and supply businesses and, as a result, the Group will be exposed to further price fluctuations in additional wholesale energy markets across regions, affecting the overall prices at which it can purchase and sell electricity and natural 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.

As the Group is party to certain "take or pay" agreements in relation to the purchase of gas in relation to its gas supply business, the Group is further subject to the risk that prices under these agreements do not reflect market prices, with the Group being required to purchase certain amounts at the agreed price or to pay a penalty to the counterparty.

The Group seeks to hedge the risks relating to volatility in wholesale energy prices (including those arising in relation to the "take or pay" agreements to which the Group is party in connection with its supply business) by entering into fixed price bilateral contracts and futures contracts on commodity exchanged in over-the-counter commodity markets and swaps traded in over-the-counter financial markets. Whenever the Group, through its subsidiaries, enters into fixed price sales agreements of either power or natural gas, it seeks to hedge these positions by entering into physical and financial forward contracts. However, as the relatively low liquidity of direct physical and financial instruments available in the Group's markets at times limits the hedging efficiency of the Group's power portfolio, the Group also enters into forward instruments from correlated markets, which involve additional exposures for the Group. To the extent the Group is unable to effectively hedge the above risks, enters into hedging contracts that fail to address its exposure or incorrectly anticipates 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, any reduced access to the electricity wholesale 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.

Consequently, significant fluctuations in the prices of electricity and natural gas could have a material adverse effect on the Group's business, results of operations and financial condition.

3.2 *The Group is exposed to fluctuations in interest rates, inflation rates and general developments in the securities markets, and as its operations in Poland and other jurisdictions outside the Eurozone expand it will increasingly be exposed to fluctuations in currency exchange rates, any of which could negatively affect its revenues, profitability and cash flows, as well as its results of operations and financial position.*

The Group's revenue, profitability and cash flows could be affected by any material or unexpected short- and long-term fluctuations in interest rates and inflation rates. Additionally, the Group has foreign currency exposure in relation to its operations in Poland. Although this exposure is currently limited, it is expected to increase as the Group expands its operations in Poland (including upon completion of the Pomerania wind farm project) and, potentially, other jurisdictions outside the Eurozone. As the Group's exposure in Poland increases, an adverse development in the exchange rate between the euro and the Polish zloty could have an increasingly negative effect on the Group. In addition, since the Group presents its financial statements in euro, a decline in the value of Polish zloty against the euro could in the future have a negative effect on the Group's results of operations and financial position. The Group

does not currently have PLN/EUR foreign exchange swaps as its exposure to the Polish zloty is limited; however, it might consider entering into such swaps in the future as the Group continues to increase its level of activities in Poland.

Currency exchange rates, interest rates and inflation rates have historically been volatile. The Group may be unable to pass through adverse developments in currency exchange rates, interest rates and inflation rates in the prices of the energy products and services the Group offers or trades, or the Group may be unable to hedge, or may choose not to hedge, such adverse developments. This could have a material adverse effect on the Group's business, results of operations and financial condition.

4. RISKS RELATING TO THE FINANCIAL CONDITION OF THE GROUP

4.1 **The Company's ability to raise additional financing, including on the local and international capital markets, depends on general economic conditions and other relevant factors, including the Company's credit ratings.**

The Group is at times required to seek external financing and access the capital markets for the capital required for its operations and investment projects. Please see paragraph 1.4 of this section titled "*Risk Factors*". The Group's ability to access capital markets and its ability to raise additional financing is largely dependent on general economic conditions in the global markets from which the Group intends to raise capital, and volatility in the credit or capital markets may adversely impact the Group's access to debt or equity capital and consequently its ability to grow its business.

The Company's credit rating could also have a significant impact on the Group's access to the capital markets. As at the Latest Practicable Date, the Company has been assigned a long-term senior unsecured rating of BBB+ (negative outlook) by Standard & Poor's. The negative outlook reflects the fact that the Group is currently going through a heavy investment period, primarily due to the construction of the Vilnius CHP Plant and the recently completed Kaunas CHP Plant. The Group expects that its credit metrics will deteriorate until these projects are completed. The Company's ability to access the capital markets and other forms of financing (or refinancing) on commercially viable terms, and the costs associated with such activities, depend in part on the Company's credit ratings. For example, there can also be no guarantee that the Company will be able to refinance its current bonds that are maturing in July 2027, July 2028 and May 2030, respectively, at competitive rates or at all.

The Government as the controlling shareholder retains the power to fully privatise the Company. While the Group does not currently expect the Government to fully privatise the Company, there can be no assurance that the Government or any future government of the Republic of Lithuania will not seek to undertake a full privatisation of the Company resulting in the sale of its shareholding in the Company. Current credit ratings assigned to the Company by ratings agencies could be based in part on the assumption or expectation that the Government would potentially provide support to the Company or the Group in the event of financial distress, and there can be no assurance as to the level of Government support that would be provided if the Company were privatised. These credit ratings could come under pressure, potentially leading to a downgrade, should the Company be privatised and that the Republic of Lithuania cease to be a controlling shareholder of the Company.

The Group's access to capital markets and ability to raise additional financing is particularly important as the Group continues to roll out its Strategy, under which the Group is expected to make significant investments to execute its growth strategies and will therefore be required to maintain access to multiple funding sources on terms acceptable to the Group. In the event the general economic conditions worsen and potential investors are deterred from making equity or debt investments, or if the Company's credit or debt ratings are lowered by rating agencies, the Group may not be able to raise additional capital on commercially viable terms or at all, and its ability to access both the equity and debt capital markets could be limited, making financing more expensive and difficult for the Group. Any inability to access financing, or an increase in the cost of such financing, could adversely impact the Group's ability to pursue its corporate strategies and carry out planned investment activities, which could in turn have a material adverse effect on the Group's business, results of operations and financial condition.

4.2 ***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, *inter alia*, "negative-pledge" clauses, "change of control" clauses, "state ownership" clauses (requiring

that the Company and certain subsidiaries be majority-owned and controlled by the Republic of Lithuania), "no disposal of assets" clauses, "restrictions on subsidiaries' indebtedness" clauses and "loss of rating" clauses (which would apply if the Company is downgraded to non-investment grade), which may restrict its ability to acquire or dispose of assets or incur new debts. The Group's failure to comply with any of these covenants could constitute a default or event of default, which could result in the immediate or accelerated repayment of its debt, leading to potential cross-default or cross-acceleration under its other credit agreements. This may also limit or reduce the Group's ability to implement and execute its key corporate strategies and carry out planned business activities, which could in turn have a material adverse effect on the Group's business, results of operations and financial condition. For additional information, please see paragraph 10 of Part 5 ("*Operating and Financial Review*").

4.3 *Failure to implement and maintain an effective system of financial reporting and internal controls may materially and adversely affect the Group's ability to prepare its consolidated financial information on an accurate and/or timely basis.*

The Group's system of internal controls over financial reporting is intended to ensure the Group: (i) maintains accurate records, (ii) provides accurate and timely reporting of the Group's financial information, (iii) maintains adequate control over the Group's assets and (iv) detects unauthorised transactions, acquisitions and/or use or disposition of its assets. Effective internal controls are necessary for the Group to provide reliable financial reports, including annual and interim financial statements. The Group's management is responsible for establishing and maintaining adequate internal controls.

During the process of preparing its financial statements for the year ended 31 December 2019, the Group's management reviewed certain management judgments on application of accounting principles and identified some errors in prior periods (relating to, *inter alia*, recognition of revenues, receivables, and payables related to regulatory activities) and, accordingly, the financial statements for the year ended 31 December 2018 have been restated. Where applicable, comparative financial data for the financial statements for the year ended 31 December 2017 were restated as well. For more information, please see paragraph 2 of Part 5 ("*Operating and Financial Review*").

Certain recently implemented and other complex accounting standards and their interpretations, such as IFRS 9, IFRS 15 and IFRS 16, as well as the amendments to IFRS 2 and IFRIC 23 have created new and more demanding requirements for financial reporting and disclosures, which will place further pressure on the Group's financial reporting systems.

If the Group's system of financial reporting and internal controls fails to keep pace with the growth in the size and sophistication of its businesses and the applicable financial reporting framework, the Group may not be able to prepare financial information in a timely and accurate manner, which may subject the Group to regulatory penalties and could result in a loss of confidence of the public in the Group's reported financial information, which in turn could have a material adverse effect on the Group's business, results of operations and financial condition.

4.4 *The Group could face delay in respect of the payment of deferred consideration for the transfer of shares in LitGrid AB.*

The Group has an amount receivable of EUR 158.7 million from EPSO-G UAB in respect of deferred consideration for the transfer of shares in LitGrid AB (the electricity TSO in Lithuania) from the Company to EPSO-G UAB in 2012. The amount is stated at fair value through profit or loss, because the final amount payable by EPSO-G UAB for the shares depends on the calculation of the final price premium. The deferred consideration is due to be paid by 2022, with EUR 15 million to be paid in 2020 and another EUR 15 million to be paid in 2021, and the remainder to be paid in full in 2022.

The amount of the price premium under the relevant purchase-sale agreement depends on the return on regulated assets of the electricity transmission activity during the years 2014 to 2018. At the initial assessment of the price premium, the Group concluded that the price premium is negative and amounts to EUR 4.7 million at 31 December 2019 (the Group's assessment of this amount being unchanged as at 30 June 2020). According to EPSO-G UAB's calculations, the price premium at 31 December 2019 is negative and amounts to EUR 27.1 million.

The Company disagrees with EPSO-G UAB's prepared calculations. The parties are currently in discussions as to how to resolve the situation. For the purposes of the statement of financial position, the

Company's management has assessed and recognised the negative price premium for the amount of EUR 15.9 million as at 30 June 2020, on the assumption that the possible agreement between the parties would be the average value of the Company's and EPSO-G UAB's calculations. After this assumption, the gross receivable on disposal of the shares of LitGrid AB amounting to EUR 174.5 million was reduced by EUR 15.9 million to EUR 158.7 million, as the sales price will be adjusted by the price premium.

In the event there is any delay in receipt by the Company of the deferred consideration due to it from EPSO-G UAB, whether due to disagreement over the calculation of the deferred consideration or otherwise, or the amount ultimately received is lower than anticipated, this could have an adverse effect on the Group's financial condition.

5. RISKS RELATING TO THE POLITICAL AND ECONOMIC ENVIRONMENT

5.1 *The Group's business, financial condition and results of operations may be adversely impacted by the emergence of COVID-19.*

The recent emergence of COVID-19 including in Lithuania has affected investment sentiment on a global scale, resulting in a significant increase in volatility in the global capital markets. In addition, the outbreak has resulted in restrictions on travel and public transport, restrictions on trade and transportation of goods, and prolonged closures of workplaces which may have a material adverse effect on the global economy and Lithuania.

The Government declared a state of emergency on 26 February 2020 in response to the COVID-19 outbreak. Lithuania had further been put in lockdown from 16 March 2020 to 17 June 2020. The Government has since taken a number of temporary precautionary and preventative measures to contain the outbreak and slow the spread of COVID-19, including implementing restrictions on travel, restrictions on gatherings of groups of people and the closure of universities, schools and other educational institutions. The Government also launched an economic stimulus package on 17 April 2020 (the "**COVID-19 National Action Plan**"). One of the measures outlined in the COVID-19 National Action Plan was to allow deferred or instalment payments to ESO and IGN for consumed electricity and natural gas, for customers who have encountered financial difficulties due to the lockdown. As a result, ESO and IGN have experienced some delays in customers' payments for services already provided. As at the end of lockdown, approved requests for payment deferrals in relation to the COVID-19 outbreak were less than EUR 5 million, with a corresponding increase in overdue debts (including approved payment deferrals) less than EUR 10 million in total.

The Group established a crisis management team to oversee the Group's response to COVID-19, and multiple local teams are assigned in each member of the Group and they work closely together to ensure business continuity, provide rapid response and necessary support to any incidents related to COVID-19 and provide periodic status reports to the crisis management team. Over half of the staff of the Group worked remotely during the lockdown, and all of the critical teams have been continuing with their daily activities in accordance with all relevant safety requirements. Another response team has also been established and is responsible to assess both short- and long-term economic impact for the Group and to plan and prepare for any additional risks that might occur.

The ongoing impact of COVID-19 and the actions taken in Lithuania and elsewhere in response to it cannot yet be fully assessed, but has had a significant economic impact in Lithuania, with the Bank of Lithuania, the Minister of Finance of Lithuania and the Commission most recently forecasting that Lithuanian GDP would decrease by 9.7 per cent., 7.0 per cent. and 7.1 per cent., respectively, in 2020. The lockdown already had an impact on the Group's supply and distribution volumes, with electricity consumption by the Group's B2B supply and distribution customer portfolio decreasing by approximately 8 to 9 per cent. during the lockdown from April to June 2020 (with the peak being in April, when the Group recorded a decrease of approximately 15 to 18 per cent.), driven largely by factory closures and reduced business activity. Although in terms of reduced B2B electricity consumption due to COVID-19, regulated distribution business is not subject to volume risk as per regulation currently in place and reduced consumption in B2B electricity was largely offset by an approximately 5 to 6 per cent. increase in electricity consumption by the Group's B2C supply customer portfolio during that period due to a higher concentration of people at home, the movements still had a negative net effect on the Group's revenues during this period due to lower B2B sales. If the COVID-19 pandemic results in a sustained economic downturn in Lithuania or the Group's other markets, the Group could experience reduced cash flow, increased bad debts and decreased revenue due to the declined electricity and natural gas

consumption and delayed project completion (including potentially delays in the completion dates for the Group's second CHP plant and two wind farms currently under construction), which could have a material adverse effect on the Group's business, result of operations and financial condition.

There is a risk that the carrying amounts of assets and liabilities in future financial statements prepared in accordance with IFRS would be negatively affected in future periods and result in material losses for the Group.

As at the date of this Document, the majority of the industries, including the energy industry, in the Lithuanian economy are being significantly affected by the spread of COVID-19. One of the most significant impacts to the energy industry is the decline in electricity and gas consumption, which also adversely affects the Group's hedging activities, as the volumes hedged by the Group were based on forecasted energy consumption. The extent of the risk posed by COVID-19 in the future, including the possibility of a "second wave" of increases in cases in Lithuania or in the wider region and any measures taken in response thereto, is unclear and may have a prolonged adverse impact on the economy of Lithuania and the wider region, and in turn, on the Group's business, results of operations and financial condition.

5.2 *The Group's business is dependent on the economic conditions in Lithuania.*

As a state-owned company of, and a major supplier in the energy market in, Lithuania, the Group's business and revenues are sensitive to the performance of the Lithuanian economy. As at 31 December 2019, 97.9 per cent. (compared to 98.8 per cent. as at 31 December 2018 and 98.5 per cent. as at 31 December 2017) of the Group's property, plant and equipment were located in Lithuania and 92.0 per cent. of its revenues and other operating income for the year ended 31 December 2019 were derived from Lithuania (89.6 per cent. for the six-month period ended 30 June 2020). Changes in economic, regulatory, administrative or other policies of the Government, as well as political or economic developments in Lithuania, such as the potential changes in Lithuania's credit ratings, over which the Group has no control, could have a significant impact on the Lithuanian economy. Any downturn in the Lithuanian economy could therefore have a material adverse effect on the Group's business, results of operations and financial condition.

5.3 *The Company and certain of its subsidiaries are subject to corporate supervision under the Law on the Protection of the Objects of National Security Importance, which places additional restrictions and requirements on the Group's corporate governance and activities.*

The Company and its subsidiaries ESO, GEN and IGN are included in the List of Category II Enterprises of Importance to Ensuring National Security. As a result, they are subject to corporate supervision under the Law on the Protection of the Objects of National Security Importance, which, *inter alia*, (i) places restrictions on reorganisation of the Group's directly and indirectly controlled enterprises the state maintains, (ii) requires prior approval of the National Security Commission to be obtained for transactions meeting certain criteria, including, but not limited to, transactions that exceed 10 per cent. of the Company's or relevant subsidiary's prior year's revenue and (iii) requires that the state owns no less than two-thirds of the shares in the Company and certain of the Group's subsidiaries; otherwise, Parliament approval (in case of the Company) or Government approval (in case of the subsidiaries of the Company) will need to be obtained. In addition, the National Security Commission may require the Company to submit proposals or other relevant documents relating to certain of the Company's corporate actions before the Company can undertake them; for example, the National Security Commission requested the Company to prepare a plan for the management of potential national security risks that may arise as a result of a public offering of the Company's shares and the secondary trading of the Company's shares. The preparation of such proposals or documents could divert the management's attention and the Company's resources.

Also, Kruonis PSHP, Kaunas HPP and the Elektrėnai Complex are included in the List of Facilities and Property of Importance to Ensuring National Security; as a result, they are subject to supervision under the Law on the Protection of the Objects of National Security Importance. Accordingly, the respective facilities or property may be, *inter alia*, (i) be transferred only to an investor conforming to national security interests and (ii) realised in the course of any bankruptcy, liquidation, enforcement or other similar proceedings only after submitting a proposal to the Republic of Lithuania regarding the pre-emptive acquisition and after the Republic of Lithuania declines the acquisition of any such relevant facilities or property. In any such cases, the asset that is of importance for national security may not

necessarily be sold for the highest possible price as the Republic of Lithuania may acquire such asset for a price determined in accordance with the Law on the Bases of Property and Business Valuation, under a special procedure for acquisition of the relevant asset established pursuant to the Resolution of the Government of the Republic of Lithuania No. 554 of 12 June 2019. For further information, please see paragraph 1.2 of Part 7 ("*Regulation*"). The above restrictions and requirements may significantly limit the Group's ability to pursue its commercial interests and result in a material adverse effect on the Group's business, results of operations, financial condition and prospect.

5.4 *Political developments in Lithuania, the EU 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 Lithuania, the Baltic region or the wider EU, including any future integration or withdrawal of European countries in the EU or changes in the economic policy, executive authority or composition of the EU and its institutions, may have an adverse effect on the overall economic stability of the EU 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 Lithuania or any other countries in which the Group operates, as well as any other political, economic, regulatory or administrative developments in these countries, over which the Group has no control, could result in the Group having to change or close down its operations in certain countries, or incur further costs that would 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 EU or other energy markets, developments in the regulation of energy supply, the performance of energy markets in other EU member states, and the performance of the financial markets in the EU and elsewhere in the world could have a material adverse effect on the Lithuanian economy, and consequently on the Group's business, results of operations and financial condition.

Additionally, parliamentary elections are scheduled to be held in Lithuania in October 2020 (in two rounds, on 11 October 2020 and 25 October 2020, respectively). The outcome of the parliamentary elections could result in a change of Government or a material change in the make-up of the parliament and could have a significant impact on political and economic policy in Lithuania, including the country's energy policy, and any such changes, if material, could have an adverse impact on the revenues earned by the Group (including by way of its regulated activities), could result in the Group's Strategy being out of line with Government policy and could have a material adverse effect on the Group's business, results of operations and financial condition.

5.5 *Unexpected catastrophic events, including acts of vandalism and terrorism, may adversely impact the Group's operations.*

The Group's operations are subject to risks such as grid and infrastructure damage, fire and explosion, loss of power supply, and mechanical failures. The Group's operations may also be subject to unexpected natural catastrophes such as earthquakes and floods, which could cause significant damage to the Group's generation assets and distribution infrastructure. Because the Group's operations are concentrated in the Baltic region, and, in particular, in Lithuania, this risk may be higher for the Group than it would be for a company with a more diverse geographic footprint. In addition, the Group's facilities may be the target of acts of vandalism and terrorism directed at the energy industry, which may be more specifically targeted than other industries. While there has been no occurrence of any of the above events, there can be no assurance that they will not happen in the future. The impact of any of these events could lead to disruptions in the Group's operations and loss of facilities or equipment and may have a material adverse effect on the Group's business, results of operations and financial condition.

IMPORTANT INFORMATION ABOUT THIS DOCUMENT

1. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Document includes forward-looking statements, which include, without limitation, any statements preceded by, followed by or that include the words "may", "will", "would", "should", "expect", "intend", "estimate", "forecast", "anticipate", "project", "believe", "seek", "plan", "predict", "continue", "commit", "target", "undertaking" and similar expressions or their negatives. Such forward-looking statements involve inherent known and unknown risks, uncertainties and other important factors beyond the Group's control that could cause its actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Amongst the important factors that could cause the Group's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those in the section titled "*Risk Factors*" and elsewhere in this Document. These factors include, but are not limited to:

- the Group's strategy, outlook and growth prospects, including in particular, financial and operational data relating to the Networks and Green Generation segments;
- the Group's forward-looking data or targets, including in particular, expectations relating to the efficiency and reliability of the Group's distribution network, expansion of the Green Generation portfolio and volume of electricity generated from the Group's Green Generation assets.
- macroeconomic outlook and industry trends;
- the macroeconomic and political environment of the Republic of Lithuania and North-eastern Europe generally, including primarily the energy sectors in those economies;
- future prices of commodities and the financial impact of the Group's hedging activities;
- the market impacts on collateral value and the enforcement of such collateral;
- the success of the Group's strategy;
- the Group's plans for future operations and facilities;
- changes in the regulatory framework in which the Group operates, particularly any material changes to the regulatory pricing mechanisms;
- the Groups ability to obtain permits and government approvals;
- the Group's development and execution of its investment projects, including the Group's ability to complete investment projects within its anticipated budget and timeframe;
- the Group's ability to retain or increase market share;
- market risks, including, without limitation, in connection with the Group's energy operations;
- the Group's ability to procure compliance with all applicable current and future legislation; including compliance with applicable anti-money laundering ("**AML**"), anti-bribery and antiterrorist financing laws;
- the engagement of prudent corporate governance principles;
- inflation, interest rate and exchange rate fluctuations;
- fluctuations in the capital markets;
- technological developments and adequate protection against IT failures or attacks;
- the outcome of pending or future litigation;

- the impact of catastrophic or unforeseen events;
- increased competition, the Group's competitive strengths and weaknesses and the strengths of its competitors;
- the accuracy of critical accounting judgements or estimates; and
- the Group's success at managing the risks associated with the aforementioned factors.

The above list of important factors is not exhaustive. When reviewing forward-looking statements, recipients of this Document should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Company operates.

Forward-looking statements are included in this Document in a number of sections, including in the section titled "*Risk Factors*", Part 4 ("*Business Overview*"), Part 5 ("*Operating and Financial Review*") and elsewhere. Such forward-looking statements are based on the Company's beliefs, assumptions and expectations regarding future events and trends that affect the Group's future performance, taking into account information currently available to the Group, and are not guarantees of future performance. In particular, this Document includes forward-looking statements relating but not limited to the Group's potential exposures to various types of operational, credit and market risk, such as counterparty risk, interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. These forward-looking statements are not historical facts and represent only the Company's beliefs regarding future events, many of which by their nature are inherently uncertain and beyond the Group's control.

Forward-looking statements contained in this Document speak only as at the date of this Document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based unless required to do so by any applicable regulatory regime.

To enable the implementation of the Group's strategy, the Group's management has set medium-term financial targets (the "**Targets**").

The Targets are only targets and not a profit forecast. Recipients of this Document should not place any reliance on such targets. None of the Company's independent auditor, nor any other independent accountants, have applied, examined or performed any procedures with respect to the Targets, nor have they expressed any opinion or any other form of assurance on the Targets or their achievability. The Targets constitute forward-looking statements and are not guarantees of future financial performance. The Company's result of operations or financial conditions could differ materially from those expressed or implied by these forward-looking statements as a result of many factors. The existence of the Targets should not be interpreted as an assurance or guarantee that Targets can or will be met by the Company. While presented with numerical specificity, these financial targets are based upon a number of assumptions (including the success of the Company's business strategy), estimates, regulatory, financial conditions, and projections regarding the Company's future business and the environment in which the Company expects to operate, which are inherently subject to significant business, operational, economic and other risks, many of which are outside the Company's control. The Targets reflect the Company's subjective judgements in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business, economic, financial and other developments. Accordingly, such assumptions may change or may not materialise at all. In addition, unanticipated events may materially or adversely affect the Company's actual results or operations and financial performance in future periods, whether or not the Company's assumptions relating to future periods prove to be correct. As a result, the actual results may vary from the Targets as currently targeted and the variations may be material. Accordingly, the Targets must not be considered as either a commitment by the Company or a forecast of the future results or returns from investing in any securities referred to in this Document.

None of the Company or any of its affiliates or any of their respective board members, officers, senior management, advisers or representatives can give any assurance that the Targets will be realised or that actual results will not vary significantly from the Targets. Recipients of this Document should

independently assess whether or not they believe the Targets to be reasonable or achievable and should carefully evaluate whether these are appropriate, bearing in mind personal circumstances and the information included in this Document, particularly taking into account the information described in the section titled "*Risk Factors*", and specifically "*Risks Relating to the Group and its Business*".

This Document does not include a profit forecast or profit estimate by the Company.

This Document refers to the Company's credit ratings which have been rated by the credit rating agency Standard & Poor's. Standard & Poor's is established in the European Union ("EU") and is registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation.

2. **ENFORCEMENT OF CIVIL LIABILITIES**

The Company is organised under the laws of the Republic of Lithuania. All members of the Company's management board (the "**Management Board**") and all members of its supervisory board (the "**Supervisory Board**") named in this Document reside outside the United States. All of the Company's assets and a substantial portion of the assets of the members of its Management Board, Supervisory Board and senior management are located outside the United States. As a result, investors may not be able to effect service of process within the United States upon the Company, the Company's Management Board or its Supervisory Board or its senior management that are located in jurisdictions outside the United States or enforce US court judgements obtained against the Company, its Management Board, its Supervisory Board or its senior management in jurisdictions outside the United States, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon US securities laws. Generally, the courts of the Republic of Lithuania have jurisdiction in civil and commercial matters involving the Company as the defendant.

The Company may also be sued in the courts of a country other than the Republic of Lithuania if and to the extent that this is permitted by the laws applicable in such other country. However, a judgement given in another country is not necessarily enforceable in the Republic of Lithuania. The rules which would be applied by a Lithuanian court when deciding on enforcement of a foreign judgement in the Republic of Lithuania differ depending on the jurisdiction in which such judgement originates.

(a) ***Judgements originating in other EU member states (except Denmark) or the United Kingdom***

A judgement originating in a member state of the EU (other than Denmark) or the United Kingdom (for the purposes of this sub-section only, each a "**Relevant State**") shall be recognised and enforced by the courts in the Republic of Lithuania without any declaration of enforceability being required, subject to conditions set forth in the Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2000 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters (the "**Regulation 1215/2012**").

According to the Regulation 1215/2012, the courts of the Republic of Lithuania may only refuse the recognition or enforcement of a judgement given in another Relevant State on the application of the person against whom enforcement is sought, in the following circumstances:

- (i) if such recognition is manifestly contrary to public policy in the Republic of Lithuania;
- (ii) where it was given in default of appearance, if the defendant was not served with the document which instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable him to arrange for his defence, unless the defendant failed to commence proceedings to challenge the judgement when it was possible for him to do so;
- (iii) if it is irreconcilable with a judgement given in a dispute between the same parties in the Republic of Lithuania;
- (iv) if it is irreconcilable with an earlier judgement given in another Relevant State or in a third State involving the same cause of action and between the same parties, provided

that the earlier judgement fulfils the conditions necessary for its recognition in the Republic of Lithuania;

- (v) if it conflicts with the provisions of the Regulation 1215/2012 on (i) jurisdiction in matters relating to insurance, consumer contracts or employment and the beneficiary of the insurance contract, the injured party, the consumer or the employee was the defendant; or (ii) the exclusive jurisdiction.

According to Regulation 1215/2012, the courts of the Republic of Lithuania have exclusive jurisdiction, amongst others, in proceedings which have as their object the validity of the constitution, the nullity or the dissolution of the Company and the validity of the decisions of its organs as well as in proceedings which have as their object the validity of entries in public registers kept in the Republic of Lithuania.

(b) ***Judgements originating in states bound by the Lugano Convention 2007***

Judgements originating in countries bound by the Lugano Convention 2007 (being Iceland, Switzerland, Norway and Denmark) shall be recognised or enforced in the Republic of Lithuania on substantially the same terms as judgements originating in the Relevant States except that express declaration of enforceability is required in order for these judgements to be enforceable in the Republic of Lithuania.

(c) ***Judgements originating in other countries (including the United States of America)***

As regards the enforcement of judgements originating in a country such as the United States, which is neither the Republic of Lithuania, nor a Relevant State, nor a country with which the Republic of Lithuania has a bilateral or other treaty on recognition and enforcement of judgements in civil and commercial matters (such as the Lugano Convention 2007), Lithuanian courts shall apply the relevant provisions of Lithuanian law on the recognition and enforcement of foreign judgements. According to these, Lithuanian courts may only refuse the recognition of a foreign judgement in the following cases:

- (i) if such judgement has been rendered without giving an opportunity to the defendant to be heard and to contest the action;
- (ii) if such judgement is not final;
- (iii) if a judgement on the merits resolving the same dispute as such judgement has been rendered or recognised in the Republic of Lithuania before (*res iudicata*);
- (iv) if the effects of recognition of such judgement would contravene the public policy of the Republic of Lithuania;
- (v) if the courts of the Republic of Lithuania had exclusive jurisdiction in proceedings in which such judgement was rendered; or
- (vi) if reciprocity in recognising and enforcing judgements between the Republic of Lithuania and the country of origin of such judgement does not exist.

In addition, Lithuanian courts must refuse the recognition of such judgement if the party against whom such recognition is sought proves that, either (a) the foreign court disregarded the agreement between the parties that the courts of the Republic of Lithuania shall have jurisdiction in such matter or (b) the jurisdiction of the foreign court was based solely on one of the following circumstances:

- (i) the citizenship of the plaintiff; or
- (ii) the fact that the defendant's assets are located in such jurisdiction; or
- (iii) the service of process in such jurisdiction.

3. PRESENTATION OF FINANCIAL INFORMATION AND OTHER INFORMATION

3.1 Financial Statements of the Group

This Document contains:

- the Company and the Group's audited financial statements as at and for the year ended 31 December 2019 (the "**2019 Financial Statements**"), which were audited by UAB Ernst & Young Baltic, together with comparative information as at and for the year ended 31 December 2018;
- the Company and the Group's restated audited financial statements as at and for the year ended 31 December 2018 and as at and for the year ended 31 December 2017 (the "**2018 and 2017 Restated Financial Statements**"), which were audited by UAB PricewaterhouseCoopers;
- the Group's unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2020, which were reviewed by Ernst & Young Baltic in accordance with International Standard on Review Engagements 2410, together with comparative information for the six-month period ended 30 June 2019 (together, the "**Interim Financial Information**").

The 2018 and 2017 Restated Financial Statements and the 2019 Financial Statements (together, the "**Audited Financial Statements**") included in this Document, beginning on page F-150 and F-37, respectively, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as adopted by the EU, and the Interim Financial Information included in this Document, beginning on page F-2 has been prepared in accordance with IAS 34 Interim Financial Reporting. The Audited Financial Statements and the Interim Financial Information (together, the "**Financial Statements**") are presented in thousand EUR. For full details of the basis of preparation, please refer to Note 2.1 (*Basis of preparation*) to the 2019 Financial Statements, Note 2.1 (*Basis of preparation*) to the 2018 and 2017 Restated Financial Statements and Note 2.1 (*Basis of preparation*) to the Interim Financial Information.

The significant IFRS accounting policies described in Note 2 (*Summary of significant accounting policies*) to the 2019 Financial Statements, Note 2 (*Summary of significant accounting policies*) to the 2018 and 2017 Restated Financial Statements and Note 2 (*Summary of significant accounting policies*) to the Interim Financial Information have been applied consistently in the preparation of the Financial Statements, except as described under the section entitled "*Changes in accounting policies and changes in comparative financial information*" below.

The financial information presented in this Document was not prepared in accordance with US Generally Accepted Accounting Principles ("**US GAAP**") or audited in accordance with US Generally Accepted Auditing Standards ("**US GAAS**") or the auditing standards of the Public Company Accounting Oversight Board ("**PCAOB Standards**"). No opinion or any other assurance with regard to any financial information was expressed in accordance with US GAAS or PCAOB Standards and the financial information is not intended to comply with the US Securities and Exchange Commission reporting requirements. Compliance with such requirements would require modification, reformulation or exclusion of certain financial measures. In addition, changes would be required in the presentation of certain other information. In particular, no reconciliation to US GAAP is provided.

3.2 Changes in accounting policies and changes in comparative financial information

IFRS 9 Adoption

On 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* ("**IFRS 9**") for the first time. The Group and the Company accounted for the impact of the adoption of IFRS 9 starting from 1 January 2018 using the modified retrospective approach. The Group's management assessed the impact of the adoption of IFRS 9 and the amendments thereto on the Company's financial statements and established that the requirements of the new standard do not have a significant impact on the measurement results of trade receivables and loans receivable that were applied prior to the effective date of this standard. The first-time adoption of the standard had no impact on the measurement of financial assets and financial liabilities, except that impairment of amounts receivable, which was recalculated under the requirements of the new standard, increased by EUR 471 thousands. The impact of the adoption of this standard was

reported in the statement of financial position as at 1 January 2018 by reducing retained earnings and recognising additional impairment of amounts receivable. Moreover, on 1 January 2018, the Group assessed financial assets held and reclassified financial instruments into respective categories established by IFRS 9. See Note 2.1 to the 2018 and 2017 Restated Financial Statements. As a result of applying IFRS 9, financial data presented in this Document for the year ended 31 December 2017 are not fully comparable with that for other financial years and interim periods.

IFRS 15 Adoption

As at 1 January 2018, the Group and the Company adopted IFRS 15 *Revenue from Contracts with Customers* ("**IFRS 15**"). The Group and the Company accounted for the impact of the adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach. The Group's management assessed the impact of the adoption of IFRS 15 and amendments thereto on the Group's financial statements and established that the requirements of the new standard will affect the recognition of revenue from new customer connection. Following the application of IFRS 15 with respect to revenue from new customer connection to the electricity system, the Group recognises such revenue over time, unlike the approach applied until 1 January 2018 (where revenue is recognised upon the fulfilment of an obligation). With respect to the new customer connection to gas network service revenue (which was accrued and recognised in the statement of financial position over the useful life of property, plant and equipment created during the connection; i.e. deferred revenue) from 1 January 2018, such revenue is recognised upon fulfilment of the connection obligation. Total impact of the adoption of IFRS 15, recognised in equity at 1 January 2018, amounted to EUR 62,321 thousands.

The adoption of IFRS 15 affected the classification and presentation of the Group's revenue under contracts with customers and other income. As at 1 January 2018, income items '*Repair services, IT and communications services*', and '*Electricity equipment relocation income*' are included within '*Revenue under contracts with customers*' in the statement of comprehensive income, and comparative figures for 2017 presented in the 2018 and 2017 Restated Financial Statements have been also reclassified. Following the adoption of the standard, the line item '*Other income*' of the statement of comprehensive income also comprises income from derivative financial instruments; comparative figures for 2017 have been also reclassified, but not restated for the impact of IFRS 15. See Note 2.1 to the 2018 and 2017 Restated Financial Statements and paragraph 2 of Part 5 ("*Operating and Financial Review*"). As a result of applying IFRS 15, financial data presented in this Document for the year ended 31 December 2017 are not fully comparable with that for other financial years and interim periods.

IFRS 16 Adoption

The Group applied IFRS 16 *Leases* ("**IFRS 16**") in the financial year ended 31 December 2019, which had a significant impact on the Group's financial statements. The incorporation of the other annual IFRS amendments had no significant impact on the Group's financial statements for the financial year ended 31 December 2019. As permitted under IFRS, the Company and the Group accounted for the impact of the first-time adoption of IFRS 16 starting from 1 January 2019 using the modified retrospective approach and comparative financial data for 2018 was not restated. As a result of applying IFRS 16, financial data presented in this Document for the 12-month periods ended 31 December 2018 and 2019, respectively, are not fully comparable.

New standards and amendments during the six months ended 30 June 2020

The accounting policies applied in the preparation of the interim financial statements for the six months ended 30 June 2020 are consistent with the accounting policies applied in the preparation of the Group's annual financial statements for the year ended 31 December 2019, with the exception of new standards which entered into force during the six months ended 30 June 2020. For further detail, see note 2.2 to the Interim Financial Information. These amendments did not have a material impact on the Group's interim financial statements for the six months ended 30 June 2020, but may impact future periods.

Change in management judgment on applying accounting methods and corrections of errors

See paragraph 2 of Part 5 ("*Operating and Financial Review*") for further information relating to changes in management judgment on applying accounting methods and corrections of errors in the 2018 and 2017 Restated Financial Statements and the 2019 Financial Statements.

Changes in operating segments presentation

During 2019, the Group changed the composition and presentation of its operating segments, in accordance with the strategy of the Group as well as due to the changes in the Group's structure. The presentation of the operating segments in the 2019 Financial Statements reflects the revised approach. Consequently, 2018 comparative information has been restated and disclosed accordingly in the 2019 Financial Statements. For more details, see Note 42 in the 2019 Financial Statements.

For the purposes of this Document, financial data relating to operating segments for the years ended 31 December 2019 and 2018 is derived from the 2019 Financial Statements. Additionally, in order to enhance comparability across the period under review, this Document includes unaudited operating segments financial data for the financial year ended 31 December 2017 that has been prepared by the management for the purposes of this Document (and presented on a comparable basis to segment information in the 2019 Financial Statements). This information is unaudited and was not subject to any other verification or attestation by an independent auditor. The Group has not restated its 2018 and 2017 Restated Financial Statements to reflect the revised operating segments. For discussion of operating segments financial data, please see paragraph 7 of Part 5 ("*Operating and Financial Review*").

3.3 Emphasis of Matter

The auditor's report relating to the 2018 and 2017 Restated Financial Statements was unqualified but contained the following emphasis of matter paragraph:

"We draw attention to Note 3.3 to these reissued two years separate and consolidated financial statements, which describes the reason for the reissuance of the 2018 and 2017 separate and consolidated financial statements. Our opinion is not modified in respect of this matter."

For the reasons and basis of preparation and restatement of the 2018 financial statements and 2017 financial statements, please refer to paragraph 2 of Part 5 ("*Operating and Financial Review*") of this Document and Note 3.3 to the 2018 and 2017 Restated Financial Statements.

3.4 Non-IFRS measures

This Document includes certain non-IFRS measures, such as certain alternative performance measures ("**APMs**"), which include EBITDA, adjusted EBITDA and other ratios, that are not required by, or presented in accordance with, IFRS. The Group presents non-IFRS measures because management uses them to measure operating performance, in reporting to the Supervisory Board and as a basis for strategic planning and forecasting. Management believes that these and other similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance, financial position and liquidity. These non-IFRS measures and ratios may not be comparable to similarly titled measures or ratios used by other companies, and they should not be considered in isolation, as substitutes for or as an alternative to, the information contained in the Financial Statements.

For further information relating to the APMs, see paragraph 4 of Part 3 ("*Selected Financial Information*").

3.5 Presentation of Third Party Statistical and Other Information

Unless the source is otherwise stated, the market, economic and industry data in this Document constitute the Group's estimates, using underlying data from independent third parties. Statistics, forecasts, data and other information relating to markets, market size, market share, market position and other industry data pertaining to the Group's business and markets, in particular the power and renewables markets in the Baltics, are not based on published data from independent third parties or extrapolations therefrom, but are based on the Company's analysis and estimates, which in turn are based on multiple third-party sources, including publications and data compiled by Wood Mackenzie, industry publications, market research, press releases, news articles, filings under various securities laws and official data published by the National Energy Regulatory Council of the Republic of Lithuania ("**NERC**") and certain agencies of the Republic of Lithuania, other government agencies and statistical offices of countries in which the Group operates, the European Commission (the "**Commission**"), the World Bank and rating agencies and other publicly available information published by research institutes or other market participants,

particularly in the power and renewables markets. Such information, data and statistics may be approximations or estimates or use rounded numbers.

The Company has included its own estimates, assessments, adjustments and judgements in preparing some of the market information contained in this Document, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While the Company believes that its own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by it generally reflects the industry and the markets in which the Company operates, there is no assurance that the Company's own estimates, assessments, adjustments or judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

Market data used in this Document, including statistics in respect of the Company's market share, has been extracted from official and industry sources and other sources the Company believes to be reliable. This information appears throughout this Document including, without limitation, in Part 4 ("*Business Overview*") and Part 5 ("*Operating and Financial Review*"), and is sourced in the text or in footnotes where it appears. The Company has relied on the accuracy and completeness of the information, data and statistics without independent verification. All statistical and market information provided by Wood Mackenzie presented in this Document in the section entitled "*Summary*", Part 2 ("*Market Overview*"), Part 4 ("*Business Overview*") and Part 5 ("*Operating and Financial Review*") has been reproduced from the Wood Mackenzie Report. Wood Mackenzie has given and not withdrawn its consent to the inclusion of information from the Wood Mackenzie Report in this Document, in the form and content in which it is included, and has authorised the contents of those parts of this Document for the purposes of the Prospectus Regulation. Wood Mackenzie accepts responsibility for the information included in Part 2 ("*Market Overview*") of this Document from the Wood Mackenzie Report and, to the best of Wood Mackenzie's knowledge and belief, the information included in Part 2 ("*Market Overview*") of this Document from the Wood Mackenzie Report is in accordance with the facts and does not omit anything like to affect the import of such information.

The Company does not intend, and does not assume any obligation, to update industry or market data set forth in this Document. Market behaviour, preferences and trends are subject to changes, recipients of this Document should therefore be aware that market and industry information in this Document and estimates based on any data therein may not be reliable indicators of future market performance or the Group's future results of operations or performance. Moreover, future results and events may differ materially from the industry and market data projections and estimates contained in this Document because of a series of reasons, including but not limited to: general market conditions, macroeconomy, governmental and regulatory trends; competitive pressure; technological developments; and commercial, managerial, operational or financial factors. Accordingly, there can be no assurance that such projected results or estimates will materialise.

The Company confirms that all third-party information, data and statistics have been accurately reproduced and, as far as the Company is aware and is able to ascertain from relevant publicly available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. However, information provided by different third parties and their underlying methodology may not necessarily be comparable. The Company does not accept any liability for the accuracy of any such information, data and statistics, and recipients of this Document are advised to use such information with caution.

3.6 Currency

In this Document, the following currency terms are used:

- "US Dollar", "Dollar", "USD" or "US\$" means the lawful currency of the United States;
- "EUR", "euro" or "€" means the lawful currency of the EU member states that adopted the single currency; and
- "£", "p", "pound sterling" or "pence" are to the lawful currency of the United Kingdom.

Unless otherwise indicated, the historical financial information contained in this Document has been expressed in euro. The Company's functional currency is euro and the Company presents its financial statements in euro.

3.7 **Rounding**

Some numerical figures included in this Document have been subject to rounding adjustments. As a result of this rounding, figures shown as totals of rows or columns in certain tables in this Document may not be an exact arithmetic aggregation of the figures that precede them. In addition, certain percentages presented in this Document reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

PART 1 – DIVIDEND POLICY

1. DIVIDEND POLICY

The Company's dividend policy is prepared in accordance with the Resolution of the Government of the Republic of Lithuania No. 20 of 14 January 1997 "On Dividends for the State-Owned Shares of Companies and Profit Contributions of State Entities" ("**Resolution No. 20**") and was amended on 2 September 2020 pursuant to the Resolutions of the Government of Lithuania No. 960, and in accordance with the Resolution of the Government of the Republic of Lithuania of 2 September 2020 "On Dividends Paid by AB "Ignitis grupė"" ("**Resolution on Dividends**"). The Company's new dividend policy becomes effective upon the publication of the Resolution on Dividends. The Company's dividend policy sets out main principles that must be adhered to when making decisions on the distribution of dividends of the Company. Pursuant to the Company's dividend policy, dividends paid by the Company will be decided based on a fixed starting level plus a minimum annual growth rate:

- the fixed starting dividend level was set at EUR 85 million for the year ending 31 December 2020;
- the minimum annual dividend growth rate was set at a minimum of 3 per cent.¹ going forward.

The declaration of dividends requires the approval at the Company's General Meeting, following recommendation from the Management Board. In line with the fixed starting dividend level of EUR 85 million under the amended dividend policy:

- a dividend of EUR 42 million for the first half of 2020 was proposed for declaration by the Management Board on 3 September 2020 subject to the coming into force of the Company's new dividend policy. The dividend is expected to be paid to the Principal Shareholder, subject to approval by the Principal Shareholder as the sole shareholder of the Company. Payment is expected in the second half of 2020;
- the Company intends to declare a dividend of EUR 43 million² for the second half of 2020, for payment in the first half of 2021, subject to approval at the Annual General Meeting and, among other matters, the financial results for the year ending 31 December 2020, including the Company's distributable reserves and retained earnings, regulatory capital requirements, working capital requirements and other factors. For further information, see paragraph 3 of this Part 1 ("*Dividend Policy*").

The dividend policy is amended, with regard to Resolution No. 20 and the Resolution on Dividends, by the Management Board of the Company and is publicly available at the Company's website. Any changes to the dividend policy will be notified to the market via the information system "GlobeNewswire" and available at <https://nasdaqbaltic.com/> and <https://csf.omxgroup.com/>, and published on the Company's website.

2. RECENT DIVIDENDS

The following table summarises the dividends declared by the Company to the Principal Shareholder in the years ended 31 December 2017, 2018 and 2019:

	Year ended 31 December		
	2017	2018	2019
Aggregate dividend (<i>EUR millions</i>)	78.3	13.0	28.0

¹ This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, potential investors should not place any reliance on the target in deciding whether or not to invest in the Company and should not assume that the Company will make any distributions at all, and should decide for themselves whether or not the target is reasonable or achievable.

² See footnote 1 above.

3. LEGAL AND REGULATORY REQUIREMENTS

The following general rules apply with respect to any dividends declared by the Company.

Dividends can be declared by a decision of the General Meeting. The Company can declare dividends from the profit available for distribution, which consists of the net profit for the relevant financial year, as increased by any profit (or decreased by any loss) brought forward from the previous year, plus any amounts held in reserves that the shareholders decide to make available for distribution, and less any sums that the General Meeting decides to allocate for other purposes pursuant to the requirements of the Law on Companies.

The General Meeting may not adopt a decision to allocate and pay a dividend if: (i) the Company has outstanding obligations which became due before the General Meeting; (ii) the profit available for distribution for that financial year is negative; (iii) the equity capital of the Company is lower or would, following upon payment of the dividend, be lower than the aggregate amount of the share capital, the mandatory reserve, the revaluation reserve and the reserve for redemption of own shares of the Company. The Company must pay the allocated dividend within one month of the day the General Meeting adopts a decision to allocate and pay the dividend. The same rules for paying dividends are applied both to residents and non-residents of the Republic of Lithuania with the exception of taxation requirements. The term of limitations with respect to filing a dividend payment claim with the court expires 10 years after the date the dividend had to be paid, following which the unclaimed dividend amount will be for the benefit of the Company.

Dividends are paid to the shareholders in proportion to the aggregate sum of the nominal value of the shares held by the shareholder. Dividends can be paid only in cash. The dividends attributable to the Shares are non-cumulative. Dividends are paid to persons who at the end of the rights record date (i.e. the tenth business day following the day on which the decision to distribute dividends was adopted by the General Meeting) were shareholders of the Company or were otherwise entitled to receive dividends.

As the Company is a state-owned company (where the state owns more than 50 per cent. of its shares), the Company is also subject to Resolution No. 20 (as amended). Accordingly, if the decision of the Government to approve an increase of the Company's share capital is adopted and at least 25 per cent. of the Company's shares are offered or at least 25 per cent. of the Company's shares are traded on a regulated market, the Government may determine the amount of the dividends without applying the requirements set out in Resolution No. 20.

The Law on Companies provides for the possibility to pay dividend to shareholders in respect of a period shorter than a financial year (i.e. an interim dividend) if the following conditions are met:

- the right to initiate the distribution of dividends lies with shareholders holding shares which carry at least $\frac{1}{3}$ of all the voting rights, unless the articles of association of the company specify a higher majority (currently, the Articles of Association of the Company do not impose a higher majority);
- prior to the distribution of any interim dividend, the Company must have approved an audited set of interim financial statements, the interim report and a draft of the decision on distribution of dividend for a period shorter than a financial year;
- the interim dividend is allocated by a decision of the General Meeting, which must be held within three months after the end of the relevant financial period in respect of which the distribution of dividend is being proposed (but, in any case, no earlier than the approval of the set of annual financial statements and distribution of the Company's profit (loss) for the previous financial year and no later than the end of the current financial year);
- an interim dividend can be distributed if all the following conditions are met: (a) an audited set of interim financial statements has been approved; (b) the profit (loss) amount for a period shorter than a financial year is positive (there is no loss); (c) the amount distributed for payment of dividend does not exceed the aggregate amount of profit (loss) for the period shorter than a financial year, the amount of the retained earnings (loss) for the previous financial years carried forward to the current financial year, upon deduction of the share of profit earned during the period shorter than a financial year, which must be appropriated to reserves according to the law

or according to the Articles of Association; (d) the Company must not have outstanding obligations, which matured before taking of the decision, and upon payment of dividend it would be capable of fulfilling its obligations for the current financial year; and

- upon distribution of interim dividend, the Company is allowed to allocate dividend for another period shorter than a financial year, but no earlier than three months after the date of the decision of the General Meeting on allocation of interim dividends.

PART 2 – MARKET OVERVIEW

The following information relating to the industry has been provided for background purposes only. Unless indicated otherwise, the information set out in this Part 2 ("Market Overview") constitutes the Company's views of the market in which the Group operates. Unless indicated otherwise, all market, industry, market share and competitive position data set out in this Part 2 ("Market Overview") and elsewhere in this Document that relate to the market in which the Group operates are estimates and should be treated with caution. The information has been extracted from third party sources that the Company reasonably believes to be reliable, including the Wood Mackenzie Report, but it has not independently verified such information. All statistical and market information provided by Wood Mackenzie presented in this Part 2 ("Market Overview") and elsewhere in this Document has been reproduced from the Wood Mackenzie Report. Additional factors which should be considered in assessing the usefulness of the market and competitive data are described elsewhere in this Document, including those set out in the section entitled "Risk Factors" of this Document. Accordingly, undue reliance should not be placed on any of the market, industry, market share and competitive position data contained in this Document. See "Presentation of Financial and Other Information."

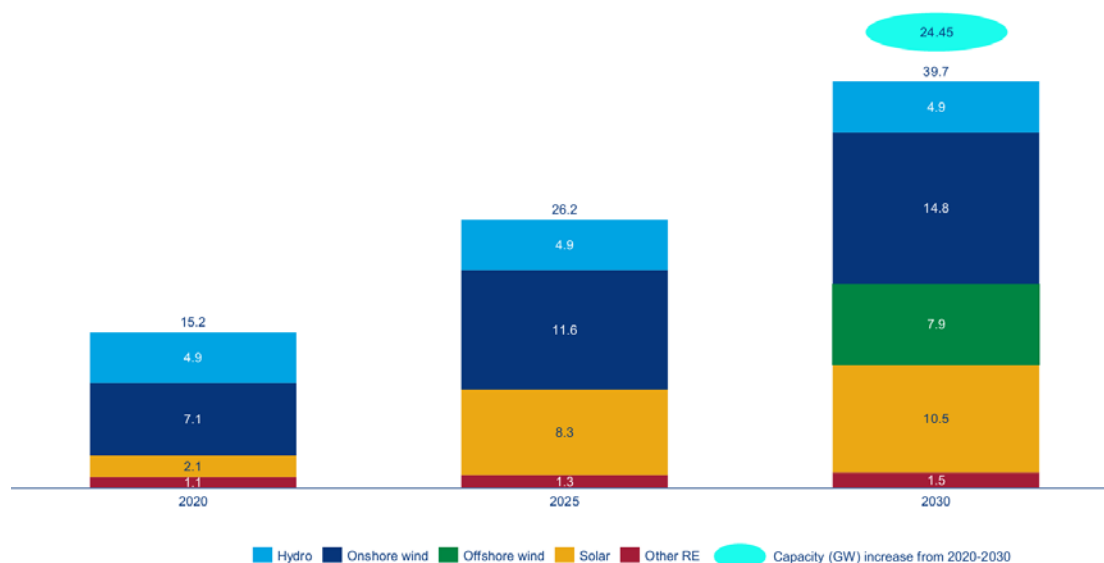
The information included in this Part 2 ("Market Overview") from the Wood Mackenzie Report, including any updates to them, are published by and remain subject to the copyright of the Wood Mackenzie group ("Wood Mackenzie"), its licensors and any other third party as applicable and are made available to AB Ignitis grupė and its Affiliates under terms agreed between the parties. The use of these materials is governed by the terms and conditions of the agreement under which they were provided. The content and conclusions contained are confidential and may not be disclosed to any other person without Wood Mackenzie's prior written permission. The data and information provided by Wood Mackenzie should not be interpreted as advice. Nothing contained in them constitutes an offer to buy or to sell securities, or investment advice. You may not copy or use this data and information except as expressly permitted by Wood Mackenzie in writing. Wood Mackenzie does not provide a comprehensive analysis of the financial position or prospects of any company or entity and nothing contained herein should be taken as comment regarding the value of the securities of any entity.

1. MACROECONOMIC OVERVIEW OF THE BALTIC REGION AND POLAND

The Baltics and Poland are EU-member countries with strong economic fundamentals and historic growth in energy demand, operating under well-established EU rules. The Baltic region is focused on achieving energy independence by disconnecting from energy imports from Russia and Belarus and synchronising with the continental European energy network by 2025, which is intended to enhance the region's ability to independently manage its electric system. The region is also facing unprecedented growth in green energy supported by decarbonisation agenda and EU and national policies. The Baltic states and Poland have also adopted energy policies supporting extensive buildout of renewable generation capacities. The energy sector transition across the region is driving market upsides and opportunities for power generation.

The aggregate renewable installed capacity across the Baltics and Poland is expected to increase from 15.2 GW in 2020 to 39.6 GW in 2030, representing an aggregate increase of over 24 GW during this period. This increase is expected to come primarily from Poland (with a 20.1 GW increase in renewable installed capacity over this period), driven by the rapid pace of decarbonisation as the country transitions from a predominantly coal-based generation mix, as well as significant capacity additions in Lithuania (2.3 GW), Estonia (1.3 GW) and Latvia (0.7 GW), driven by the energy security and decarbonisation objectives of these countries. This rapid pace of renewables growth in the region presents a significant opportunity for renewable energy investment.

The following diagram sets forth the expected growth in renewable installed capacity across the Baltics and Poland combined from 2020 to 2030:



Source: Wood Mackenzie

The Baltic region and Poland have benefited from high average real GDP growth in recent years, with average real GDP growth of 3.8 per cent. from 2015 to 2019, compared to an EU average of 2.1 per cent. over this period. Additionally, the region has experienced growth in electricity demand in recent years, with electricity demand in the region increasing by 1.3 per cent. from 2015 to 2019 (compared to an EU average of 0.2 per cent. per annum). However, the majority of the industries, including the energy industry, in the Baltic region and Poland have been negatively affected by the spread of COVID-19. One of the most significant impacts to the energy industry is the decline in electricity and gas consumption, although the ongoing impact of COVID-19 and the actions taken in the Baltic region and Poland in response to it cannot yet be fully assessed. Nevertheless, Lithuania recorded one of the lowest drops in GDP within the EU in Q2 2020 (3.7 per cent., compared to an average decrease of 14.1 per cent. for the EU), with other Baltic countries and Poland also suffering a relatively lower impact from COVID-19 than the EU average.

In response to the crisis, all EU member counties, including the countries in the Baltic region and Poland, are currently expected to receive support from 2020 to 2024 from the EU's recovery fund, which contributes to the forecasted recovery in annual GDP of the Baltic States and Poland in 2021 and onwards. The allocation of such funds will depend on the severity of the recession caused by the pandemic, GDP and average unemployment during the period 2015 to 2019. Currently, Lithuania is expected to receive 13 per cent. of its annual nominal GDP in 2019 (EUR 6.3 billion), Estonia is expected to receive 11 per cent. of its nominal GDP (EUR 3.3 billion), Latvia is expected to receive 14.7 per cent. of its nominal GDP (EUR 4.5 billion) and Poland will receive EUR 160 billion in total. It is expected that these funds will be targeted towards green initiatives and improvements in green and digital transition in the region, while promoting more energy efficient services and shifting away from heavy industries. The pace of the transition to cleaner power is expected to be defined by the pace at which countries are able to recover economically and the targeted use of funds being made available.

2. THE BALTICS

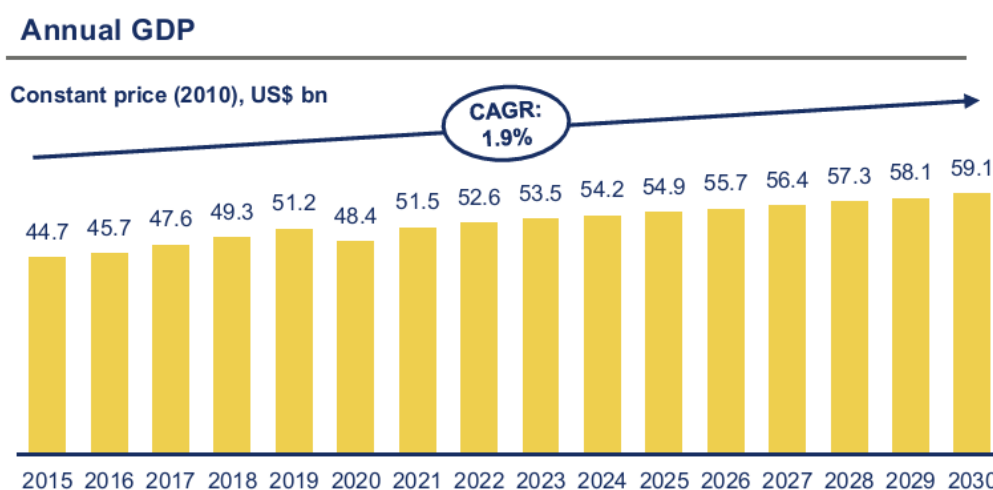
Deeper integration of the Baltics and their power grids within the electricity system of the rest of European Union, including their synchronous operation, is a strategic priority of the Baltics and EU energy policy. The Baltic Energy Market Interconnection Plan (the "BEMIP") was established to achieve an open and integrated regional electricity and gas market between EU Member States in the Baltic Sea region, tackling their energy isolation. The BEMIP sets out a roadmap for fully synchronizing the Baltic grids with the continental European grid network by 2025. The BEMIP has been underpinned by several infrastructure projects, including the Harmony Link submarine cable (Lithuania-Poland), which is planned to come online by 2025, the GIPL gas pipeline (Poland-Lithuania) which is under construction and expected to come online in 2021, as well as the decommissioning of lines between the

Baltic region and Belarus and Russia. Energy imports from Belarus are expected to stop by the end of 2020 once the Astravets Nuclear facility comes online in order to comply with the 2017 Lithuanian Law that banned the imports of electricity from unsafe nuclear facilities and energy imports from Russia are expected to terminate when Lithuania synchronises with the continental EU network in 2025, with gas and electricity interconnections with EU countries coming online in 2021 and 2025, respectively. This is expected to exert upward pressure on power prices in the Baltics due to continuously growing demand while imports are reduced from the Belarus and Russia.

2.1 The Republic of Lithuania

(a) Macroeconomic overview

Lithuania had a population of 2.8 million in 2018 and is the largest economy in the Baltics. Lithuania's GDP grew at a CAGR of 3.5 per cent. from EUR 37.8 billion³ to EUR 43.3 billion⁴ from 2015 to 2019, which was a rate almost twice as fast as growth of the European Union's GDP at a CAGR of 2.1 per cent. during the same period. The COVID-19 crisis is expected to result in a decrease in Lithuania's GDP of approximately 5 per cent. in 2020, although a recovery in GDP growth is expected in 2021, in particular due to the strong stimulus measures being taken by the EU and the Lithuanian government. Lithuania's annual GDP is expected to grow overall by a CAGR of 1.9 per cent. from 2020 to 2030. The following graphs sets out the historic and estimated future growth in Lithuania's GDP from 2015 to 2030:



Source: Wood Mackenzie

The growth of Lithuania's GDP has been driven by the manufacturing and industrial sectors; however, industries such as the life science, pharmaceutical and laser industries are expected to make a larger contribution to GDP going forward.

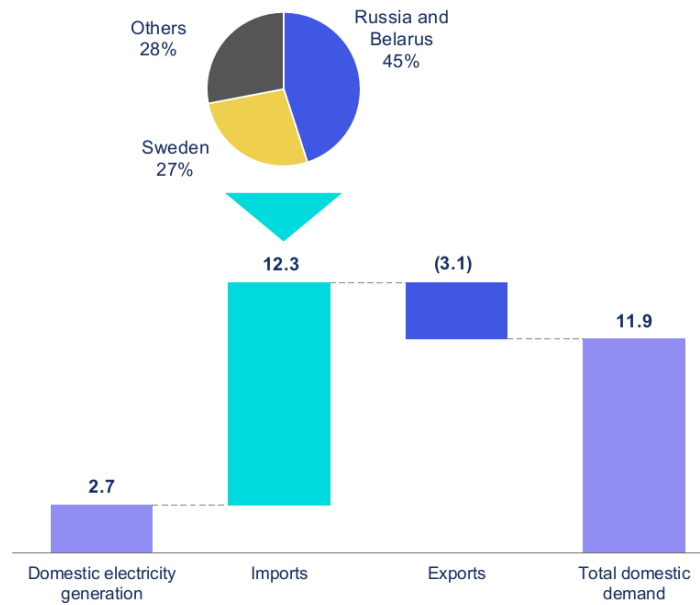
(b) Electricity market in Lithuania

Lithuania imports a significant share of its energy from Russia and Belarus, but there is a strong drive from the government to increase independence. The following diagram sets forth the electricity market in Lithuania by domestic electricity generation, imports, exports and total domestic demand based on average volume for 2017 to 2019:

³ Based on exchange rate of US\$1 = EUR 0.84.

⁴ Based on exchange rate of US\$1 = EUR 0.84.

Electricity market in Lithuania (TWh, last 3 years average)

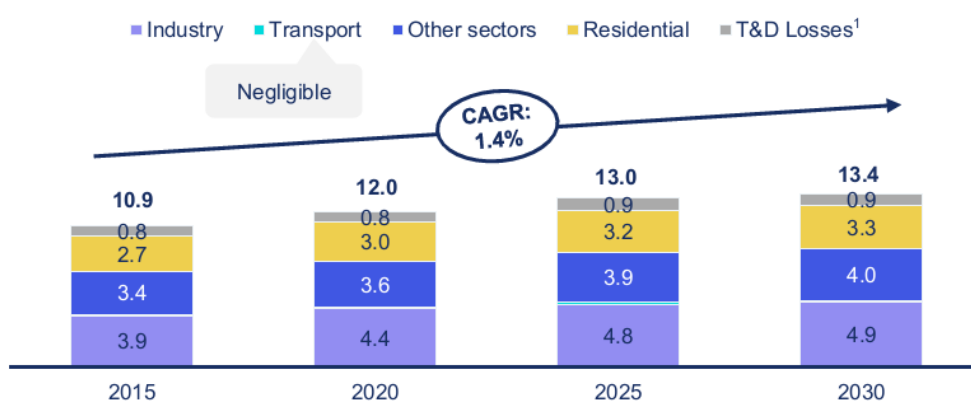


Source: Wood Mackenzie

(c) **Domestic demand for electricity in Lithuania**

Despite the near-term uncertainty that has resulted from the COVID-19 crisis, demand for electricity is expected to grow in Lithuania over time as industrial growth and the standard of living increase in tandem with the development of the economy. Demand for electricity in Lithuania is expected to grow at a CAGR of 1.4 per cent. from 10.9 TWh in 2015 to 13.4 TWh in 2030, driven by demand from industry, commercial and residential consumers. The following graph sets forth a breakdown by industry of the historic and estimated demand for electricity in Lithuania from 2015 to 2030:

Power demand outlook (TWh)



Source: Wood Mackenzie, IHS

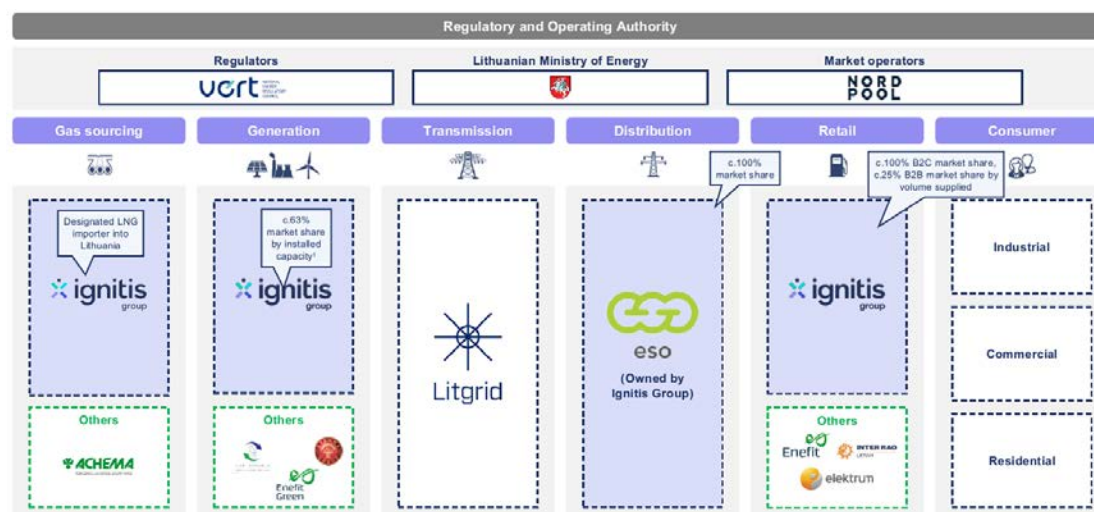
Source: Wood Mackenzie

Note:

1. Including energy sector internal consumption and excludes Kruonis PSHP.

(d) *Structure of Lithuania's electricity sector*

The following diagram sets forth the structure of the Lithuanian electricity sector:



Source: Wood Mackenzie

Note:

1. As of 31 December 2019, and based on installed capacity in Lithuania of 3.3 GW.

As at 31 December 2019, the Group has approximately a 63 per cent. share of the Lithuanian energy generation market (approximately 57 per cent. share of the green generation market), approximately 100 per cent. share of the Lithuanian energy distribution market, as well as approximately 100 per cent. of the B2C retail market and approximately 25 per cent. of the B2B retail market as measured by volume supplied.

(i) Regulation and operating authority

Lithuania's energy sector is regulated by the Ministry of Energy, which was re-established in 2009 for the purpose of reforming the Lithuanian energy sector and has been a key driver for the renewed energy strategy with a focus on renewable energy. The Lithuanian energy sector is also regulated by the NERC, which is an independent national regulatory authority that aims to create a credible, independent economic regulatory framework of electricity, natural gas, district heating, drinking water supply and wastewater treatment sectors, ensuring the quality and availability of energy services to consumers.

Nord Pool is a leading power market in Europe which offers trading, clearing, settlement and associated services in both day-ahead and intraday markets across nine European countries, including Lithuania. Nord Pool aggregates all purchase and sell orders received by the 12:00 CET deadline into an aggregated demand curve and an aggregated supply curve for each delivery hour with bidding area and all different types of block orders anonymised. Area prices and the system price are calculated for each delivery hour.

(ii) Distribution and transmission

The Lithuanian distribution network operator, ESO, which is owned by the Group, distributes electricity throughout Lithuania and is a distribution network operator with more than 1.8 million clients as of 30 June 2020. Litgrid AB is the electricity transmission system operator of Lithuania, which aims to maintain stable operation of the national electricity system, control electricity flows and facilitate competition in an open domestic electricity market. Litgrid AB is responsible for integrating the national electricity system into the European electricity infrastructure and electricity market and also operates NordBalt and LitPol, the strategic cross-border electricity links with Lithuania.

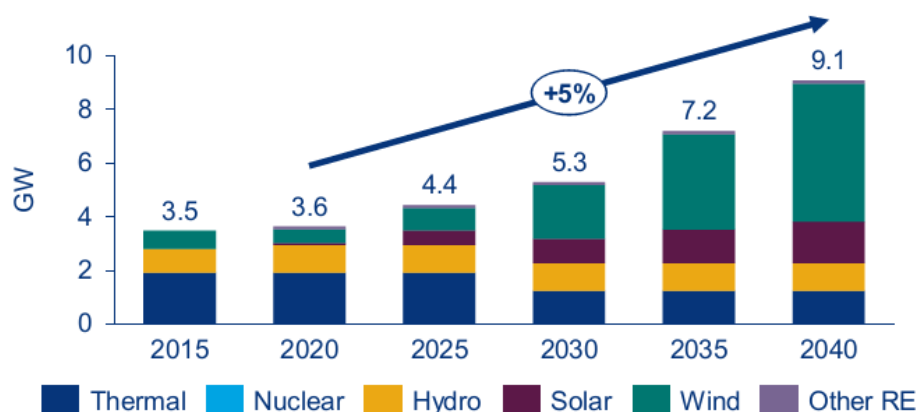
(iii) Electricity generation

In the generation sector of the market, the Group had the largest market share of 63 per cent. (2.1 GW) of total installed capacity in Lithuania in 2019, which is spread across thermal and renewables generation. Demand for electricity going forward is expected to be served mostly through renewable energy sources

("RES"), which currently amounts to approximately 1.9 GW of installed capacity comprising hydro, solar, wind and other RES. Generation capacity from hydro, solar, wind and other RES will grow by 2.3 GW between 2020 and 2030 and RES is expected to reach 4.0 GW by 2030. With the introduction of both onshore and offshore wind in Lithuania, it is expected that Lithuania will eventually be able to meet most of its energy demand domestically with active cross-border trades (both imports and exports) continuing to strengthen the Baltic grid.

The following graph sets forth the historic and estimated future growth of installed capacity in Lithuania from 2015 to 2040 by source:

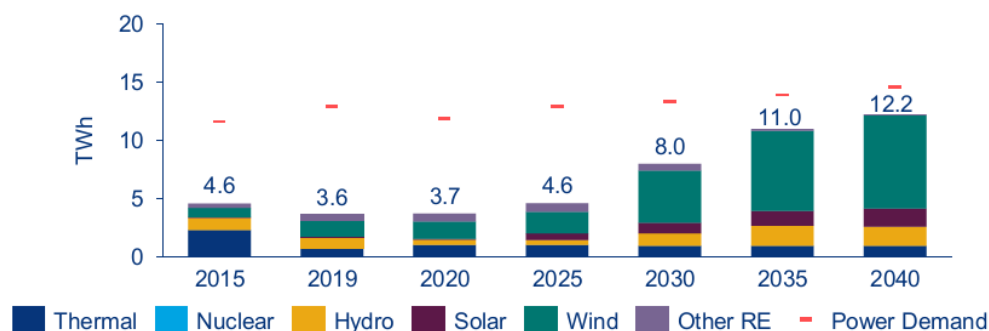
Installed Capacity Outlook



Source: Wood Mackenzie, Eurostat

The following graph sets forth the historic and estimated future electricity generation mix in Lithuania from 2015 to 2040:

Power Generation Mix



Source: Wood Mackenzie, Eurostat

(iv) Retail

In the retail sector (comprising both B2C and B2B), there is a higher level of competition, with the Group, Elektrum, Inter Rao and Enerfit having an overall 47 per cent., 19 per cent., 10 per cent. and 8 per cent. market share, respectively. The Group's share in the retail market (comprising both B2C and B2B) is largely attributable to the 100 per cent. share it has over the B2C retail market (as measured by volume supplied), given electricity and gas distribution in Lithuania is currently remaining regulated and the Group has a natural monopoly. The B2B retail market is deregulated and is therefore more fragmented, with the Group having approximately a 25 per cent. market share.

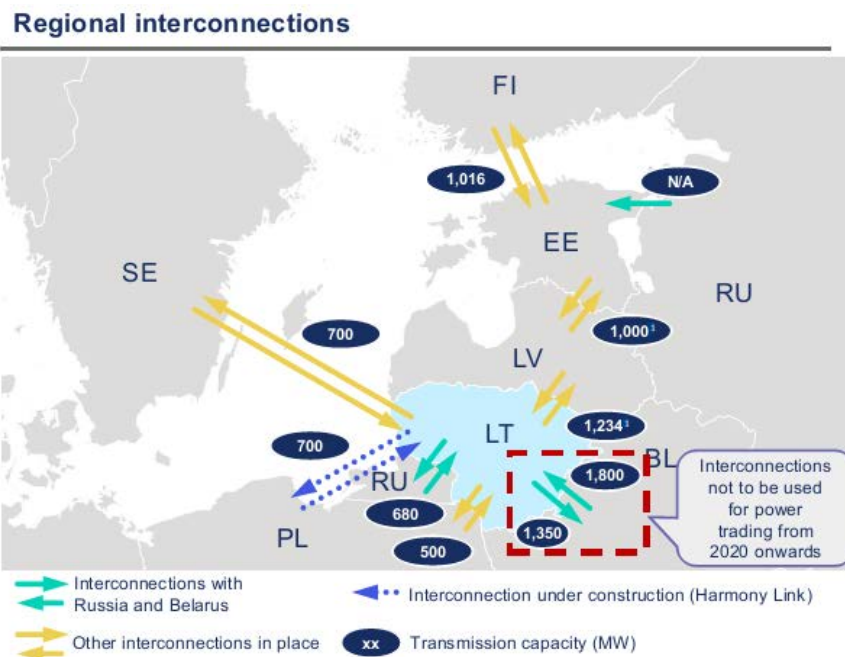
(e) **Key energy policies**

Lithuania is focused on achieving energy independence and synchronising with the continental European power network alongside the rest of the Baltics. With the decommissioning of Lithuania's Ignalina nuclear power plant in 2009, Lithuania became a net importer of electricity depending heavily on Russia and Belarus. Since then, Lithuania has undertaken major efforts, such as through the BEMIP, to improve and expand interconnections with neighbouring countries Poland and Sweden to reduce dependency on the Russian and Belarusian imports. In addition, in 2017, the Lithuanian government passed a law banning imports from unsafe nuclear power plants, which would bar any electricity generated at the Astravets Nuclear facility, which is under construction in Belarus near the border of Lithuania and currently expected to come online by the end of 2020.

As part of its strategy to drive Lithuania's energy independence and decarbonisation, the Lithuanian government published the National Independence Energy Strategy in 2018. The following are certain of the key objectives of this strategy:

- Increase the share of domestic electricity production to 70 per cent. by 2030 and 100 per cent. by 2050, through RES and gas assets;
- Achieve 30 per cent. of Lithuania's final electricity consumption from RES by 2020, 45 per cent. by 2030 and 100 per cent. by 2050;
- Ramp up in investments in the Republic of Lithuania's distribution network to improve the resilience and digitisation of the distribution grid (e.g., by rolling out smart meters by 2023);
- Put favourable conditions and policies in place to promote fast adoption of RES, such as the clear auctioning framework that was launched in 2019;
- Increase support for Lithuanian flexible generation in order to increase national generation; and
- Introduce a capacity mechanism to ensure the adequacy and reliability of the electricity system and encourage emergence of new local capacities.

The following graphic sets forth five of the existing interconnections between Lithuania and Russia, Sweden, Latvia, Belarus, and Poland:



Source: Wood Mackenzie

Note:
1. Net transfer capacity.

Although full synchronisation with EU is expected by 2025 through the construction of LitPol and Harmony Link, this is only expected to partially offset the planned disconnection from Russia and Belarus, increasing the need for domestic generation. These are expected to include opportunities for new renewable generation capacities as well as further flexible generation expansion under the capacity remuneration mechanism, which will provide for the supply of ancillary services to the energy system as well as allowing for merchant power generation.

(f) ***Green energy growth and competitive environment***

The following table sets out the top 10 renewable asset owners in Lithuania in 2019:

Owner	Business model	Largest project to date	Market share*
Ignitis Group	Owner/operator	Kruonis Pumped Storage Hydroelectric Plant (900 MW Hydro)	57%
Enefit	Owner/operator	Silute (60 MW Wind)	7.3%
Stemma Group	Owner/operator	Pagegiai (73.5 MW Wind)	3.9%
Renerga	Owner/operator	Benaičių - 1 vėjo elektrinių parkas (34 MW Wind)	3.9%
Veju Spektras	Owner/operator	Kretinga Park (30 MW Wind)	2.7%
IKEA	Owner/operator	Mazeikiai (45.6 MW Wind)	2.4%
Energogrupe	Owner/operator	Kreivenai (20 MW Wind)	1.1%
Fortum	Owner/operator	Klaipeda (20 MW Biomass)	1.1%
Sudenu vėjo Elektra	Owner/operator	Sūdėnų vėjo jėgainių parkas (14 MW Wind)	0.7%
Aivaras Stumbras	Owner/operator	Oakwill (5.4 MW Wind)	0.7%

Source: Wood Mackenzie, company websites

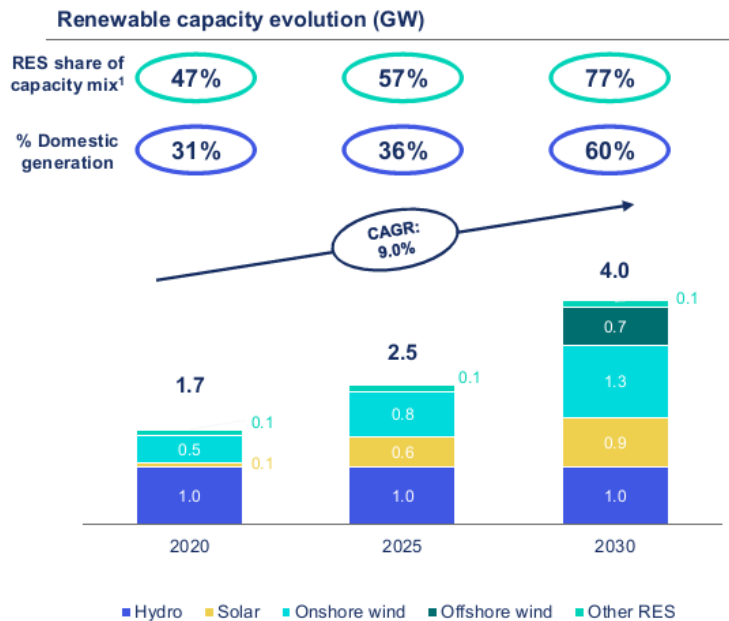
* Of total biomass, biogas, wind, large hydro, and solar capacity

From 2010 to 2019, Lithuania adopted RES at a rate that is faster than the EU average. The Lithuanian government had set aside funds for the production of electricity from RES and has track record of adhering to European best practices in RES.

Further build out of renewables capacity is one of Lithuania's objectives towards strengthening security of supply and lowering dependence on imports coming from Russia and Belarus. The country aims to have RES make up 45 per cent. of final electricity consumption by 2030 and 100 per cent. by 2050 and is exploring strong possibilities within offshore wind having identified areas to develop 700 MW of capacity in the near future. Secondary legislation is anticipated to be approved by late 2021, and offshore auctions expected to be held in February 2023, which will promote the growth of the RES market.

Key policies of the Lithuanian government to promote growth in RES also include incentives with respect to tenders, including technology neutral tenders with market premium, duration of support of 12 years and tenders to cover a total of 2.4 TWh and be organised annually from 2019 until 2022. The Lithuanian government has also introduced tax incentives, exempting electricity from renewable sources from excise duty.

The following graph sets forth the expected evolution of the RES capacity by type of RES from 2020 to 2030 in Lithuania:



Source: Wood Mackenzie

Note:

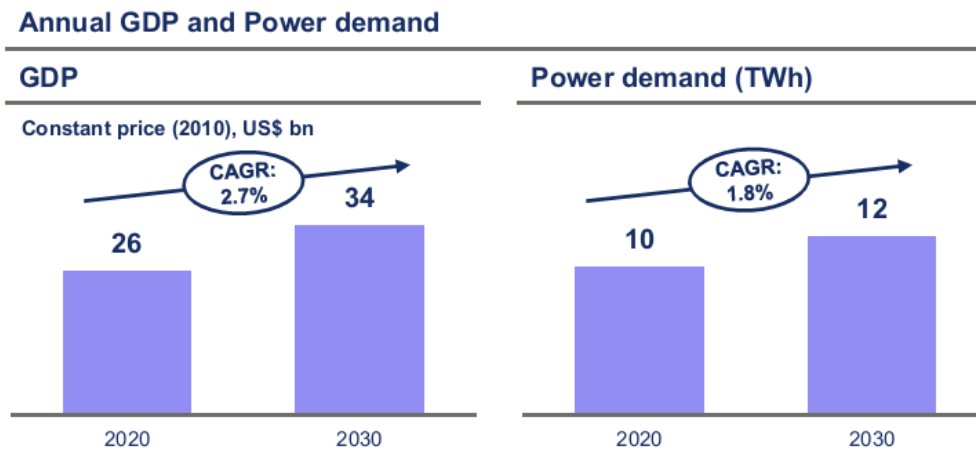
1. RES includes hydro, solar, wind and other renewable energy sources.

2.2 The Republic of Estonia

(a) Macroeconomic overview and domestic demand for electricity in Estonia

Estonia had a population of 1.3 million in 2018 and is the smallest of the three Baltic states. In recent years, Estonia's growth has been driven by information and communication, wholesale and retail trade, and professional, scientific and technical activities. Although COVID-19 is expected to significantly impact Estonia given its dependence on trade, Estonia's GDP is expected to grow at a CAGR of 2.7 per cent. from 2020 to 2030. In addition, electricity demand is expected to grow at a CAGR of 1.8 per cent. from 2020 to 2030. The largest increase in electricity demand is expected to come from the transport sector as electric vehicles gain traction.

The following graph sets forth the estimated annual GDP and electricity demand for Estonia from 2020 to 2030:



Source: Wood Mackenzie

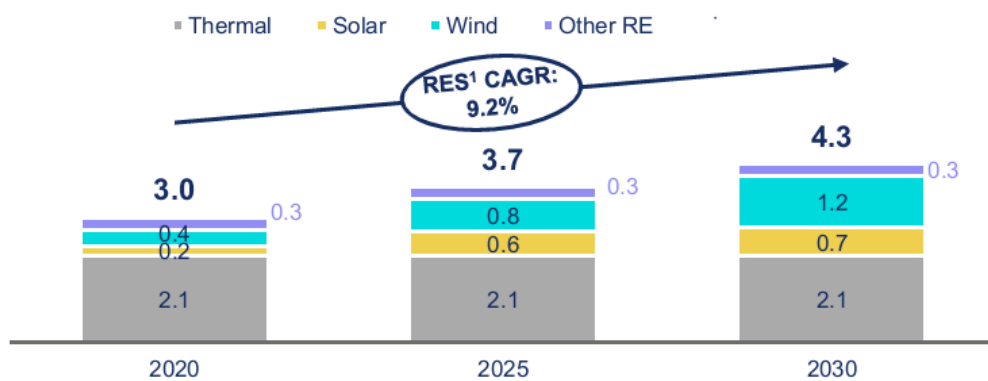
(b) **Key policies and the shift from oil shale**

Historically, oil shale has been Estonia's main source of electricity generation. However, this is set to gradually change with the implementation of carbon emission allowance and EU green targets. Through the adoption of National Development Plans of the Energy Sector until 2020 and then again until 2030, as well as the Estonian Renewable Energy Action Plan, the Estonian government has liberalised its energy market and set out a roadmap for achieving its renewable energy goals, which include achieving, *inter alia*, 50 per cent. of the domestic electricity consumption provided by RES generation by 2030, wind energy covering 1/3 of the country's electricity demand by 2050 and the successful synchronisation of the country's electricity system with the EU network. As part of these goals, Eesti Energia closed down four old and less efficient units with capacity of ~600MW in 2019, which is expected to contribute to Estonia's transition from a net exporter to net importer of electricity. Estonia also achieved deriving 10 per cent. of the energy use in transport from renewable sources and renewable electricity accounted for 17.6 per cent. of gross consumption ahead of target.

In addition, the first technology neutral auction held in 2020, with the auction capacity to be delivered by 2021, laid the foundation for future larger renewables tenders, which are expected to help drive Estonia's mid to long-term outlook for renewable energy development. These auction capacity are generally for a duration of twelve years and are awarded based on time and ability to meet delivery deadline. The upcoming auction is expected to be held in early 2021.

The following graph sets forth the estimated future growth of installed capacity in Estonia from 2020 to 2030 by source:

Installed capacity outlook (GW)

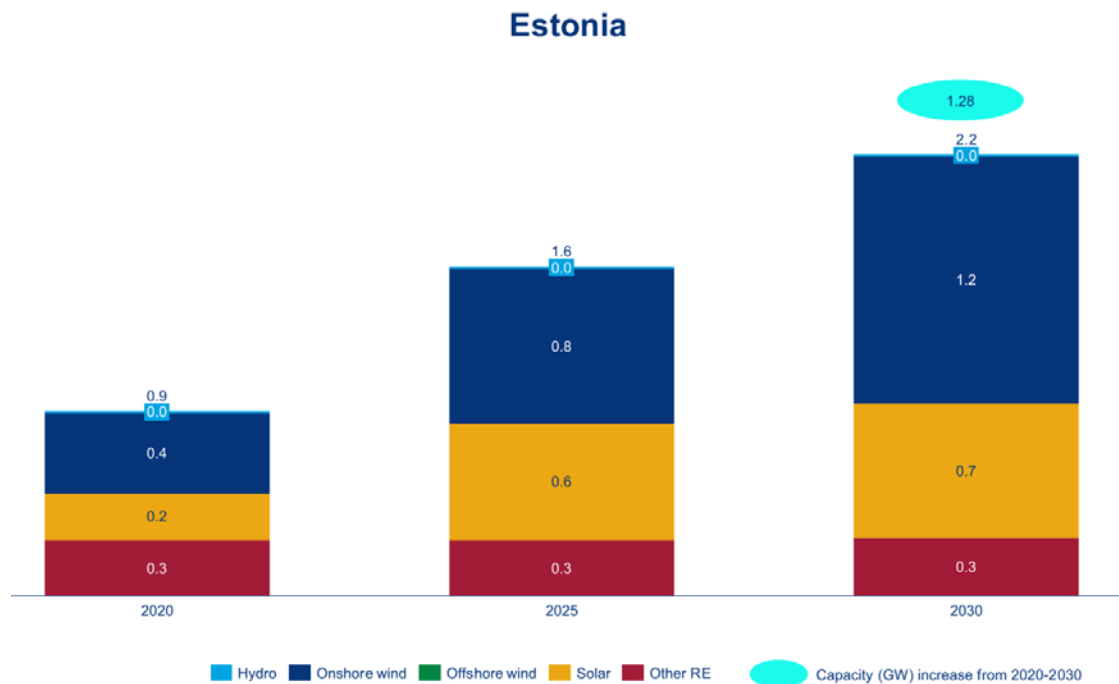


Source: Wood Mackenzie

Note:

1. Include wind, solar and other renewable energy sources.

The following graph sets forth, in particular, the estimated future growth of renewable installed capacity in Estonia from 2020 to 2030:



Source: Wood Mackenzie

(c) **Renewable energy and the competitive environment**

There are three primary renewable energy generation companies in Estonia: Enefit, Utilitas and Fortum, which accounted for 40 per cent., 7 per cent. and 6 per cent., respectively, of renewable energy generation in Estonia in 2019 (with the Group being the fourth largest with an approximately 3 per cent. market share). The following table sets out the top 10 renewable asset owners in Estonia in 2019:

<u>Owner</u>	<u>Business model</u>	<u>Largest project to date</u>	<u>Market share*</u>
Enefit	Owner/operator	Narva (39.1 MW Wind)	40.1%
Utilitas	Owner/operator	Tallinn Power Station (25 MW Biomass)	7.3%
Fortum	Owner/operator	Pärnu (25 MW Biomass)	6.0%
Ignitis Group	Owner/operator	Mäli/Tamba (12 MW Wind)	2.8%
Skinest Energia	Owner/operator	Esivere I (12 MW Wind)	1.9%
Baltic Workboats	Owner	Nasva (3.6 MW Wind)	0.9%
Telewind	Owner/operator	Läätsa (3 MW Wind)	0.5%
Eleon	Developer/owner	Salme (3 MW Wind)	0.5%
Green Electric	Owner/operator	Aburi (1.8 MW Wind)	0.3%
Eolus	Developer/ owner/operator	Nasva (1.6 MW Wind)	0.3%

Source: Wood Mackenzie, company websites

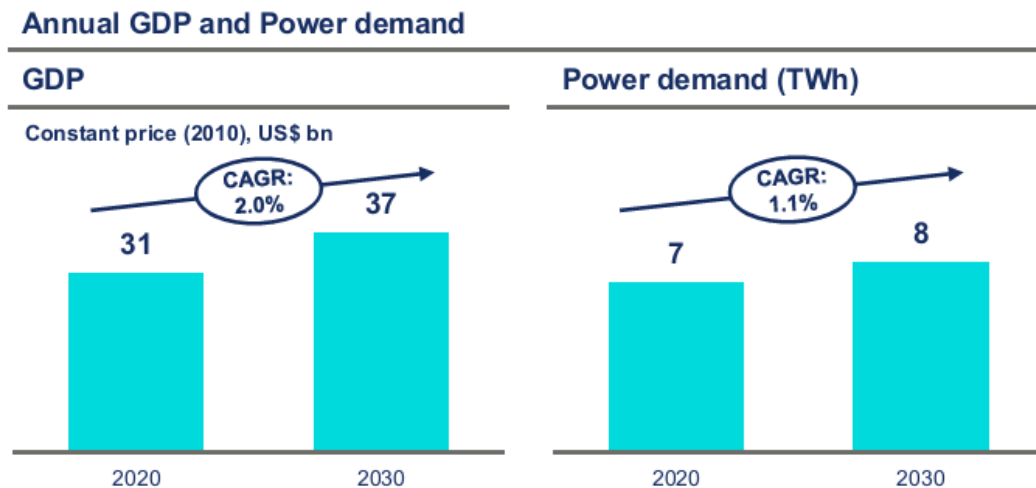
* Of total biomass, biogas, wind, large hydro, and solar capacity

2.3 The Republic of Latvia

(a) *Macroeconomic overview and domestic demand for electricity in Latvia*

Latvia had a population of 1.9 million in 2018. In recent years, Latvia's growth has been driven by the manufacturing and service sectors. With a strong presence of timber and wood processing, agriculture and food products, as well as manufacturing of machinery and electronic devices. Latvia's GDP is expected to grow at a CAGR of 2.0 per cent. from 2020 to 2030. In addition, electricity demand is expected to grow at a CAGR of 1.1 per cent. from 2020 to 2030.

The following graph sets forth the estimated annual GDP and electricity demand for Latvia from 2020 to 2030:



Source: Wood Mackenzie

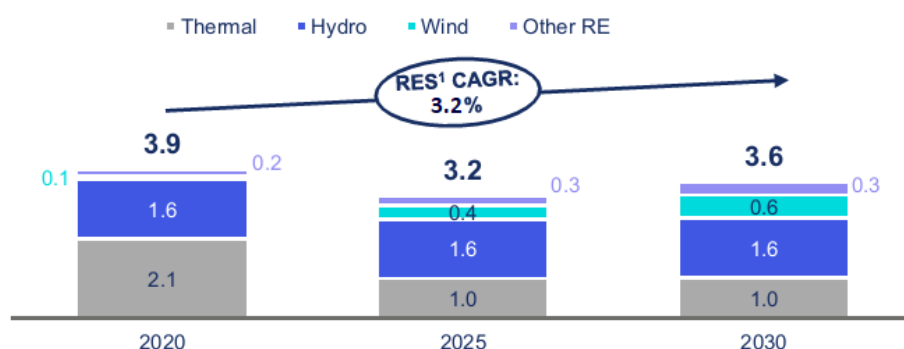
(b) *Key energy policies*

The Latvian government adopted the National Energy and Climate Plan 2030 in response to the relevant EU regulations. Key targets of the National Energy and Climate Plan 2030 include reducing CO₂ emission by 45 per cent. by 2030 as compared to 1990, increasing RES share in the total electricity consumption market in the country to 45 per cent. by 2030, decreasing the dependence on energy imports from other countries by 50 per cent. by 2030 as compared to 2011, as well as completing the synchronisation with the power grids in continental EU.

While large hydro plants and CHP plants have been the major energy source in Latvia, the country's renewable energy policies are relatively less progressed as compared to the other Baltic states to promote new RES, which results in potentially limited new installed capacity for RES in the near term. As a result, the Latvian government is planning for an overhaul of the country's renewable support scheme, and Latvia is expected to follow the examples of Lithuania and Estonia to adopt the technology neutral auction model for generation capacities.

The following graph sets forth the estimated future growth of installed capacity in Latvia from 2020 to 2030 by source:

Installed capacity outlook (GW)

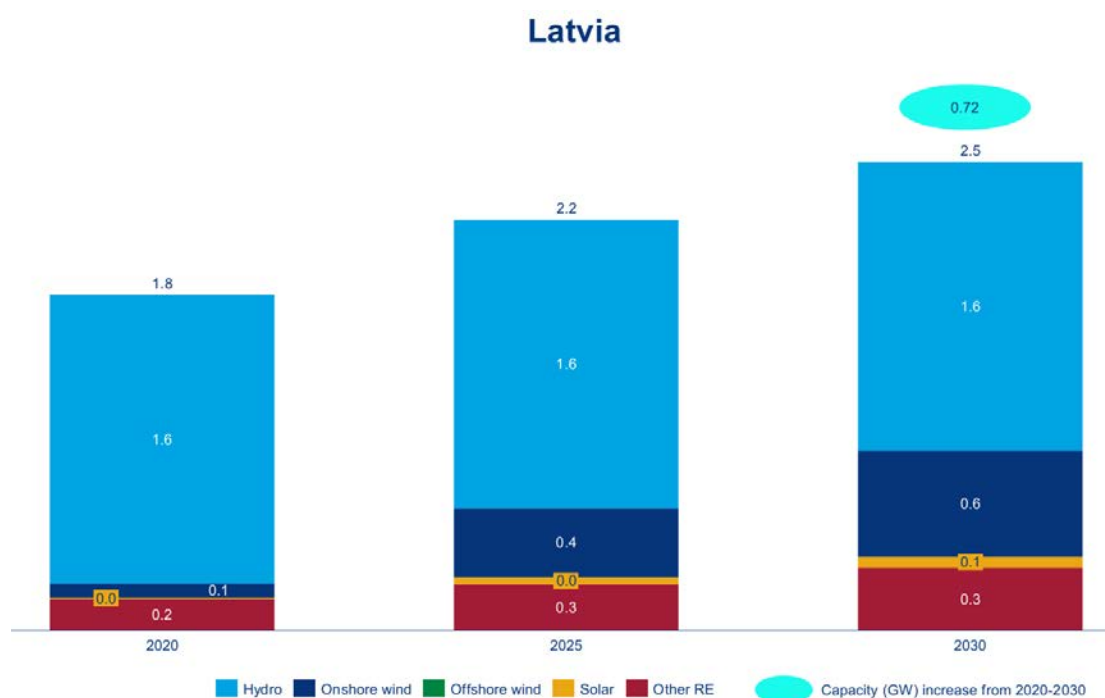


Source: Wood Mackenzie

Note:

1. Include wind, hydro and other renewable energy sources.

The following graph sets forth, in particular, the estimated future growth of renewable installed capacity in Estonia from 2020 to 2030:



Source: Wood Mackenzie

(c) Renewable energy and the competitive environment

The renewable energy generation market in Latvia is consolidated, with Latvenergo dominated 84.8 per cent. of the market share in 2019. The following table sets out the top 10 renewable asset owners in Latvia in 2019:

Owner	Business model	Largest project to date	Market share*
Latvenergo	Owner/operator	Plavinas (868 MW Hydro)	84.8%
Fortum	Owner/operator	Jelgava Power Station (23 MW Biomass)	1.3%
Energy Ventures	Owner/operator	Kurzeme/Pope (20.7 MW Wind)	1.1%
Veju Parks	Owner/operator	Grobina (19.8 MW Wind)	1.1%

Owner	Business model	Largest project to date	Market share*
Clear Energy Holdings	Owner	Liepaja (6.9 MW Wind)	0.4%
DP CleanTech	Owner/operator	Getlini Power Station (6.3 MW Biomass)	0.3%
HoSt	Owner/operator	Lizums Power Station (3.3 MW Biomass)	0.2%
Enercom Plus	Owner/operator	Enercom Plus (2.7 MW Wind)	0.1%
Enefit	Owner/operator	Valka Power Station (2.4 MW Biomass)	0.1%
Sia Lenkas Energo	Owner/operator	Liepaja (2 MW Wind)	0.1%

Source: Wood Mackenzie, company websites

* Of total biomass, biogas, wind, large hydro, and solar capacity.

2.4 Baltic gas market overview

(a) General overview

The retail gas market in the Baltics is relatively consolidated as compared to the other markets in the EU, with Estonia and Finland being the most consolidated in the region as these markets each have a single market participant taking up more than 90 per cent. of the share in their respective markets. The gas market in Lithuania is rather consolidated as well, with three main importers taking up approximately 97 per cent. of the market share. The gas demand in Lithuania is expected to be approximately 21 TWh in 2020 and is expected to remain about the same in 2025.

(b) Integration of gas markets

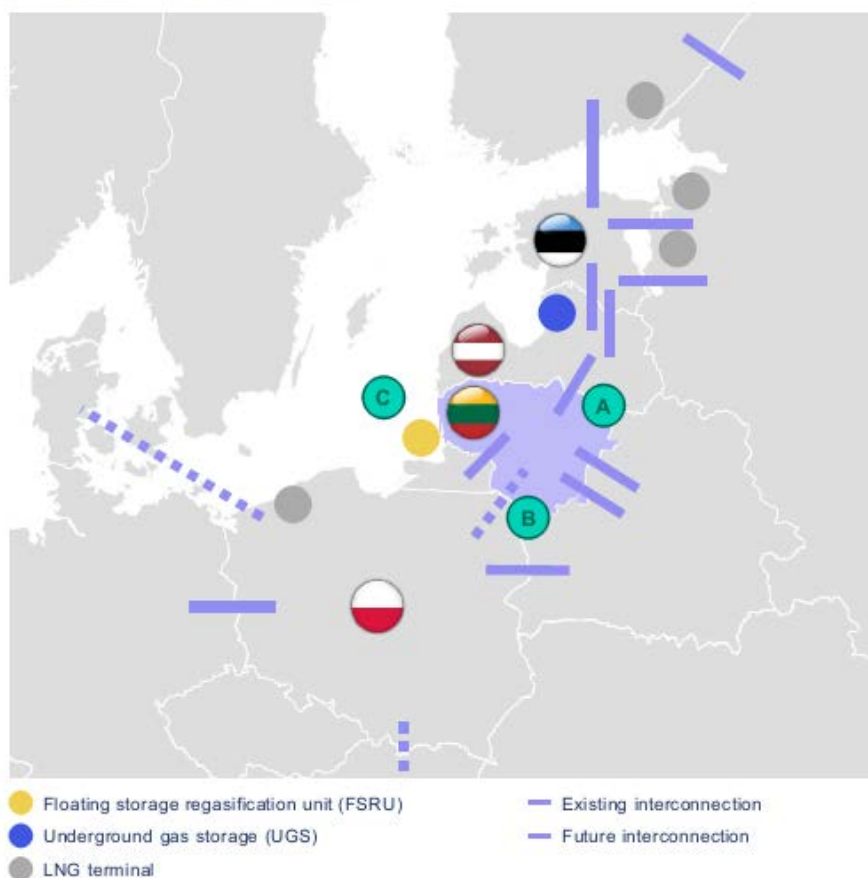
The gas infrastructure strategies of Lithuania and the Baltics region in general are informed primarily by the EU's initiatives. The Commission adopted the Energy Union Package in February 2015 to promote, inter alia, greater stability and affordability of gas supply in the EU primarily through transnational integration of energy supply systems.

Two transnational gas initiatives are expected to have the most significant impacts on the regional gas market:

- The gas transmission system operators of Estonia, Latvia and Finland established a single gas transmission tariff zone in 2020, which unifies the entry point tariffs on the external borders of the regions and removes the commercial interconnection points between the three countries. Revenue from the entry points of the single gas transmission tariff zone are to be coordinated and shared among the gas transmission operations of the participating states. The gas transmission operator of Lithuania decided not to participate in the establishment of the single gas transmission zone in 2017 and, as a result, Lithuanian gas suppliers are required to pay a fee when accessing the Kiemėnai entry point of the single gas transmission tariff zone.
- Gas Interconnection Poland-Lithuania ("**GIPL**"), a gas pipeline connecting the gas transmission systems in Lithuania with Poland, is currently under construction and is expected to become operational in 2021, upon which will enable the integration of the isolated gas markets of Finland and the Baltic states, which have historically relied on gas imports from Russia, with the gas markets of the other EU countries and Poland. Once the GIPL becomes operational, the isolated gas markets of Finland and the Baltic states may have the option to import LNG through the GIPL and consider it an alternative source of gas supply to the piped gas imports from Russia. These currently isolated gas markets may also then have the option to export LNG to Poland through the GIPL. The Lithuanian gas transmission system operator has secured a loan of EUR 65 million from the EIB to finance the construction of the Lithuanian section of the GIPL.

The following graphic sets forth the interconnections in the regional gas markets:

Regional interconnections



Source: Wood Mackenzie

Note:

A: Kiemenai entry point; B: Gas Interconnection Poland-Lithuania; C: Klaipeda LNG terminal

As the regional gas markets continue to become more integrated, certain currently separated gas markets might in the future be considered a single gas market. For example, Estonia, Latvia and Finland might together be considered a single gas market given the single gas transmission tariff zone. This may render the current capacity of certain gas supply facilities in the region unable to meet potential increased gas demands from the markets they are currently servicing as the gas markets in the region continue to integrate with each other.

(c) **Trade of gas**

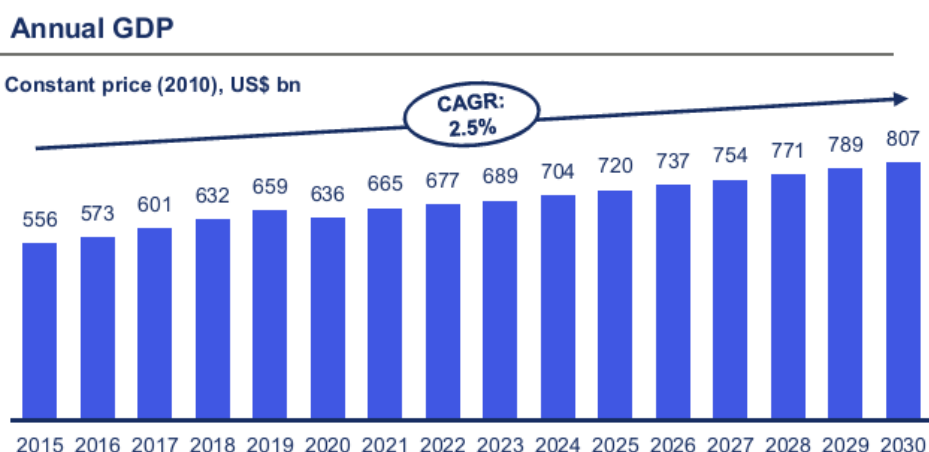
Since 2012, traders from Lithuania, Estonia and Latvia are allowed to trade gas on the regional gas exchange, GET Baltic, which has successfully launched a new market in Finland in the beginning of 2020 and has become a single regional trading platform for the Baltic-Finnish gas market.

3. POLAND

3.1 Macroeconomic overview

Poland had a population of 38.0 million in 2018 and is the largest economy in the region, with its GDP grew from US\$556 billion (approximately EUR 470 billion) to US\$659 billion (approximately EUR 557 billion) from 2015 to 2019. While Poland's GDP is expected to experience a decline to US\$636 million (approximately EUR 537 billion) in 2020 due to the COVID-19 crisis, it is expected to recover from 2021 onwards, partially due to the stimulus measures put in place by the EU and the Polish government.

Overall, Poland's annual GDP is expected to grow at a CAGR of 2.5 per cent. from 2020 to 2030. The following graph sets out the historic and estimated future growth in Poland's GDP from 2015 to 2030:

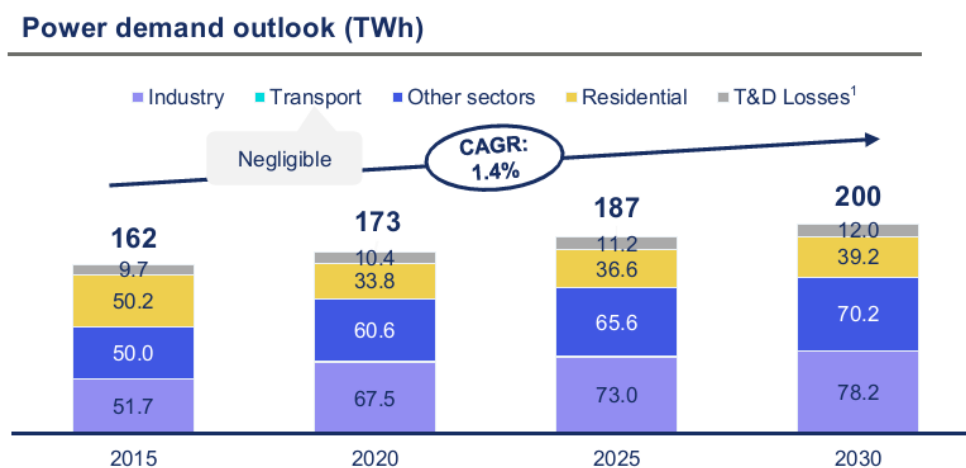


Source: Wood Mackenzie

Poland's consistent economic growth has historically been driven primarily by its strong domestic market, as well as by the early economic reforms and support from the EU. Energy consumption in Poland is expected to grow correspondingly to its annual GDP.

3.2 Energy market in Poland

Energy demand in Poland has been growing steadily over the years and is expected to continue to grow at a CAGR of 1.4 per cent. from 2015 to 2030, from 173 TWh in 2020 to 200 TWh in 2030, driven by demand from industry, commercial and residential customers. The following graph sets forth a breakdown by industry of the historic and estimated demand for electricity in Poland from 2015 to 2030:



Source: Wood Mackenzie

Note:

1. Including energy sector internal consumption.

Poland's energy demand is at the moment being met primarily by the huge fleet of domestic coal power plants, which represents 86 per cent. of Poland's electricity generation mix are operated by major market participants such as Tauron, PGE, Orlen and Enea. Growing energy demand in the country is to be met by additional capacity by both domestic developers and foreign capacity from neighbouring EU countries whose power systems are connected with the Polish power system via interconnectors.

3.3 Key energy policies

Poland's current energy policies are focused on phasing out coal generation and replacing it with RES generation. In November 2019, the Polish Ministry of Energy published a revised draft of the Polish Energy Policy 2040, in which a EUR 140 billion plan was proposed to achieve the following key targets:

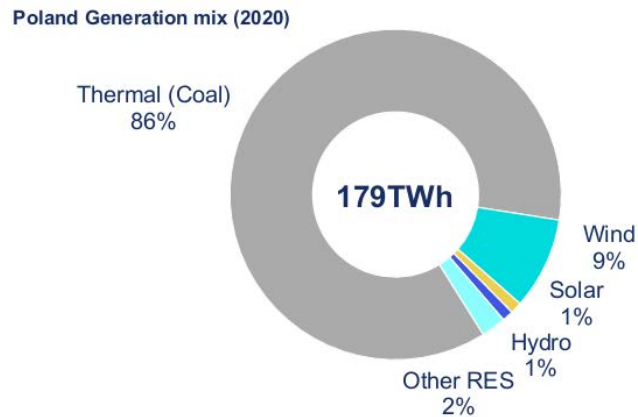
- Decommission coal generation to reduce its share from the generation mix from 86 per cent. in 2020 to 60 per cent. by 2030, with the goal to gradually phase out and limit coal generation to 3.4 GW by 2040;
- increase the share of RES generation to 21 per cent. by 2030;
- improve energy-efficiency by 23 per cent. by 2030 as compared to 2007, as well as reduce CO₂ emissions by 30 per cent. by 2030 as compared to 1990;
- commence operation of the country's first nuclear energy plant in 2033, with a targeted 3.9 GW capacity by 2040;
- capacity of gas-fired installations being 12.4 GW by 2040; and
- achieve RES targets in 2040, which includes a 10 GW onshore wind capacity, a 10 GW offshore wind capacity and a 16 GW solar capacity.

Other key energy policies and initiatives in Poland include:

- The Renewable Energy Sources Act, which was amended in 2019 to set out certain conditions for RES growth in Poland, including measures such as the extension of coverage and availability of the auction scheme to 2039, as well as streamlining the pre-qualification process for RES developers;
- The Offshore Wind Bill, the draft of which was revised in 2020 with the goal to be passed by the end of the same year, which defines the country's support scheme for offshore wind projects, including the 25-year indexed CfD indexed support scheme, as well as the auction for approximately a 6 GW capacity by 2021 and an additional 5 GW capacity across two tenders in 2025 and 2027, with an additional incremental capacity of 500 MW available should it be needed;
- The capacity markets approved by the Commission for ten years in 2018, which allow for technology neutral main auctions based on annual capacity to be conducted for delivery in five years; four main auctions have already been conducted for delivery up to 2024 with contracted capacities consistently reaching 22 to 23 GW; and
- The cross-border capacity allocation mechanism enabled in 2020, which opens the capacity markets to foreign capacity from neighbouring EU countries whose power systems are connected with the Polish power network via interconnectors; Poland currently supports controllable electricity generation and Lithuanian power plants can participate in its capacity allocation.

3.4 Shift from coal generation to RES generation

The Poland energy market has historically been relying heavily on coal generation, which makes up of 86 per cent. of the generation mix in the country in 2020 as shown in the graph below:



Source: Wood Mackenzie

With increasing pressure from the EU to reduce its dependence on coal generation and limit CO₂ emission, Poland has adopted various energy policies to promote RES generation in the country, which create ample opportunities for renewable energy developments in the country. Poland is also contemplating earlier retirements of certain of its coal plants, as well as increasing the EU Emission Trading Scheme price (the price is currently about four times of that in 2017) to help driving the coal phase-out.

Poland is currently pursuing various RES opportunity with a particular focus on offshore wind opportunities. For example, the draft Offshore Wind Bill revised in 2020 proposed an indexed CfD support scheme to award a target of approximately 11 GW of capacity by 2027. Under this support scheme, offshore wind developers will be eligible for premium payments for 25 years from the Polish government in the instance where market price for the offshore wind developers is lower than the guaranteed price specified in the support scheme, while the other RES developers will also be eligible for such premium payments for 15 years.

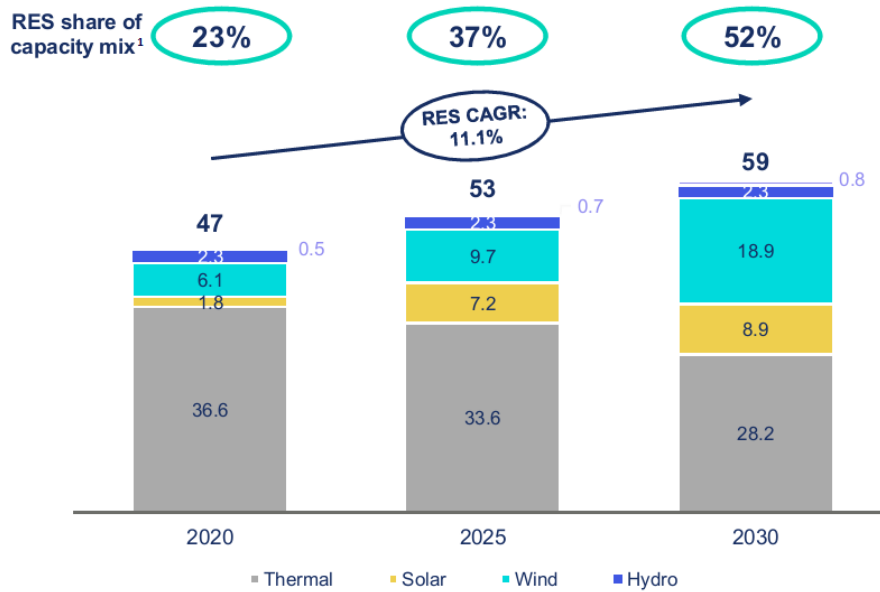
The Polish RES auctions are separated into five categories: (1) biogas other than agricultural, hybrid systems, installations of thermal combustion, (2) hydropower, bioliquids, geothermal energy and offshore wind energy, (3) agricultural biogas, (4) onshore wind and Solar and (5) hybrid RES installation. Auctions are also separated into two categories: large (installations above 1 MW) and small (installations below 1 MW). Upcoming tenders in 2020 include 800 MW of wind capacity (large), 800 MW of solar capacity (small), 700 MW of solar capacity (large), 10 MW of hydro capacity (small), 20 MW of hydro capacity (large), 30 MW of biogas capacity (small) and 100 MW of biomass capacity (large).

Other initiatives adopted by the Polish government include tax incentives to encourage participants in the energy market to switch to RES generation. For example, consumers of electricity generated from RES is exempted from consumption tax (currently PLN 20 per MWh), and electricity generators and suppliers are exempted from excise tax on energy generated from RES sold to end-users. The Polish government also offers low interest loans to support the purchase and installation of RES generation capacities and the development of RES-related technologies. Poland's first nuclear plant is also expected to become operational in 2033, which is expected to provide further a 3.9 GW capacity by 2040.

In addition, large industrial customers in Poland are required to meet a certain renewable portfolio standards, which involves obtaining and maintaining certain green energy certificates, or else they will risk triggering a penalty.

The following graph sets forth the historic and estimated future growth of installed capacity in Poland from 2015 to 2030 by energy source:

Installed capacity evolution (GW)



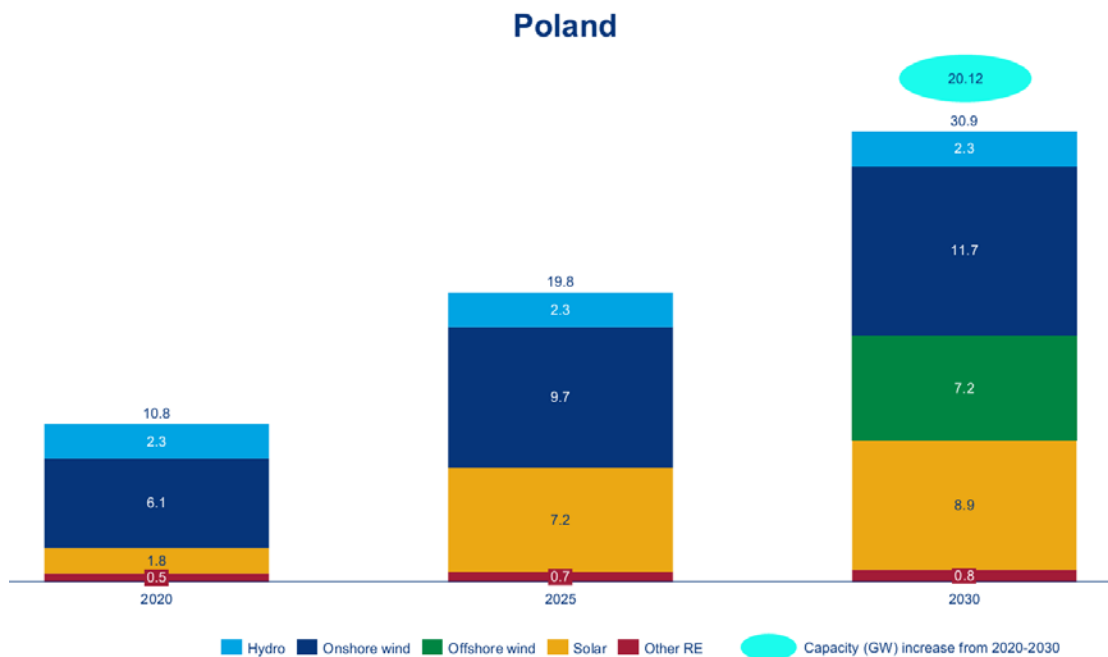
Source: Wood Mackenzie

Note:

1. Include wind, solar, hydro and other renewable energy sources.

As the country continues to phase out coal generation capacity and shift its focus to RES generation, it is expected that over half of the country's installed capacity will be from RES by 2030, representing a grow of RES share in the country generation mix at a CAGR of 11.1 per cent. from 10.7 GW in 2020 to 30.9 GW in 2030.

The following graph sets forth, in particular, the estimated future growth of renewable installed capacity in Estonia from 2020 to 2030:



Source: Wood Mackenzie

3.5 Competitive environment

Poland remains one of the least fragmented energy market in the region. The overall energy generation market in the country is currently dominated by three players, namely PGE, Enea and Tauron, who have a 37 per cent., 13 per cent. and 11 per cent. share of the market, respectively.

The following table sets out the top 10 renewable energy asset owners in Poland in 2019:

Owner	Business model	Largest project to date	Market share*
PGE	Owner/operator	Lotnisko (90MW Wind)	23%
Tauron	Owner/operator	Jaworzno III (50 MW Biomass)	6.0%
Orlen	Owner/operator	Wloclawek (162 MW Hydro)	5.6%
Enea	Owner/operator	Polaniec (205 MW Biomass)	5.0%
Invenergy	Owner/operator	Tymien (50 MW Wind)	2.7%
Polenergia	Owner/operator	Mycielin (48 MW Wind)	2.3%
RWE	Owner/operator	Nowy Staw (45.1 MW Wind)	2.1%
EDPR	Owner/operator	Margonin (61.2 MW Wind)	2.0%
CTG	Owner/operator	Margonin (58.8 MW Wind)	1.9%
IKEA	Owner	Lubartow (52.8 MW Wind)	1.7%

Source: Wood Mackenzie, company websites

* Of total biomass, biogas, wind, large hydro, and solar capacity

The Polish renewable energy market relatively less consolidated, with the top 10 renewable energy asset owners making up 52.3 per cent. of the market.

PART 3 – SELECTED FINANCIAL INFORMATION

The tables below present selected historical financial information and operating data of the Group as at and for the financial years ended 31 December 2017, 2018 and 2019 and for the six-month periods ended 30 June 2019 and 2020. Except for the information which appears in paragraph 4 of this Part 3 ("*Selected Financial Information*"), the selected historical financial information set out below relating to the financial years ended 31 December 2017, 2018 and 2019 has been extracted without material adjustment from the Audited Financial Statements included in this Document and beginning on page F-37 and the selected historical information set out below relating to the six-month periods ended 30 June 2019 and 2020 has been extracted without material adjustment from the Interim Financial Information included in this Document and beginning on page F-2. The Interim Financial Information has not been audited. Recipients of this Document should read the whole of this Document and not rely on the selected financial information in this Part 3 ("*Selected Financial Information*").

1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December (audited)		As at 30 June (unaudited)	
	2017**	2018 (restated*)	2019	2020
	<i>(EUR in million)</i>			
ASSETS				
Non-current assets				
Intangible assets	36.4	106.3	142.7	143.6
Property, plant and equipment	1,761.1	2,091.4	2,347.8	2,485.6
Right-of-use assets	-	-	61.0	62.1
Prepayments for non-current assets	21.9	23.6	27.8	0.2
Investment property	14.9	6.5	5.5	5.1
Non-current receivables	170.5	160.6	165.0	173.5
Other financial assets	0.4	2.0	3.7	4.1
Other non-current assets	3.2	6.1	5.1	5.1
Deferred tax assets	7.1	14.5	11.8	8.6
Total non-current assets	2,015.5	2,411.0	2,770.6	2,887.9
Current assets				
Inventories	56.9	43.1	46.6	26.2
Prepayments and deferred expenses	38.1	30.7	50.5	38.9
Trade receivables	112.6	143.1	117.9	117.4
Other receivables	27.8	25.4	31.8	34.7
Other current assets	1.1	2.1	5.8	2.1
Prepaid income tax	2.1	4.2	2.4	0.2
Other financial assets	-	0.7	-	-
Cash and cash equivalents	171.8	127.8	131.8	283.3
	410.3	377.2	386.9	502.9
Assets held for sale	79.3	65.7	40.6	9.7
Total current assets	489.6	442.9	427.5	512.5
TOTAL ASSETS	2,505.1	2,853.9	3,198.1	3,400.4

* Part of amounts does not agree with the previously issued statutory financial statements of 2018 due to correction of errors and changes in accounting methods. (See Note 3.3 to the 2018 and 2017 Restated Financial Statements).

** Reclassified upon enactment of IFRS 15 as at 1 January 2018 (See Note 2.1 to the 2018 and 2017 Restated Financial Statements).

	As at 31 December (audited)			As at 30 June (unaudited)
	2017** (restated)	2018 (restated*)	2019	2020
<i>(EUR in million)</i>				
EQUITY AND LIABILITIES				
Equity				
Issued capital	1,212.2	1,212.2	1,212.2	1,212.2
Reserves	99.4	212.8	259.7	265.0
Retained earnings (deficit)	(13.7)	(170.0)	(172.2)	(141.8)
Equity attributable to equity holders of the parent	1,297.8	1,255.0	1,299.6	1,335.3
Non-controlling interests	45.8	47.6	49.0	2.5
Total equity	1,343.6	1,302.5	1,348.6	1,337.8
Liabilities				
Non-current liabilities				
Non-current loans and bonds	480.1	735.4	821.9	1,228.2
Non-current lease liabilities	0.2	14.3	33.8	26.4
Grants and subsidies	200.3	208.9	267.9	282.3
Deferred income tax liabilities	36.0	36.4	38.4	44.8
Provisions	7.4	35.4	35.6	37.1
Deferred income	54.5	136.4	151.9	157.4
Other non-current amounts payable and liabilities	1.9	1.8	0.9	0.8
Total non-current liabilities	780.3	1,168.7	1,350.5	1,776.8
Current liabilities				
Current portion of non-current loans	119.6	61.8	37.5	21.2
Current loans	14.1	47.7	196.7	11.9
Lease liabilities	0.1	5.2	8.4	14.8
Trade payables	98.3	93.2	78.6	54.5
Advances received	27.8	49.8	51.7	39.1
Income tax payable	3.7	4.5	6.2	5.5
Provisions	2.5	5.6	19.8	16.1
Deferred income	5.2	9.1	9.7	10.1
Other current amounts payable and liabilities	109.4	102.7	85.0	109.3
	380.8	379.7	493.7	282.5
Liabilities directly associated with the assets held for sale	0.3	3.0	5.3	3.2
Total current liabilities	381.1	382.7	499.0	285.8
Total liabilities	1,161.4	1,551.4	1,849.5	2,062.6
TOTAL EQUITY AND LIABILITIES	2,505.1	2,853.9	3,198.1	3,400.4

* Part of amounts does not agree with the previously issued statutory financial statements of 2018 due to correction of errors and changes in accounting methods. (See Note 3.3 to the 2018 and 2017 Restated Financial Statements).

** Reclassified upon enactment of IFRS 15 as at 1 January 2018 (See Note 2.1 to the 2018 and 2017 Restated Financial Statements).

2. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December (audited)			For the six months ended 30 June (unaudited)	
	2017**	2018 (restated*)	2019 (EUR in million)	2019 (restated)	2020
Revenue from contracts with customers	1,081.2**	1,024.3*	1,079.3	556.8	588.3
Other income	19.6**	45.8	11.3	1.1	2.6
	1,100.8	1,070.1	1,090.6	557.9	590.9
Operating expenses					
Purchases of electricity, gas for trade and related services	(712.3)	(768.5)*	(711.7)	(368.6)	(344.0)
Purchases of gas and heavy fuel oil	(28.2)	(26.5)	(23.0)	(12.0)	(16.7)
Depreciation and amortisation	(87.4)	(87.7)*	(109.9)	(54.4)	(54.5)
Salaries and related expenses	(81.3)	(79.7)	(87.0)	(41.9)	(49.7)
Repair and maintenance expenses	(21.3)	(21.2)	(29.8)	(15.3)	(11.2)
Revaluation of property, plant and equipment	(7.1)	(67.7)	(0.8)	-	-
Impairment/reversal of impairment of amounts receivable and loans	1.0	(9.9)	0.2	1.1	(0.8)
Impairment of property, plant and equipment	(33.4)	(3.2)*	(8.7)	(2.3)	(0.7)
Other expenses	(33.7)	(26.1)	(37.2)	(18.4)	(19.8)
Total operating expenses	(1,003.7)	(1,090.5)	(1,007.8)	(511.8)	(497.5)
Finance income	2.2	1.6	2.2	1.3	1.0
Finance expenses	(9.1)	(14.9)	(18.8)	(9.9)	(10.2)
Results of the revaluation and closing of derivative financial instruments	-	(0.6)	-	-	-
Profit/(loss) before tax	90.2	(34.2)	66.2	37.5	84.2
Current year income tax (expenses)/benefit	(2.7)	(4.6)*	(6.7)	(4.6)	(5.5)
Deferred income tax (expenses)/benefit	6.0	16.9*	(0.4)	(4.0)	(6.8)
Net profit (loss)	93.5	(22.0)	59.0	28.8	71.9
Attributable to:					
Equity holders of the parent	89.1	(22.4)*	56.7	27.2	72.4
Non-controlling interests	4.4	0.5*	2.3	1.6	(0.4)
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss					
Revaluation of property, plant and equipment, net of deferred income tax effect	0.3	103.9	(0.0)	-	0.1
Revaluation of Emission allowances	-	19.2	0.7	2.9	3.8
Recalculation of the defined benefit plan obligation, net of deferred income tax	(0.2)	0.1	(0.0)	(0.2)	0.3
Items that will not be reclassified to profit or loss in subsequent periods, total	0.1	123.2	0.7	2.7	4.3
Items that may be reclassified to profit or loss in subsequent periods, total	(0.0)	(0.0)	(0.0)	0.0	(1.8)
Exchange differences on translation of foreign operations into the Group's presentation currency	(0.0)	(0.0)	(0.0)	0.0	(1.8)
Items that may be reclassified to profit or loss in subsequent periods, total	(0.0)	(0.0)	(0.0)	0.0	(1.8)
Total other comprehensive income (loss)	0.1	123.2	0.7	2.8	2.5
Total comprehensive income (loss) for the period	93.6	101.2	59.7	31.6	74.4
Attributable to:					
Equity holders of the parent	89.2	95.0*	57.4	29.9	74.8
Non-controlling interests	4.4	6.3*	2.3	1.7	(0.3)

* Restated due to correction of errors and changes in accounting methods. (See Note 3.3 to the 2018 and 2017 Restated Financial Statements).

** Reclassified upon enactment of IFRS 15 as at 1 January 2018 (See Note 2.1 to the 2018 and 2017 Restated Financial Statements).

3. CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 31 December (audited)			For the six months ended 30 June (unaudited)	
	2017 (restated)	2018 (restated*)	2019 (EUR million)	2019 (restated)	2020
Cash flows from (to) operating activities					
Net profit (loss)	93.5	(22.0)*	59.0	28.8	71.9
Adjustments to non-cash items:					
Depreciation and amortisation expenses	107.6	96.9*	118.9	57.8	59.1
Impairment of property, plant and equipment	106.3	3.2*	8.7	2.3	0.9
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	(72.9)	(10.0)	-	-	-
Revaluation of property, plant and equipment	(1.4)	76.6	0.8	(0.1)	(0.1)
Revaluation of investment property	3.9	-	-	0.3	0.1
Revaluation of derivatives	(2.2)	(0.4)	(0.7)	0.7	3.9
Impairment/reversal of impairment of financial assets	(1.0)	9.9	(0.2)	(1.1)	1.1
Income tax expenses	(3.3)	(12.3)*	7.2	8.6	12.3
(Depreciation) of grants	(20.2)	(9.3)	(9.0)	(4.7)	(4.6)
Increase (decrease) in provisions	(5.9)	2.5*	5.0	(2.4)	4.6
Inventory impairment allowance/(reversal)	(0.1)	(0.7)	0.0	0.0	(0.4)
Expenses/(income) of revaluation of emission allowances	(2.3)	(8.9)*	0.4	0.2	(0.3)
Emission allowances utilised	0.9	0.9	0.9	1.0	(0.2)
Elimination of results of investing activities:					
(Gain)/loss on disposal and/or write-off of property, plant and equipment	2.3	0.5	3.2	1.8	1.0
(Gain) loss on disposal of investments in subsidiaries and associates	(0.4)	-	-	-	-
Other (income)/expenses of investing activities	-	0.1	-	-	(0.2)
Elimination of results of financing activities:					
- Interest income	(1.5)	(1.4)	(1.5)	(1.2)	(0.1)
- Interest expense	7.9	12.4	15.3	7.7	8.5
- Other (income)/expenses of financing activities	0.6	2.3	2.9	2.1	0.9
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable	3.7	(21.6)	10.4	54.1	5.8
(Increase) decrease in inventories, prepayments and other current assets	(55.7)	18.9	(21.5)	(1.5)	32.6
Increase (decrease) in amounts payable, deferred income and advance amounts received	(15.6)	47.3*	(17.8)	(52.1)	(32.3)
Income tax (paid)	(9.7)	(6.3)	(4.6)	(1.8)	(6.4)
Net cash flows from (to) operating activities	134.6	178.5	177.2	100.6	158.0

* Restated due to correction of error relating to the regulatory activities (See Note 3.3 to the 2018 and 2017 Restated Financial Statements).

	For the year ended 31 December (audited)			For the six months ended 30 June (unaudited)	
	2018			2019	
	2017	2018 (restated*)	2019	2019 (restated)	2020
	<i>(EUR million)</i>				
Cash flows from (to) investment activities					
(Purchase) of property, plant and equipment and intangible assets	(232.5)	(416.2)	(428.2)	(189.8)	(161.9)
Proceeds from sale of property, plant and equipment and intangible assets	5.5	48.2	39.5	25.7	2.7
Loan repayments received	34.8	-	-	-	0.4
Acquisition of investments in subsidiaries	-	(23.5)	(28.0)	(27.7)	-
Disposal of investments in subsidiaries	0.1	-	-	-	-
Grants received	7.8	25.5	64.0	25.6	17.5
Interest received	1.5	1.1	1.1	0.0	-
Other increases (decreases) in cash flows from investing activities	-	(1.6)	4.2	(1.1)	-
Net cash flows from (to) investing activities	(182.9)	(366.5)	(347.3)	(167.3)	(141.3)
Cash flows from (to) financing activities					
Loans received	97.3	57.8	130.9	63.1	116.4
Issue of bonds	293.8	294.3	-	-	295.7
Repayments of borrowings	(284.9)	(155.4)	(70.4)	(30.7)	(22.5)
Lease payments	(0.2)	(0.5)	(7.4)	(3.2)	(5.4)
Interest paid	(4.4)	(10.4)	(14.1)	(1.4)	(1.9)
Dividends paid	(65.4)	(80.6)	(13.9)	(13.3)	(30.5)
Increase in issued capital of Kauno kogeneracinė įėgainė UAB	-	7.8	-	-	-
Equity acquisition from non-controlling interest	(4.3)	-	-	-	(25.7)
Result of the closing of derivative financial instruments	(1.1)	(0.6)	-	-	-
Net cash flows from (to) financing activities	30.9	112.4	25.1	14.5	326.0
Increase (decrease) in cash and cash equivalents (including overdraft)	(17.5)	(75.5)	(145.0)	(52.2)	342.7
Cash and cash equivalents (including overdraft) at the beginning of the period	178.6	161.1	85.6	85.6	(59.5)
Cash and cash equivalents (including overdraft) at the end of period⁽¹⁾	161.1	85.6	(59.5)	33.3	283.3

Note:

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on 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 statement of financial position. See Notes 2.14 and 19 of the 2019 Financial Statements, Notes 2.13 and 18 of the 2018 and 2017 Restated Financial Statements and Note 12 of the Interim Financial Information.

4. ALTERNATIVE PERFORMANCE MEASURES

This section provides further information relating to the APMs for the purposes of the guidelines published by the European Securities and Markets Authority. Certain of the financial measures included in this Document, in particular in Part 4 ("*Business Overview*") and Part 5 ("*Operating and Financial Review*"), can be characterised as APMs and set out below are clarifications as to the meaning of such measures.

This Document includes figures for EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT, adjusted EBIT, adjusted net profit, investments, investments excluding grants and investments covered by customers, net working capital, funds from operations ("**FFO**"), FFO to net debt, free cash flow ("**FCF**"), gross debt, net debt, net debt to EBITDA, net debt to adjusted EBITDA, return on equity ("**ROE**"), adjusted ROE, return on capital employed ("**ROCE**") and adjusted ROCE, as set out in the following tables, which are APMs:

		For the year ended 31 December (unaudited)			For the six months ended 30 June (unaudited)	
		2017	2018	2019	2019	2020
EBITDA	EURm	227.2	145.3	206.8	105.0	149.8
Adjusted EBITDA	EURm	238.2	221.3	259.6	129.9	129.1
Adjusted EBITDA margin	%	21.4%	19.3%	22.7%	22.3%	22.7%
EBIT	EURm	97.1	(20.4)	82.8	46.0	93.4
Adjusted EBIT	EURm	150.8	133.6	149.7	75.5	74.6
Adjusted net profit	EURm	126.5	99.0	106.0	52.7	54.6
Investments	EURm	260.1	418.3	453.2	207.7	187.1
Investments (excl. grants and investments covered by customers)	EURm	232.6	369.2	362.7	174.5	158.4
FFO	EURm	214.6	129.7	189.2	101.8	141.5
FCF	EURm	(62.8)	(205.2)	(206.2)	(62.4)	(9.5)

		As at 31 December (unaudited)			As at 30 June (unaudited)
		2017	2018	2019	2020
Gross debt	EURm	614.1	864.5	1,098.3	1,302.5
Net debt	EURm	442.3	736.0	966.5	1,019.2
Net working capital	EURm	16.5	6.9	52.6	36.5
Net debt/EBITDA of last 12 months	Times	1.95	5.07	4.67	4.05*
Net debt/adjusted EBITDA of last 12 months	Times	1.86	3.33	3.72	3.94*
FFO of last 12 months/Net debt	%	48.5%	17.6%	19.6%	22.5%*
ROE of last 12 months	%	7.0%	(1.7)%	4.4%	7.7%*
Adjusted ROE of last 12 months	%	9.5%	7.5%	8.0%	8.1%*
ROCE of last 12 months	%	5.7%	(1.1)%	3.8%	5.8%*
Adjusted ROCE of last 12 months	%	8.8%	7.0%	6.9%	4.9%*

* Last 12 months figures for 30 June 2020 refer to the twelve-month period ended 30 June 2020.

The APMs are not required by, or presented in accordance with, IFRS, and they should not be used instead of, or considered as alternatives to, the Group's consolidated historical financial results based on IFRS. The APMs relate to the relevant reporting periods and are not meant to be predictive of future results. Management of the Group believes that the presentation of these APMs is helpful to readers because these and other similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance, financial position and liquidity. The Group's use of the terms EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT, adjusted EBIT, adjusted net profit, investments, investments excluding grants and investments covered by customers, net working capital, FFO, FFO to net debt, FCF, gross debt, net debt, net debt to EBITDA, net debt to adjusted EBITDA, ROE, adjusted ROE, ROCE and adjusted ROCE and its method of calculating these APMs may vary from other companies' use and calculation of such terms.

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

The calculation of certain of the Group's APMs, such as investments and FCF, have been amended from those previously reported by the Group, in order to provide better information on the performance of the Group. The calculation of investments has been amended to additionally include financial and investment

assets to reflect all the capital expenditures in non-current assets. Comparative figures for prior years have been recalculated accordingly and this new approach will be used by the Group going forward.

EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT and Adjusted EBIT

EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT and adjusted EBIT 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 be considered as indicators of operating performance or measures of the Group's liquidity. In particular, EBITDA, adjusted EBITDA, EBIT and adjusted EBIT should not be considered as measures of discretionary cash available to the Group to invest in the growth of the Group's businesses.

EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT and adjusted EBIT have certain limitations as analytical tools, and should not be considered in isolation, or as a substitute for financial information as reported under IFRS. Readers should not place undue reliance on these data. EBITDA in this Document is presented, for each period, as revenue less operating expenses, plus depreciation and amortisation expenses, expenses on revaluation and provisions from emission allowances, impairment expenses of non-current assets and write-off expenses of non-current assets, in each case as defined and presented in the respective Financial Statements and notes thereto.

Adjusted EBITDA is EBITDA further adjusted for temporary regulatory differences, temporary fluctuations in fair value of electricity and gas derivatives, cash effect of new connection points and upgrades, impairments and write-offs of current and non-current amounts receivables, loans, goods and others, gains or losses from disposal of non-current assets, and/or non-cash, and/or related to other periods, and/or non-related to the main activities of the Group, in each case as defined and presented in the respective Financial Statements and notes thereto.

Adjusted EBITDA margin represents adjusted EBITDA divided by the sum of revenue and management adjustments (for revenue) multiplied by 100 per cent. Adjusted EBITDA margin is used to measure the Group's profitability. This indicator allows for a more reliable comparison of the Group's results over time and with peers, than EBITDA margin.

EBIT in this Document is presented, for each period, as revenue less operating expenses, in each case as defined and presented in the respective Financial Statements and notes thereto. Adjusted EBIT is presented, for each period, as adjusted EBITDA less depreciation and amortisation expenses.

No statement in this Document is intended as a profit, EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT or adjusted EBIT forecast, and no statement in this Document 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.

Group

The table below presents reconciliation of EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT and adjusted EBIT of the Group for the years ended 31 December 2017, 2018 and 2019, as well as the six months 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million unless otherwise noted)</i>				
Revenue	1,100.8	1,070.1	1,090.6	557.9	590.9
Operating expenses	(1,003.7)	(1,090.5)	(1,007.8)	(511.8)	(497.5)
EBIT	97.1	(20.4)	82.8	46.0	93.4
Depreciation and amortisation expenses	87.4	87.7	109.9	54.4	54.5
Expenses (releases) on revaluation and provision for emission allowances	(2.3)	(8.9)	0.4	0.2	(0.4)
Impairment expenses of non-current assets	40.5	82.0*	9.5	2.3	0.7
Write-off expenses of non-current assets	4.6	4.9	4.2	2.1	1.6
EBITDA	227.2	145.3	206.8	105.0	149.8
Management adjustments (for revenue)	10.1	74.6	51.5	25.1	(22.7)
Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others	0.9	1.4	1.3	(0.3)	2.0
Total EBITDA adjustments	11.0	76.0	52.8	24.8	(20.7)
Adjusted EBITDA	238.2	221.3	259.6	129.9	129.1
Depreciation and amortisation expenses	(87.4)	(87.7)	(109.9)	(54.4)	(54.5)
Adjusted EBIT	150.8	133.6	149.7	75.5	74.6
Adjusted EBITDA margin (%)	21.4%	19.3%	22.7%	22.3%	22.7%

* Includes the impairment of non-current receivable from EPSO-G on disposal of Litgrid AB.

Networks segment

The table below presents reconciliation of EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT and adjusted EBIT for the Networks segment for the years ended 31 December 2017, 2018 and 2019, as well as the six months 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million unless otherwise noted)</i>				
Revenue	505.0	392.3	418.8	211.6	238.0
Operating expenses	(415.0)	(383.0)	(374.6)	(183.3)	(191.0)
EBIT	90.0	9.3	44.2	28.3	47.0
Depreciation and amortisation expenses	50.2	57.4	81.6	40.1	41.0
Expenses (releases) on revaluation and provision for emission allowances	-	-	-	-	-
Impairment and write-off expenses of non-current assets	4.9	54.3	8.2	2.1	8.1
EBITDA	145.1	121.0	134.1	70.6	96.1
Management adjustments (for revenue)	6.3	47.8	45.9	17.5	(0.2)
Management adjustments (for expenses)*	(0.5)	(0.0)	0.5	0.2	0.8
Total EBITDA adjustments	5.8	47.8	46.4	17.6	0.6
Adjusted EBITDA	150.9	168.8	180.5	88.2	96.7
Depreciation and amortisation expenses	(50.2)	(57.4)	(81.6)	(40.1)	(41.0)
Adjusted EBIT	100.7	111.5	98.9	48.1	55.8
Adjusted EBITDA margin (%)	29.5%	38.4%	38.8%	38.5%	40.7%

* Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others.

Green Generation segment

The table below presents reconciliation of EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT and adjusted EBIT of the Green Generation segment for the years ended 31 December 2017, 2018 and 2019, as well as the six months 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million unless otherwise noted)</i>				
Revenue	67.6	79.3	83.0	38.0	39.6
Operating expenses	(42.0)	(49.3)	(52.8)	(20.4)	(22.1)
EBIT	25.6	30.0	30.2	17.6	17.5
Depreciation and amortisation expenses	10.5	10.8	12.7	6.3	6.3
Expenses (releases) on revaluation and provision for emission allowances	-	-	-	-	-
Impairment and write-off expenses of non-current assets	-	-	-	-	-
EBITDA	36.1	40.8	42.9	24.0	23.8
Management adjustments (for revenue)	-	(2.7)	0.5	-	-
Management adjustments (for expenses)*	-	0.0	(0.0)	-	-
Total EBITDA adjustments	-	(2.7)	0.5	-	-
Adjusted EBITDA	36.1	38.1	43.4	24.0	23.8
Depreciation and amortisation expenses	(10.5)	(10.8)	(12.7)	(6.3)	(6.3)
Adjusted EBIT	25.6	27.3	30.7	17.6	17.5
Adjusted EBITDA margin (%)	53.4%	49.7%	52.0%	63.2%	60.1%

* Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others.

Flexible Generation segment

The table below presents reconciliation of EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT and adjusted EBIT of the Flexible Generation segment for the years ended 31 December 2017, 2018 and 2019, as well as the six months 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million unless otherwise noted)</i>				
Revenue	91.0	67.4	80.4	47.5	37.8
Operating expenses	(96.4)	(53.2)	(54.5)	(27.8)	(35.5)
EBIT	(5.4)	14.2	25.9	19.7	2.4
Depreciation and amortisation expenses	17.4	11.7	11.6	5.8	5.7
Expenses (releases) on revaluation and provision for emission allowances	(2.3)	(8.9)	0.4	0.2	(0.4)
Impairment and write-off expenses of non-current assets	32.4	0.4	0.3	0.3	-
EBITDA	42.1	17.4	38.2	26.0	7.7
Management adjustments (for revenue)	(17.6)	(4.5)	(15.1)	(13.0)	3.9
Management adjustments (for expenses)*	(0.0)	0.4	(1.1)	(1.1)	0.1
Total EBITDA adjustments	(17.6)	(4.1)	(16.2)	(14.1)	4.0
Adjusted EBITDA	24.5	13.3	22.0	11.9	11.7
Depreciation and amortisation expenses	(17.4)	(11.7)	(11.6)	(5.8)	(5.7)
Adjusted EBIT	7.1	1.7	10.4	6.1	6.0
Adjusted EBITDA margin (%)	33.4%	21.1%	33.7%	34.5%	28.1%

* Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others.

Customers and Solutions

The table below presents reconciliation of EBITDA, adjusted EBITDA, adjusted EBITDA margin, EBIT and adjusted EBIT of the Customers and Solutions segment for the years ended 31 December 2017, 2018 and 2019, as well as the six months 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million unless otherwise noted)</i>				
Revenue	547.0	592.7	512.8	267.0	262.6
Operating expenses	(549.1)	(625.0)	(529.7)	(284.0)	(240.9)
EBIT	(2.1)	(32.3)	(17.0)	(17.0)	21.8
Depreciation and amortisation expenses	1.3	1.1	6.9	0.7	3.2
EBITDA	(0.8)	(31.2)	(10.1)	(16.3)	25.0
Management adjustments (for revenue)	20.9	37.0	16.9	18.4	(27.4)
Management adjustments (for expenses)*	1.1	0.9	3.8	0.8	0.6
Total EBITDA adjustments	22.0	37.9	20.7	19.2	(26.8)
Adjusted EBITDA	21.2	6.7	10.7	2.9	(1.8)
Depreciation and amortisation expenses	(1.3)	(1.1)	(6.9)	(0.7)	(3.2)
Adjusted EBIT	19.9	5.5	3.8	2.2	(5.0)
Adjusted EBITDA margin	3.7%	1.1%	2.0%	1.0%	(0.8)%

* Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others.

Other segments/eliminations

The table below presents reconciliation of EBITDA, adjusted EBITDA, EBIT and adjusted EBIT of the Other segments/eliminations for the years ended 31 December 2017, 2018 and 2019, as well as the six months 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million unless otherwise noted)</i>				
Revenue	(109.7)	(61.6)	(4.4)	(6.3)	12.8
Operating expenses	98.9	20.1	3.8	3.7	(8.1)
EBIT	(10.8)	(41.5)	(0.6)	(2.6)	4.8
Depreciation and amortisation expenses	7.9	6.7	(2.9)	1.4	(1.7)
Impairment and write-off expenses of non-current assets	7.6	32.1	5.2	2.0	(5.8)
EBITDA	4.7	(2.7)	1.7	0.8	(2.8)
Management adjustments (for revenue)	0.4	(3.1)	3.3	2.2	0.9
Management adjustments (for expenses)*	0.4	0.2	(2.0)	(0.2)	0.5
Total EBITDA adjustments	0.8	(2.9)	1.3	2.1	1.4
Adjusted EBITDA	5.5	(5.6)	3.0	2.9	(1.3)
Depreciation and amortisation expenses	(7.9)	(6.7)	2.9	(1.4)	1.7
Adjusted EBIT	(2.4)	(12.3)	5.9	1.4	0.3

* Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others.

Adjusted Net Profit

Adjusted net profit in this Document is presented, for each period, as adjusted EBIT less impairment and write-offs of property, plant and equipment, impairment and write-offs of current and non-current amounts receivables, loans, goods and others, finance costs, result of the revaluation and closing of derivative financial instruments and income tax expenses, plus revaluation of emission allowances and finance income.

The following table illustrates the methodology the Group used to determine adjusted net profit for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six-month period ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Adjusted EBIT	150.8	133.6	149.7	75.5	74.6
Impairment and write-offs of property, plant and equipment	(13.6)	(7.9)	(13.7)	(4.4)	(2.3)
Impairment and write-offs of non-current amounts receivables, loans, goods and others	(0.9)	(1.4)	(1.3)	0.3	(1.5)
Finance income	2.2	1.6	2.2	1.3	1.0
Finance costs	(9.1)	(14.9)	(18.8)	(9.9)	(10.2)
Result of the revaluation and closing of derivative financial instruments	-	(0.6)	-	-	-
Income tax expenses	(2.7)	(11.5)	(12.1)	(10.1)	(7.0)
Adjusted net profit	126.5	99.0	106.0	52.7	54.6

Investments and Investments Excluding Grants and Investments Covered by Customers

Investments consist of additions of property, plant and equipment, intangible assets, assets acquired through the acquisition of subsidiaries, other financial assets and investment property.

Investments excluding grants and investments covered by customers consist of Investments, excluding subsidies and investments covered by customers of new customers connections and upgrades as well as transfers of electricity equipment.

Group

The following table illustrates the methodology the Group used to determine investments and investments excluding grants and investments covered by customers for purposes of this Document for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six-month period ended 30 June	
	2017	2018	2019	2019	2020
			(EUR in million)		
Additions of property, plant and equipment	247.7	366.1	414.1	173.2	182.0
Additions of intangible assets	5.2	13.5	31.2	27.3	4.2
Assets acquired through the acquisition of subsidiaries	-	37.1	5.7	5.7	-
Additions of other financial assets	0.4	1.6	2.2	1.5	0.9
Additions of investment property	6.8	-	-	-	-
Investments	260.1	418.3	453.2	207.7	187.1
Grants	(7.8)	(25.5)	(64.0)	(23.3)	(17.3)
Investments covered by customers from which:					
New customers connections and upgrades	(16.3)	(19.1)	(21.7)	(8.7)	(9.5)
Transfers of electricity equipment	(3.5)	(4.5)	(4.9)	(1.3)	(1.9)
Investments excluding grants and investments covered by customers	232.6	369.2	362.7	174.5	158.4

Networks segment

The following table illustrates the methodology the Networks segment used to determine investments and investments excluding grants and investments covered by customers for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six-month period ended 30 June	
	2017	2018	2019	2019	2020
			(EUR in million)		
Additions of property, plant and equipment	222.5	265.3	174.6	93.6	48.0
Additions of intangible assets	4.1	5.0	4.1	1.9	1.3
Additions of other financial assets	-	-	0.3	0.1	0.0
Additions of investment property	-	-	-	-	-
Investments	226.6	270.4	179.0	95.6	49.3
Grants	(0.4)	(4.4)	(3.2)	(2.2)	(1.9)
Investments covered by customers from which:					
New customers connections and upgrades	(16.3)	(19.1)	(21.7)	(8.7)	(9.5)
Transfers of electricity equipment	(3.5)	(4.5)	(4.9)	(1.3)	(1.9)
Investments excluding grants and investments covered by customers	206.4	242.4	149.2	83.3	36.1

Green Generation segment

The following table illustrates the methodology the Green Generation segment used to determine investments and investments excluding grants and investments covered by customers for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six-month period ended 30 June	
	2017	2018	2019	2019	2020
			(EUR in million)		
Additions of property, plant and equipment	11.2	95.7	223.1	76.9	129.2
Additions of intangible assets	-	5.4	25.2	24.9	1.2
Assets acquired through the acquisition of subsidiaries	-	37.1	5.7	5.7	-
Investments	11.2	138.2	253.9	107.5	130.4
Grants	(7.3)	(21.1)	(60.9)	(21.1)	(15.4)
Investments excluding grants and investments covered by customers	3.9	117.1	193.1	86.4	114.9

Flexible Generation segment

The following table illustrates the methodology the Flexible Generation segment used to determine investments and investments excluding grants and investments covered by customers for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six-month period ended 30 June	
	2017	2018	2019	2019	2020
			(EUR in million)		
Additions of property, plant and equipment	0.8	2.1	0.4	0.2	0.3
Additions of intangible assets	0.0	0.1	0.1	0.0	0.0
Investments	0.8	2.2	0.5	0.2	0.3
Investments excluding grants and investments covered by customers	0.8	2.2	0.5	0.2	0.3

Customers and Solutions segment

The following table illustrates the methodology the Customer and Solutions segment used to determine investments and investments excluding grants and investments covered by customers for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six-month period ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Additions of property, plant and equipment	1.0	0.3	2.3	1.1	0.8
Additions of intangible assets	0.2	0.5	0.9	0.2	0.1
Investments	1.2	0.8	3.2	1.3	0.9
Investments excluding grants and investments covered by customers	1.2	0.8	3.2	1.3	0.9

Other segments/eliminations

The following table illustrates the methodology used to determine investments and investments excluding grants and investments covered by customers for Other segments/eliminations for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six-month period ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Additions of property, plant and equipment	12.2	2.6	13.8	1.6	3.8
Additions of intangible assets	0.9	2.5	1.0	0.3	1.5
Additions of other financial assets	0.4	1.6	2.0	1.4	0.9
Additions of investment property	6.8	-	-	-	-
Investments	20.3	6.7	16.7	3.3	6.2
Investments excluding grants and investments covered by customers	20.3	6.7	16.7	3.3	6.2

FFO and FFO to Net Debt

FFO consists of EBITDA, plus interest received, less interest paid, and less income tax paid.

FFO to net debt consists of FFO divided by net debt and is used to measure the ability to pay off debt from the results of regular activities.

Group

The following table illustrates the methodology the Group used to determine FFO for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
EBITDA	227.2	145.3	206.8	105.0	149.8
Interest received	1.5	1.1	1.1	-	-
Interest paid	(4.4)	(10.4)	(14.1)	(1.4)	(1.9)
Income tax paid	(9.7)	(6.3)	(4.6)	(1.8)	(6.4)
FFO	214.6	129.7	189.2	101.8	141.5

The following table illustrates the methodology the Group used to determine FFO to net debt as at 31 December 2017, 2018 and 2019, as well as at 30 June 2020:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>(EUR in million)</i>			
FFO of last 12 months		214.6	129.7	228.9*
Net debt		442.3	736.0	1,019.2
FFO of last 12 months /net debt		48.5%	17.6%	22.5%*

* Last 12 months figures for 30 June 2020 refer to the twelve-month period ended 30 June 2020.

Networks segment

The following table illustrates the methodology the Network segment used to determine FFO for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
EBITDA	145.1	121.0	134.1	70.6	96.1
Interest received	-	-	-	-	-
Interest paid	(0.9)	(0.6)	(0.1)	(0.0)	-
Income tax paid	(6.8)	(1.1)	-	-	-
FFO	137.4	119.3	134.0	70.6	96.1

Green Generation segment

The following table illustrates the methodology the Green Generation segment used to determine FFO for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
EBITDA	36.1	40.8	42.9	24.0	23.8
Interest received	-	-	-	-	-
Interest paid	(0.9)	(0.1)	(0.1)	(0.5)	(0.9)
Income tax paid	(1.1)	(2.2)	(1.5)	(0.3)	(3.7)
FFO	34.1	38.5	41.3	23.2	19.2

Flexible Generation segment

The following table illustrates the methodology the Flexible Generation segment used to determine FFO for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
EBITDA	42.1	17.4	38.2	26.0	7.7
Interest received	-	-	-	-	-
Interest paid	(0.7)	(0.3)	(0.5)	(0.1)	(0.1)
Income tax paid	1.8	(1.1)	(1.0)	(0.1)	(2.1)
FFO	43.2	16.0	36.7	25.8	5.5

Customers and Solutions segment

The following table illustrates the methodology the Customers and Solutions segment used to determine FFO for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
EBITDA	(0.8)	(31.2)	(10.1)	(16.3)	25.0
Interest received	-	-	0.0	-	-
Interest paid	(0.6)	(0.6)	(0.1)	-	(0.1)
Income tax paid	(3.1)	(1.7)	(0.2)	(0.1)	(0.1)
FFO	(4.5)	(33.5)	(10.4)	(16.4)	24.8

Other segments/eliminations

The following table illustrates the methodology used to determine FFO for Other segments/eliminations for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
EBITDA	4.7	(2.7)	1.7	0.8	(2.8)
Interest received	1.5	1.1	1.0	0.0	-
Interest paid	(1.4)	(8.7)	(13.4)	(0.8)	(0.8)
Income tax paid	(0.5)	(0.2)	(1.9)	(1.3)	(0.6)
FFO	4.3	(10.5)	(12.6)	(1.3)	(4.2)

Net Working Capital

Net Working Capital consists of current assets and liabilities and prepayments for property, plant and equipment, excluding non-current assets and liabilities of assets held for sale, cash and cash equivalents, other financial assets, gross debt items, prepaid and payable income tax, other current assets, which are mainly derivative financial instruments, current provision, amounts receivable on disposal of property plant and equipment.

Group

The following table illustrates the methodology the Group used to determine net working capital as at 31 December 2017, 2018 and 2019, as well as at 30 June 2019 and 2020:

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Current assets (excluding non-current assets held for sale)	410.3	377.2	386.9	357.1	502.9
Cash and cash equivalents	(171.8)	(127.8)	(131.8)	(162.3)	(283.3)
Other financial assets	-	(0.7)	-	-	-
Prepaid income tax	(2.1)	(4.2)	(2.4)	(6.4)	(0.2)
Other current assets	(1.1)	(2.0)	(5.8)	(2.9)	(2.1)
Amounts receivable on disposal of property plant and equipment	(0.0)	(4.4)	-	(4.4)	-
Prepayments for property, plant and equipment (long-term)	21.9	23.6	27.8	26.6	0.2
Total	257.2	261.7	274.7	207.7	217.5
Current liabilities (excluding liabilities of non-current assets held for sale)	(380.8)	(379.7)	(493.7)	(417.3)	(253.5)*
Current portion of non-current loans	119.6	61.8	37.5	61.6	21.2
Current loans	14.1	47.7	196.7	140.2	11.9
Current portion of finance lease liabilities	0.1	5.2	8.4	7.8	14.8
Derivative financial instruments	0.1	0.0	3.0	1.6	3.0
Income tax payable	3.7	4.5	6.2	5.3	5.5
Current provisions	2.5	5.6	19.8	5.4	16.1
Total	(240.7)	(254.9)	(222.1)	(195.4)	(181.0)
Net Working Capital	16.5	6.8	52.6	12.3	36.5

* Excluding liability related to redemption of ESO and GEN shares from non-controlling interest.

Networks segment

The following table illustrates the methodology the Networks segment used to determine net working capital as at 31 December 2017, 2018 and 2019, as well as at 30 June 2019 and 2020:

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Current assets (excluding non-current assets held for sale)	67.7	58.6	46.9	69.4	67.7
Cash and cash equivalents	(6.4)	(2.3)	(4.8)	(19.5)	(23.2)
Other financial assets	-	-	-	-	-
Prepaid income tax	(0.2)	(2.8)	(1.5)	(3.4)	-
Other current assets	-	-	-	-	-
Amounts receivable on disposal of property plant and equipment	-	-	-	-	-
Prepayments for property, plant and equipment (long-term)	-	-	-	-	-
Total	61.1	53.5	40.6	46.5	44.5
Current liabilities (excluding liabilities of non-current assets held for sale)	(145.5)	(120.4)	(115.3)	(107.0)	(93.2)
Current portion of non-current loans	-	-	-	-	-
Current loans	11.3	-	-	-	-
Current portion of finance lease liabilities	-	-	1.9	1.8	2.3
Derivative financial instruments	-	-	-	-	-
Income tax payable	-	-	-	-	-
Current provisions	1.9	1.0	12.2	-	1.6
Total	(132.3)	(119.4)	(101.2)	(105.2)	(89.3)
Net Working Capital	(71.2)	(65.9)	(60.6)	(58.7)	(44.8)

Green Generation segment

The following table illustrates the methodology the Green Generation segment used to determine net working capital as at 31 December 2017, 2018 and 2019, as well as at 30 June 2019 and 2020:

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Current assets (excluding non-current assets held for sale)	57.8	53.7	76.0	79.1	99.6
Cash and cash equivalents	(54.3)	(48.9)	(65.5)	(75.0)	(73.9)
Other financial assets	-	(0.7)	-	-	-
Prepaid income tax	-	-	-	-	(0.1)
Other current assets	-	-	-	-	-
Amounts receivable on disposal of property plant and equipment	-	-	-	-	-
Prepayments for property, plant and equipment (long-term)	21.9	22.8	27.7	26.4	0.1
Total	25.4	26.9	38.2	30.5	25.7
Current liabilities (excluding liabilities of non-current assets held for sale)	(29.3)	(46.5)	(52.7)	(51.1)	(52.3)
Current portion of non-current loans	11.5	3.1	2.6	2.6	2.7
Current loans	-	-	-	-	-
Current portion of finance lease liabilities	-	5.1	4.9	4.7	10.9
Derivative financial instruments	-	-	-	-	-
Income tax payable	1.7	1.6	3.8	3.2	1.8
Current provisions	-	-	0.5	-	1.3
Total	(16.1)	(36.7)	(40.9)	(40.6)	(35.6)
Net Working Capital	9.3	(9.8)	(2.7)	(10.1)	(9.9)

Flexible Generation segment

The following table illustrates the methodology the Flexible Generation segment used to determine net working capital as at 31 December 2017, 2018 and 2019, as well as at 30 June 2019 and 2020:

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Current assets (excluding non-current assets held for sale)	61.5	32.0	70.7	49.8	51.4
Cash and cash equivalents	(27.7)	(14.1)	(23.8)	(27.0)	(30.9)
Other financial assets	-	-	-	-	-
Prepaid income tax	-	-	-	0.1	-
Other current assets	-	-	(0.5)	-	-
Amounts receivable on disposal of property plant and equipment	-	-	-	-	-
Prepayments for property, plant and equipment (long-term)	-	-	-	-	-
Total	33.8	17.9	46.4	22.9	20.5
Current liabilities (excluding liabilities of non-current assets held for sale)	(27.8)	(19.9)	(28.9)	(19.0)	(25.0)
Current portion of non-current loans	9.7	1.3	1.8	1.8	1.7
Current loans	-	-	-	-	-
Current portion of finance lease liabilities	0.1	0.1	0.1	0.1	-
Derivative financial instruments	-	-	-	-	-
Income tax payable	1.3	0.7	2.2	2.0	0.9
Current provisions	0.5	4.5	6.7	5.3	12.8
Total	(16.2)	(13.3)	(18.1)	(9.8)	(9.6)
Net Working Capital	17.6	4.6	28.3	13.1	10.9

Customers and Solutions segment

The following table illustrates the methodology the Customers and Solutions segment used to determine net working capital as at 31 December 2017, 2018 and 2019, as well as at 30 June 2019 and 2020:

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Current assets (excluding non-current assets held for sale)	155.9	214.0	182.0	138.8	139.6
Cash and cash equivalents	(28.1)	(51.7)	(29.0)	(29.3)	(17.9)
Other financial assets	-	-	-	-	-
Prepaid income tax	(1.8)	(1.4)	(0.5)	(2.9)	-
Other current assets	(1.1)	(2.0)	(5.3)	(2.9)	(2.1)
Amounts receivable on disposal of property plant and equipment	-	-	-	-	-
Prepayments for property, plant and equipment (long-term)	-	-	-	-	-
Total	124.9	158.9	147.2	103.7	119.6
Current liabilities (excluding liabilities of non-current assets held for sale)	(58.7)	(72.1)	(55.8)	(29.9)	(43.8)
Current portion of non-current loans	0.1	-	0.1	0.1	0.1
Current loans	-	-	-	-	-
Current portion of finance lease liabilities	-	-	0.3	0.1	0.5
Derivative financial instruments	0.1	-	3.0	1.6	3.0
Income tax payable	0.6	-	-	-	2.8
Current provisions	-	-	-	-	0.1
Total	(57.9)	(72.1)	(52.4)	(28.1)	(37.3)
Net Working Capital	67.0	86.8	94.8	75.6	82.3

Other segments/eliminations

The following table illustrates the methodology used to determine net working capital for Other segments/eliminations as at 31 December 2017, 2018 and 2019, as well as at 30 June 2019 and 2020:

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
Current assets (excluding non-current assets held for sale)	67.4	18.9	11.3	20.0	144.6
Cash and cash equivalents	(55.2)	(10.9)	(8.9)	(11.5)	(137.3)
Other financial assets	-	-	-	-	-
Prepaid income tax	(0.2)	-	(0.5)	(0.1)	(0.1)
Other current assets	-	-	-	-	-
Amounts receivable on disposal of property plant and equipment	-	(4.4)	-	(4.4)	-
Prepayments for property, plant and equipment (long-term)	-	0.8	0.1	0.1	0.1
Total	12.0	4.4	2.0	4.1	7.3
Current liabilities (excluding liabilities of non-current assets held for sale)	(119.4)	(120.8)	(241.0)	(210.4)	(39.2)
Current portion of non-current loans	98.3	57.4	32.9	57.0	16.7
Current loans	2.8	47.7	196.7	140.2	11.9
Current portion of finance lease liabilities	-	-	1.3	1.0	1.0
Derivative financial instruments	-	-	-	-	-
Income tax payable	0.1	2.3	0.1	0.1	-
Current provisions	0.1	-	0.4	-	0.3
Total	(18.1)	(13.4)	(9.6)	(12.1)	(9.3)
Net Working Capital	(6.1)	(9.0)	(7.6)	(8.0)	(2.0)

FCF

FCF represents FFO (as reconciled above), plus grants received and proceeds from sale of property, plant and equipment and intangible assets, minus investments and change in net working capital.

Group

The following table illustrates the methodology the Group used to determine FCF for the purposes of this Document for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
FFO	214.6	129.7	189.2	101.8	141.5
Investments	(260.1)	(418.3)	(453.2)	(207.7)	(187.1)
Grants received	7.8	25.5	64.0	23.3	17.3
Proceeds from sale of property, plant and equipment and intangible asset	5.5	48.2	39.5	25.7	2.7
Change in net working capital	(30.6)	9.7	(45.7)	(5.5)	16.1
FCF	(62.8)	(205.2)	(206.2)	(62.4)	(9.5)

Networks segment

The following table illustrates the methodology the Networks segment used to determine FCF for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
FFO	137.4	119.2	134.0	70.6	96.1
Investments	(226.6)	(270.4)	(179.0)	(95.6)	(49.3)
Grants received	0.4	4.4	3.2	2.2	1.9
Proceeds from sale of property, plant and equipment and intangible asset	0.0	0.1	0.9	0.3	0.2
Change in net working capital	25.6	(5.3)	(5.3)	(7.2)	(15.7)
FCF	(63.2)	(152.0)	(46.2)	(29.7)	33.2

Green Generation segment

The following table illustrates the methodology the Green Generation segment used to determine FCF for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
FFO	34.0	38.5	41.4	23.2	19.2
Investments	(11.2)	(138.2)	(253.9)	(107.5)	(130.4)
Grants received	7.4	21.1	60.9	21.1	15.4
Proceeds from sale of property, plant and equipment and intangible asset	-	-	-	-	-
Change in net working capital	(11.4)	19.0	(7.2)	0.3	7.2
FCF	18.8	(59.6)	(158.8)	(62.9)	(88.6)

Flexible Generation segment

The following table illustrates the methodology the Flexible Generation segment used to determine FCF for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
FFO	43.3	16.0	36.8	25.8	5.5
Investments	(0.8)	(2.2)	(0.5)	(0.2)	(0.3)
Grants received	-	-	-	-	-
Proceeds from sale of property, plant and equipment and intangible asset	0.1	0.8	-	-	0.0
Change in net working capital	(9.8)	13.1	(23.7)	(8.5)	17.5
FCF	32.8	27.7	12.6	17.0	22.8

Customers and Solutions segment

The following table illustrates the methodology the Customers and Solutions segment used to determine FCF for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
FFO	(4.5)	(33.5)	(10.4)	(16.4)	24.8
Investments	(1.2)	(0.7)	(3.2)	(1.3)	(0.9)
Grants received	-	-	-	-	-
Proceeds from sale of property, plant and equipment and intangible asset	-	-	-	-	-
Change in net working capital	(43.9)	(19.9)	(8.0)	11.3	12.5
FCF	(49.6)	(54.1)	(21.6)	(6.4)	36.5

Other segments/eliminations

The following table illustrates the methodology used to determine FCF for Other segments/eliminations for the years ended 31 December 2017, 2018 and 2019, as well as the six-month periods ended 30 June 2019 and 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR in million)</i>				
FFO	4.3	(10.5)	(12.5)	(1.3)	(4.2)
Investments	(20.3)	(6.7)	(16.7)	(3.3)	(6.2)
Grants received	-	-	-	-	-
Proceeds from sale of property, plant and equipment and intangible asset	5.3	47.2	38.6	25.4	2.5
Change in net working capital	9.0	2.8	(1.5)	(1.1)	(5.6)
FCF	(1.7)	32.8	7.9	19.7	(13.5)

Gross Debt, Net Debt, Net Debt to EBITDA and Net Debt to Adjusted EBITDA

Gross debt consists of total borrowings (as reconciled below) and lease liabilities.

Net debt consists of gross debt less cash and cash equivalents and term deposits.

Net debt to EBITDA represents net debt divided by EBITDA and is used to measure the Group's ability to repay its debt from the profit earned.

Net debt to adjusted EBITDA represents net debt divided by adjusted EBITDA and is used to measure the Group's ability to repay its debt from the profit earned.

The following table illustrates the methodology the Group used to determine gross debt, net debt, net debt to EBITDA and net debt to adjusted EBITDA as at 31 December 2017, 2018 and 2019, as well as 30 June 2020:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>(EUR in million, except otherwise specified)</i>			
Total borrowings	613.7	845.0	1,056.1	1,261.2
Lease liabilities	0.3	19.6	42.2	41.2
Gross debt	614.1	864.5	1,098.3	1,302.4
Cash and cash equivalents	(171.8)	(127.8)	(131.8)	(283.3)
Term deposits	-	0.7	-	-
Net debt	442.3	736.0	966.5	1,019.2
EBITDA	227.2	145.3	206.8	149.8
Adjusted EBITDA	238.2	221.3	259.6	129.1
EBITDA of last 12 months	227.2	145.3	206.8	251.6
Adjusted EBITDA of last 12 months	238.2	221.3	259.6	258.8*
Net debt/EBITDA of last 12 months (times)	1.95	5.07	4.67	4.05*
Net debt/Adjusted EBITDA of last 12 months (times)	1.86	3.33	3.72	3.94*

* Last 12 months figures for 30 June 2020 refer to the twelve-month period ended 30 June 2020.

Total Borrowings

Total borrowings consist of bonds issued, bank borrowings, current portion of non-current loans, bank overdrafts and accrued interest.

The following table illustrates the methodology the Group used to determine total borrowings as at 31 December 2019 and 31 December 2018:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>(EUR in million)</i>			
Non-current borrowings				
Bonds issued	294.0	589.0	590.1	886.2
Bank borrowings	186.1	146.4	231.8	341.9
Current borrowings				
Current portion of non-current loans	119.6	61.8	37.5	21.2
Bank overdrafts	10.7	42.3	191.3	-
Accrued interest	3.4	5.5	5.4	11.9
Total borrowings	613.7	845.0	1,056.1	1,261.2

ROE and Adjusted ROE

ROE represents net profit/(loss) of last 12 months divided by the average of equity (calculated based on the average of equity at the beginning and the equity as of end of the reporting period).

Adjusted ROE is presented, for each period, as adjusted net profit of last 12 months divided by the average of equity calculated as described in the paragraph above.

The following table illustrates the methodology the Group used to determine ROE and adjusted ROE for the years ended 31 December 2017, 2018 and 2019, as well as the six-month period ended 30 June 2020:

	For the year ended 31 December			For the twelve months ended 30 June
	2017	2018	2019	2020
	<i>(EUR in million, except percentages)</i>			
Net profit/(loss) of last 12 months	93.5	(22.0)	59.0	102.1*
Adjusted net profit of last 12 months	126.5	99.0	106.0	107.9*
Average equity at the beginning and the end of the reporting period	1,331.6	1,323.1	1,325.6	1,329.3
ROE	7.0%	(1.7)%	4.5%	7.7%
Adjusted ROE	9.5%	7.5%	8.0%	8.1%

* Last 12 months figures for 30 June 2020 refer to the twelve-month period ended 30 June 2020.

ROCE and Adjusted ROCE

ROCE represents EBIT divided by the average of net debt at the beginning and end of the reporting period plus average equity at the beginning and end of the reporting period and is used to measure how well the Group utilises its capital employed to generate profit.

Adjusted ROCE is presented, for each period, as adjusted EBIT divided by the average of net debt at the beginning and end of the reporting period plus average equity at the beginning and end of the reporting period.

The following table illustrates the methodology the Group used to determine ROCE and adjusted ROCE for the years ended 31 December 2017, 2018 and 2019, as well as the twelve-month period ended 30 June 2020:

	For the year ended 31 December			For the twelve months ended 30 June
	2017	2018	2019	2020
	<i>(EUR in million, except percentages)</i>			
EBIT of last 12 months	97.1	(20.4)	82.8	130.2*
Adjusted EBIT of last 12 months	150.8	133.6	149.7	148.8*
Average of net debt at the beginning and end of the reporting period	379.1	589.2	851.3	930.6
Average of equity at the beginning and end of the reporting period	1,331.6	1,323.1	1,325.6	1,329.3
ROCE	5.7%	(1.1%)	3.8%	5.8%
Adjusted ROCE	8.8%	7.0%	6.9%	6.6%

* Last 12 months figures for 30 June 2020 refer to the twelve-month period ended 30 June 2020.

PART 4 – BUSINESS OVERVIEW

1. OVERVIEW

AB "Ignitis grupė", together with its directly and indirectly controlled subsidiaries, is a leading utility and renewable energy company in the Baltic region. The Group's core business is focused on operating electricity and gas distribution networks, and managing and developing its green generation portfolio. The Group also manages strategically important flexible generation assets, and provides customers and solutions services, such as the supply of electricity and gas, solar, e-mobility, improved energy efficiency, and innovative energy solutions for households and businesses. The Group operates in its home markets – Lithuania, Estonia, Latvia, Poland and Finland – and is evaluating opportunities in other countries on the energy transition path.

The Group is key to the energy security of Lithuania, with the Government of Lithuania as a key long-term stakeholder. The Group has a large, regulated and long-term contracted profit base giving it high visibility into returns, with attractive growth opportunities in relation to its green generation business in particular, as well as the ability to generate stable returns from its Networks business through investment in its distribution network. The Group has undergone a transformation into a regional leader in the transition to green energy, has no coal or nuclear generation facilities in its portfolio and anticipates that investments in green energy will be the main source of growth in the medium term. The Group's target is to reach 1.6 to 1.8 GW of installed Green Generation capacity by 2023 and 4 GW of installed Green Generation capacity by 2030 and to reduce net carbon dioxide (CO₂) emissions to zero by 2050. While establishing a significant track record in sustainable energy development, the Group also demonstrates a strong commitment to best-in-class governance and environmental, social and governance ("ESG") principles.

The Group's four principal operating segments are:

- (a) **Networks:** The Networks segment comprises the Group's electricity and gas distribution businesses. The core activities in this segment are to operate, maintain, manage and develop electricity and gas distribution networks in Lithuania and to ensure their safe and reliable operation, as well as the supply of last resort service. The Group, through its subsidiary, ESO, has a natural monopoly on the distribution of electricity and gas in Lithuania, with a distribution network that covers nearly the entire territory of Lithuania. Revenue from the Networks segment is the second largest contributor to the Group's revenue and largest contribution to the Group's adjusted EBITDA.
- (b) **Green Generation:** The Green Generation segment is focused on the generation of electricity through sustainable energy sources including wind, hydro, solar, biomass and waste-to-energy, and is the Group's key driver towards sustainable growth and decarbonisation. With a core focus on the Baltic region and Poland, the Green Generation portfolio currently consists of 1.1 GW of total installed capacity, including two hydro plants in Lithuania (one 900 MW pump storage hydro plant and one 100.8 MW "run-of-river" hydro plant), four operating wind farms in Lithuania and Estonia (with a combined 76 MW installed capacity), the waste-to-energy/biomass Kaunas CHP Plant (which commenced operations in August 2020 and has a 24 MW installed electrical capacity and 70 MW thermal capacity) and the biomass boiler at the Elektrėnai Complex (with a 40 MW installed thermal capacity). In addition to these operating assets, the Green Generation portfolio also contains projects representing an additional 249.0 MW of electrical capacity and 229.0 MW of waste-to-energy/biomass capacity under construction, including two wind farms (in Poland and Lithuania) and the waste-to-energy/biomass Vilnius CHP plant in Lithuania.
- (c) **Flexible Generation:** The Flexible Generation segment operates the largest electricity generation capacity in Lithuania, the Elektrėnai Complex, with a total gross installed capacity of 1.1 GW. The Elektrėnai Complex provides regulated system services (such as Tertiary Power Reserve Services and Isolated Regime Services) to ensure the flexibility and stability of Lithuania's electricity system. The Flexible Generation segment also aims to contribute to the successful synchronisation of the Baltic states with the network system of continental Europe (expected to be effective in 2025), which is intended to enhance Lithuania's ability to

independently manage its electric system and which the Group believes has the potential to open new ancillary service market opportunities as well as power market upsides for the Group.

- (d) **Customers and Solutions:** The Customers and Solutions segment includes the Group's electricity and gas supply, trading, forecasting and balancing business, as well as a range of complementary innovative energy solutions and platforms that the Group offers to its commercial and residential customers, including energy efficiency projects, construction of solar power plants for businesses and households, installation and operation of electric vehicle charging station and heating solutions. The Group operates its Customers and Solutions segment across Lithuania, Estonia, Latvia, Finland and Poland, and is the largest supplier of electricity and gas in the Baltic states based on the number of customers. In addition, the Group views this segment as making an important contribution to the expansion of the renewables portfolio of the Group's Green Generation segment, which is one of the Group's key areas of focus, through helping to secure long-term offtake contracts for future renewables generation, and competencies in balancing services.

The following table sets forth the relative contributions of each of the Group's business segments to the Group's adjusted EBITDA (please refer to paragraph 4 of Part 3 ("*Selected Financial Information*") for the Group's definition of adjusted EBITDA and the reconciliation of adjusted EBITDA to revenue), as well as the investments by the Group in each segment, in the year ended 31 December 2019:

2019 Adjusted EBITDA and Investments by Segment

		<u>Networks</u>	<u>Green Generation</u>	<u>Flexible Generation</u>	<u>Customers & Solutions</u>	<u>Other segments/ eliminations⁽¹⁾</u>	<u>Total</u>
Adjusted EBITDA	EURm	180.5	43.4	22.0	10.7	3.0	259.6
Percentage of Group Adjusted EBITDA	%	69.5%	16.7%	8.5%	4.1%	1.2%	100.0%
Investments	EURm	179.0	253.9	0.5	3.2	16.7	453.2
Percentage of total Group investments	%	39.5%	56.0%	0.1%	0.7%	3.7%	100.0%

Note:

(1) "Other segments/eliminations" includes both amounts from "other segments" and "elimination of inter-company transactions and consolidation eliminations" (see Note 42 to the 2019 Financial Statements) or "other segments" and "adjustment on consolidation and elimination of intercompany transactions" (see Note 40 to the 2018 and 2017 Restated Financial Statements), as applicable.

2. COMPETITIVE STRENGTHS

The Group benefits from the following key strengths:

2.1 One of the largest utility and renewable energy groups in the Baltic region with a critical role for the region's energy security and decarbonisation

The Company is one of the largest utility and renewable energy companies in the Baltic region, and plays a critical role in the region's energy security and decarbonisation goals. The Baltic region and Poland have benefited from high average real GDP growth during 2015 to 2019, with average real GDP growth of 3.5 per cent. in Lithuania, 4.3 per cent. in Poland, 4.1 per cent. in Estonia and 3.5 per cent. in Latvia, compared to an EU average of 2.1 per cent. over this period. Additionally, Lithuania and other countries in the region have also experienced superior growth in electricity consumption during 2015 to 2019, with electricity consumption in Lithuania increasing by an average of 2.5 per cent. per annum over this period (compared to an EU average of 0.2 per cent. per annum).

Within Lithuania, the Group has the largest installed capacity of any energy company in the country (owning 63 per cent. of the country's installed capacity as at 31 December 2019), is the principal distributor of electricity and gas (through its Networks segment) with its network recognised by the World Bank as one of the most efficient in the EU (ranked 4th in the EU in 2020 in the World Bank's Doing Business Getting Electricity rating), is the largest provider of flexible generation services to the TSO and a key provider of Reserve Capacity (through its Flexible Generation and Green Generation segments) and is the sole designated supplier to the LNG Terminal, meaning that it is responsible for ensuring that a minimum quantity of natural gas is delivered through the LNG Terminal (through its Customers and Solutions segment). The LNG Terminal is the only alternative to Gazprom-controlled piped gas imports in Lithuania. The Group is also one of the key components to enabling the successful

synchronisation of the Baltic states with the network system of continental Europe by 2025, which is intended to enhance the region's ability to independently manage its electric system.

Four group companies are currently designated as strategic entities for national security in Lithuania. The Group therefore represents a key strategic investment for the Republic of Lithuania as a long-term stakeholder.

Lithuania currently has the lowest share of electricity consumption covered by national generation in Europe (28 per cent. in 2019), but the Government of Lithuania's target is for this share to reach 70 per cent. by 2030 and 100 per cent. by 2050.

Additionally, the Group is the top green generation capacity owner in Lithuania (representing 57 per cent. of the country's green generation capacity) and the second largest green generation capacity owner in the Baltic region, which means it is of key strategic importance to Lithuania's commitment towards the implementation of EU climate and energy targets (including the country's targets to achieve 45 per cent. of energy consumption from renewable sources by 2030 and 100 per cent. by 2050). The Group is increasingly expanding its green generation capacity in other countries in the Baltic region and Poland as well, with an existing wind farm in Estonia, new wind farms in Poland and in Mažeikiai, Lithuania under construction, and a growing pipeline of renewable projects across the region. This is in the context of an ongoing drive towards green energy in the region, including a significant move away from coal generation in Poland (which represented 86 per cent. of total electricity generation in Poland in 2019). The Group has undergone a transformation into one of the regional leaders in the transition to green energy, being one of the only sizeable energy companies in its target markets with no legacy coal or nuclear assets, and with a clear strategy to grow its Green Generation portfolio in line with sustainable growth and decarbonisation efforts. The Group is committed to reducing net carbon dioxide (CO₂) emissions to zero by 2050, in line with the "Business Ambition for 1.5°C" initiative of the United Nations and other international organisations that the Group joined in 2019.

2.2 Resilient business with highly visible cash flows from regulated or long-term contracted activities

The Group benefits from highly visible cash flows in its core businesses. Approximately 87 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019 (compared to 81 per cent. and 90 per cent. in the years ended 31 December 2017 and 2018, respectively) was attributable to either regulated or long-term contracted activities, as set out in the following table:

Proportion of Group's business attributable to regulated or long-term contracted activities

Segment	% of segment adjusted EBITDA attributable to regulated activity in 2019	% of segment adjusted EBITDA attributable to long-term contracted activity in 2019	Total adjusted EBITDA attributable to regulated or long-term contracted activity as a % of Group adjusted EBITDA in 2019
Networks	100.0%	-	69.5%
Green Generation	12.5%	30.4%	7.2%
Flexible Generation	94.1%	-	8.0%
Customers and Solutions	60.1%	-	2.5%
Total	N/A	N/A	87.1%

The electricity and gas distribution businesses of the Group's Networks segment are entirely regulated. This business operates within an established and stable regulatory framework with an experienced regulator, the NERC, supported by key Lithuanian legal acts in line with EU energy legislation, based on a conventional methodology to provide a reasonable return on the regulated asset base.

Additionally, most of the activities of the Group's Flexible Generation segment, provided to the TSO, currently comprising tertiary power reserve services and isolated regime services provided to the TSO, are regulated, although the exact proportion may vary from year to year as the Group is participating in auctions to provide the power reserve and ancillary services to the TSO on an annual basis, and the Group is able to sell some generation at market prices from the asset providing the Isolated Regime Services and keep the gross profit from 1 January 2020.

The Green Generation segment includes both regulated activities, currently comprising secondary reserve services provided to the TSO utilising approximately 44 per cent. of the capacity of the Group's

pump storage hydro plant (Kruonis PSHP) and long-term contracted activities, primarily in relation to the Group's wind farms, which together accounted for 42 per cent. of the segment's adjusted EBITDA in the year ended 31 December 2019. The Group's existing wind farms have the benefit of renewable support subsidy schemes that provide fixed long-term contracts with feed-in or feed-in-premium tariffs through an initial subsidy period, with 87 per cent. of revenue from the Group's wind farms earned from these contracts in the year ended 31 December 2019.

The regulated activities of the Customers and Solutions segment include principally its B2C gas supply, designated LNG supply and public electricity supply businesses. The public electricity supply business will be deregulated in the coming years. Please see paragraph 6.4 of this Part 4 ("*Business Overview*").

The percentage of the Group's business attributable to regulated activities or long-term contracts is 87 per cent., a proportion that is amongst the highest in its peer group in the sector.

The portion of the Group's activities that are attributable to non-regulated and non-contracted activities are partially de-risked by: (i) the low variable costs of the Group's "run-of-river" hydro plant (Kaunas HPP), which is able to earn positive EBITDA even at low electricity prices, (ii) the flexibility of generation at the Group's pump storage hydro plant (Kruonis PSHP), which allows the Group to scale generation up or down based on market prices; (iii) the Group's conservative hedging policy for its supply and trading activities; (iv) higher market prices being expected in the future due to decreased imports from Russia and Belarus and greater interconnection capacity with Poland; and (v) the competitiveness of the Group's waste-to-energy/biomass plants.

This framework provides the Group with predictable and stable cash flows and a resilient and solid platform for investment and growth.

2.3 Attractive growth driven by green energy and distribution network investments

As the top green generation capacity owner in Lithuania and one of the largest in the region, and the principal energy distributor in Lithuania, the Group is well-positioned to capitalise on the growth opportunities presented by the transition to renewable energy in Lithuania and the Group's other target markets, to expand its portfolio in the green energy market and enhance the returns from its distribution business.

Lithuania, Estonia, Latvia and Poland have all adopted energy policies supporting the extensive build out of renewable generation capacities (with a combined target of an additional 24 GW by 2030), in line with decarbonisation commitments. The Group believes that the opportunity in Lithuania is underpinned by a significant structural electricity deficit, with only 28 per cent. of electricity consumption currently covered by domestic generation (with the remainder imported mainly from Russia and Sweden, as well as the Baltic states and Belarus), making the development of new domestic green energy generation assets and synchronisation with the EU grid a national priority to ensure the country's energy security. Poland also represents a key opportunity in the region, as coal generation still represented 86 per cent. of total electricity generation in Poland in 2019 and there is an ongoing drive to transition from coal generation to renewable energy technologies.

The Group's green energy platform is supported by the Group's deep knowledge of the regional energy landscape, its relationships with developers in the region, one of the lowest costs of financing in the region, dedicated development, construction management, operations and maintenance, acquisition and financing teams with significant expertise and a successful track record and a large electricity supply portfolio, which acts as a natural electricity price hedge and allows the Group to structure internal power purchase agreements ("**PPAs**") with the Group's Customers and Solutions business. The Group's track record in green energy expansion includes:

- the acquisition of four wind farms to date (in Lithuania and Estonia) which are now operational;
- the acquisition and development of the Group's two current wind development projects, the 63 MW wind farm project in Mažeikiai, Lithuania (one of the largest wind farms in Lithuania, in respect of which the Group has commenced construction this year) and the 94 MW wind farm project in the Pomerania region of Poland (one of the largest wind farms in Poland, with construction expected to be completed in early 2021); and

- the development of two waste-to-energy/biomass CHP plants in Lithuania, namely the Kaunas CHP Plant (which commenced commercial operation in August 2020 and is expected to operate at full capacity in the fourth quarter of 2020 during the heating season) and the Vilnius CHP Plant (which is nearing completion).

The Group's target is to reach 1.6 to 1.8 GW of installed Green Generation capacity by 2023 and 4 GW of installed Green Generation capacity by 2030 (compared to 1.1 GW as at the Latest Practicable Date). In addition to its operating assets, the Green Generation portfolio contains projects representing an additional 249.0 MW of electrical capacity (and 229.0 MW of thermal capacity) under construction, including two additional onshore wind farms (in Poland and Lithuania, respectively) and the waste-to-energy/biomass Vilnius CHP plant in Lithuania. The Group's pipeline to meet its 2023 target also includes projects of approximately 200 MW in capacity in respect of which letters of intent have been signed with Polish solar energy developers. This leaves a residual target of 50 to 250 MW additional projects in order to reach the Group's Green Generation capacity target for 2023, which the Group believes it will be able to achieve based on a residual pipeline of projects under negotiation or consideration representing more than 1 GW in aggregate capacity.

For its post-2023 targets, the Group has signed an LOI with a leading offshore wind specialist to develop a 700 MW offshore wind project in Lithuania (the partner is expected to hold 49 per cent. of the shares in the project, with the Group holding 51 per cent.). In addition to that, the Group has the option to expand the Kruonis PSHP by up to an additional 225 MW.

The Group expects that the expansion of its green generation portfolio will be driven by wind (both onshore and offshore) and solar power. In implementing this expansion, the Group will be able to leverage the significant experience and technical know-how gained from the development of its current projects nearing completion.

In addition to investment in the Green Generation segment, the Group is also investing significantly in its Networks segment, which it believes will support RAB growth (a key component of the regulatory pricing framework). The Group is planning to significantly modernise its electricity distribution network, with the aim of enhancing network resilience and reliability and the network's intelligence, efficiency and security, as well as in the smart meter roll-out.

In the year ended 31 December 2019, 56.0 per cent. of the Group's investments were attributable to the Green Generation segment while 39.5 per cent. were attributable to the Networks segment. Pursuant to its strategic plan, between 2020 and 2023, the Group expects to make investments of EUR 1.7 to 2.0 billion, of which approximately 40 to 50 per cent. will be in the Green Generation segment and 40 to 45 per cent. will be in the Networks segment. Approximately 85 to 95 per cent. of the Group's investments are related to activities which support the United Nations' Sustainable Development Goals ("UN SDGs").

2.4 Strong and disciplined financial profile supporting shareholder returns and resulting in a low cost of capital

The Group maintains a robust capital structure, which supports its commitment to provide attractive and sustainable returns to shareholders, maintaining a balance between prudent growth and a strong balance sheet. A large majority of the Group's investments in recent years have been, and the Group expects that its investments will continue to be, focused on its Networks and Green Generation segments, with the aim of capturing growth opportunities in these segments to enhance shareholder returns.

The Group's financial discipline is demonstrated by its approach to leverage, with a target net debt / EBITDA ratio of <5x. For the year ended 31 December 2019, the Group's net debt to EBITDA ratio and net debt to adjusted EBITDA ratio were 4.7x and 3.7x, respectively. Excluding the construction debt of approximately EUR 168 million incurred for projects that are not currently contributing to the Group's EBITDA, including the Vilnius CHP and the Pomerania wind farm which are still under construction, as well as the Kaunas CHP which only commenced commercial operation in August 2020, the Group's net debt to EBITDA ratio and net debt to adjusted EBITDA ratio were 3.9x and 3.1x, respectively, for the year ended 31 December 2019.

The Group's efficient financing strategy includes, for short-term financing requirements, the utilisation of credit lines from local banks and a cash pooling platform for efficient cash management between

Group entities. For long-term financing requirements, the Group utilises primarily bonds with remaining maturities of greater than seven years, supplemented by bank loans as deemed appropriate by the Group (for example, the Group has a 17-year loan in relation to Vilnius CHP and a 15-year loan in relation to the Pomerania wind farm). The Group aims to finance approximately 60 to 75 per cent. of project costs at the asset level, where possible, and also utilises multilateral institutional loans to finance large investment projects.

The following table sets forth key leverage indicators for the Group for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and for the six-month period ended 30 June 2020:

Key Leverage Indicators

		<u>As at 31 December</u>			<u>As at 30 June</u>
		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net debt	EURm	442.3	736.0	966.5	1,019.2
Net debt/EBITDA of last 12 months	Times	1.95	5.07	4.67	4.05*
Net debt/adjusted EBITDA of last 12 months	Times	1.86	3.33	3.72	3.94*
FFO of last 12 months/Net debt	%	48.5%	17.6%	19.6%	22.5%*

* Last 12 months figures for 30 June 2020 refer to the twelve-month period ended 30 June 2020.

This disciplined approach has resulted in the Group having one of the lowest costs of capital in the region, which is comparable to peers in Western Europe, as demonstrated by an effective Group interest rate of 1.43 per cent. in the first quarter of 2020. Prior to the outbreak of the COVID-19 pandemic, the Group's outstanding bonds were trading at below 1 per cent. yield, and even following the outbreak of COVID-19, in May 2020, the Group was able to issue new bonds at a yield of approximately 2 per cent. The Group was also able to achieve a fixed rate of interest of less than 1 per cent. for its EUR 190 million 17-year loan from EIB entered into on 5 December 2016 with respect to the development of the Group's CHP plant in Vilnius. In addition to that, the Group was also able to achieve a fixed rate of interest of approximately 1.8 per cent for its local currency PLN 258 million (approximately EUR 59 million) 15-year loan from EIB entered into on 9 March 2020 with respect of the development of the Group's wind farm in Poland.

As the vast majority of the Group's business is currently conducted within the EU, it is not significantly exposed to higher-risk markets and the Group's exposure to foreign currency risk and interest rate fluctuations is also low. The Group does not currently have PLN/EUR foreign exchange swaps as its exposure to the Polish zloty is limited; however, it might consider entering into such swaps in the future as the Group continues to increase its level of activities in Poland, which will result in higher exposure to the Polish zloty. The Group also currently has limited overall commodity exposure given the large volume of its regulated and contracted activities, but the Group will continue to evaluate hedging opportunities in the future as appropriate.

The Group is committed to maintaining a strong investment grade rating (BBB and above), and is currently rated BBB+ by Standard & Poor's. At the same time, the Group has a disciplined approach to investment, targeting high single-digit to low double-digit levered equity returns on its investments, to support attractive shareholder returns. The Group intends to deliver sustainable and predictable dividends, which will enable sufficient capital structure flexibility, including the distribution of excess cash, if available. Pursuant to the Company's recently amended dividend policy, dividends paid by the Company will be decided based on a fixed starting level plus a minimum annual growth rate. The fixed starting dividend level was set at EUR 85 million for the year ending 31 December 2020 and the minimum annual dividend growth rate was set at 3 per cent.⁵ going forward. For further information, see paragraph 1 of Part 1 ("*Dividend Policy*").

⁵ This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, potential investors should not place any reliance on the target in deciding whether or not to invest in the Company and should not assume that the Company will make any distributions at all, and should decide for themselves whether or not the target is reasonable or achievable.

2.5 Experienced management team with track record of building a sustainable energy platform

Led by an experienced senior management team, the Group has established a significant track record in sustainable energy development, while at the same time demonstrating a commitment to best-in-class governance and ESG principles. The Group's transformation to a leading green energy producer was supported in 2015 by the initiation of the Group's two waste-to-energy/biomass CHP plant projects in Lithuania, followed in 2016 by the acquisition of the Group's first two wind farms (in Lithuania and Estonia). In line with the Group's strategy of increasing green generation capacities, the Group acquired two additional wind farms in 2018 and in the same year acquired the development project for the wind farm project in Mažeikiai, Lithuania. This was followed in 2019 by the commencement of construction of the Group's first wind farm in Poland. The Group has also successfully completed two green bond issuances (in 2017 and 2018), with the 2017 bond being awarded the Green Bond Pioneer award by the Climate Bonds Initiative.

Alongside its commitment to sustainability, the Group is also committed to best-in-class governance, and has received multiple awards recognising the Group's corporate governance, transparency, sustainability and social responsibility. Since 2012, the Lithuanian Government's state-owned enterprise monitoring and governance coordination unit ("**Governance Coordination Centre**") annually compiles a governance index for Lithuanian state-owned entities, which aims to measure the implementation of key good governance practices by each state-owned enterprise. Currently, this index is a leading measure of corporate governance for state-owned enterprises in Lithuania. Since 2016, the Company has earned the best possible A+ index and was declared the leader in corporate governance in the corporate category. The Company's subsidiaries ESO and IGN have also both been recognised by Transparency International as among the most transparent Lithuanian companies; in 2019 ESO was recognised as the most transparent company (three-way tie) with a 100 per cent. rating, and IGN came a close second (four-way tie) with a rating of 96 per cent. Also in 2019, the Group was awarded best investor relations by a bond market newcomer by Nasdaq. Additionally, Lithuania was ranked 11 in the Doing Business 2020 rankings (compared to a rank of 55 in 2016) with a strong contribution from ESO, given the connection process to the distribution network is one of the ten indicators measured in the rankings (ESO improved distribution network speed reduced distribution calendar days per client from 58 days in 2016 to 32 days in 2019 for electricity, and from 162 days in 2016 to 65 days in 2019 for gas).

This aligns with the Group's commitment to fundamental ESG principles, as the Group seeks to create a sustainable generation platform (with a commitment to reduce net CO₂ emissions to zero by 2050), supporting and connecting local communities, with the support of a robust and transparent corporate governance framework.

3. STRATEGY

The Group's current long-term strategy (the "**Strategy**") is focused on creating a sustainable future by continuing to grow renewables, ensure resilience and flexibility of the energy system, enable energy transition and evolution and capture growth opportunities. The Group has been consistent in its vision to transform for a more sustainable world by:

- shifting from conventional energy sources to renewable energy sources to accelerate the ongoing transition in the energy sector towards a decarbonised world;
- expanding from a predominantly local company to a regional one and exploring new business growth opportunities in the markets undergoing energy transition; and
- transforming from a monopolistic energy sector to a competitive and innovative business by reshaping its energy business models and developing and scaling smart solutions.

The Strategy is based on creating an "Energy Smart" world, and includes the following key components:

3.1 Creating a sustainable future

The Group is accelerating its transition towards a decarbonised world by shifting from conventional to renewable energy. The Group's generation based emissions have already decreased significantly as a result of reducing conventional generation and decommissioning old gas and fuel-oil fired power

production capacities. The Group has no coal or nuclear generation facilities in its portfolio, and is expanding its portfolio primarily through the development of green generation assets. The Group's target is to reach 1.6 to 1.8 GW of installed Green Generation capacity by 2023 and 4 GW of installed Green Generation capacity by 2030 and to reduce net carbon dioxide (CO₂) emissions to zero by 2050. The Group has made significant progress toward these goals, with 98 per cent. of the Group's electricity generation from green energy sources in the year ended 31 December 2019, and a 59 per cent. reduction in generation-based carbon dioxide emissions between 2015 and 2019 (0.39, 0.33, 0.26, 0.20 and 0.16 tCO₂eq/MWh in the years ended 31 December 2015, 2016, 2017, 2018 and 2019, respectively).

Along with the Group's strong commitment to sustainability, the Group always considers and integrates ESG factors into its business goals, which are aligned to the UN SDGs. Although the Group aims to contribute to the achievement of almost all of these UN SDGs, its primary focus is on five UN SDGs where its impact is the most significant: (i) affordable and clean energy; (ii) decent work and economic growth; (iii) industry innovation and infrastructure; (iv) responsible consumption and production; and (v) climate action. 85 to 95 per cent. of the Group's investments for the period 2020 to 2023 are related to activities which support the UN SDGs, primarily through investments in its Green Generation and Networks segments.

3.2 Growing renewables to meet regional energy commitments

The Group's Green Generation segment is fundamental to the Group's strategy of expanding its green energy capacity to contribute to decarbonisation and help meet regional energy commitments. In less than five years, the share of the Group's power generation that comes from green energy sources has increased from 47 per cent. in 2015 to 98 per cent. in 2019, in line with a reduction in conventional generation. In addition to its currently ongoing green energy projects representing an additional 249.0 MW of electrical capacity and 229.0 MW of thermal capacity under construction, the Group has a growing pipeline of renewable projects, with target technologies including onshore wind, offshore wind, waste-to-energy, biomass and solar (as detailed under "Attractive growth driven by green energy and distribution network investments" above). The Group's target is to reach between 1.6 and 1.8 GW of installed Green Generation capacity in 2023 and 4.0 GW of installed Green Generation capacity by 2030. The Group set these targets by reference to the expected growth in capacity requirements in the Group's primary markets, particularly Lithuania as it seeks to increase domestic capacity to attain energy independence (as currently national generation covers only 28 per cent. of the electricity consumption) and Poland, where there is an ongoing drive to transition from coal generation (which still represented 86 per cent. of total electricity generation in 2019) to renewable energy technologies.

In growing its green energy portfolio, the Group aims to partner with strategic investors to adopt new technologies and with financial investors to maximise returns by utilising asset rotation (which involves selling down a portion of the Group's interest in a project, typically after completion of construction, in order to recycle capital and capture premium by realising a portion of the value created by the development up front), where the Group believes that it will create additional value. The Group maintains a prudent investment framework, with conservative hurdle rates.

The Group is looking to expand its Green Generation portfolio geographically as it capitalises on the growth opportunities presented by the transition to renewable energy and decarbonisation commitments in other target markets, including primarily the Baltic states and Poland. The Group also explores new opportunities in other European countries on the energy transition path.

3.3 Ensuring the resilience and flexibility of the energy system and enabling energy transition and evolution

The Group intends to invest continuously across Lithuania to modernise the strategic assets used in its Networks segment's electricity and gas distribution businesses, to ensure network resilience and energy efficiency for the Group's business and residential customers, with a focus on network maintenance, new connection points and upgrades, smart meter roll-out and network digitalisation and automation. The Group also aims to facilitate the local energy market and its efficiency through data-driven network solutions. In 2020, the Group subsidiary ESO launched a trial of its "Data Hub" platform, which will provide information about the customers and their electricity consumption habits and allow suppliers to

prepare tailored offers and solutions for each customer, and which the Group expects to be launched more widely in 2023.

The Group intends to further invest in its Flexible Generation segment to provide flexibility and high reliability of the Lithuanian energy system through reserve and ancillary service, but will invest into new Flexible Generation capacities only if the capacity auctions are won. The Group is phasing out and decommissioning some of its old conventional energy generation capacities (gas and fuel-oil fired power generation capacities in the Elektrėnai Complex) as it moves to newer, more sustainable technologies (it has no coal or nuclear generation facilities). The Group is also considering participating in capacity auctions Poland in the upcoming years with its currently owned electricity generation units.

3.4 Capturing growth opportunities and developing innovative solutions to make life easier and more energy smart

Through its Customers and Solutions segment, the Group aims to scale its energy supply and trading business and complement it with innovative, value-added energy solutions. The Group innovates together with its partners to help customers become more energy smart and contribute to their environmental goals.

As part of this commitment to innovation, in 2017 the Company established an innovation fund (the "**Smart Energy Fund**"), the first corporate venture capital fund in the Baltic States, which is managed by Contrarian Ventures and provides funding for early stage start-ups in the energy sector. The Smart Energy Fund has invested in energy start-ups based in the Baltics, the UK, Israel, Norway and France, including Pvcase (solar design and engineering), Inbalance grid (electric vehicle charging solutions), Moixa (smart battery), H2Pro (green, carbon-free hydrogen production technology), Sterblue (AI automating infrastructure inspection) and Bolt (sustainable mobility solutions). In 2018 the Company established an innovation hub, which utilises internal and external initiatives to promote energy technology and attract innovative ideas, promotes data sharing and enables other companies outside the Group to test their technologies, prototypes or business ideas in the Group's infrastructure through a free of charge "sandbox" programme and cooperates with universities, companies and utilities for development of new products and services, that can later be implemented to create value in Group's businesses.

The Group aims to enable industrial scale renewable energy expansion by securing long-term offtake contracts and capitalising on existing competencies in balancing services as well as benefit from synergies between its Customers and Solutions and Green Generation segments.

3.5 Operating with a transparent, effective and strong governance model

At the organisational level, the Group applies internationally recognised corporate governance standards and practices, adopting the most effective group operating models to create competitive advantages and achieve synergies among the Group's business lines. The Group intends to seek to comply with the Nasdaq Vilnius Corporate Governance Code to the extent possible.

The Company has a Chief Executive Officer and a two-tier board system consisting of a Management Board and a Supervisory Board. The Supervisory Board consists of seven members, two members being nominated by the Principal Shareholder and five members (including the chairperson) being independent members.

The Group has a strong focus on its people, and a key part of its strategy at the organisational level is maintaining an engaged, agile and constantly developing workforce, dedicated to its customers and passionate about innovation. The Group fosters diversity in skills and competencies to provide it with unique perspectives, while also empowering its teams for speed, flexibility and innovation. The Group introduces new and different models of collaboration in order to create an energy smart world, with its workforce able to adapt to different approaches of developing core and new energy competencies. This strategy is supported by the Group's training system, which enables a constantly growing organisation and the personal development of its staff.

3.6 Maintaining its focus on financial discipline

The Group's strategy also includes a strong focus on financial discipline, encompassing long-term financial guidelines, as well as the Group's dividend policy.

The Group's disciplined investment policy targets high single-digit to low double-digit levered equity returns depending on the risk profile of the projects. In addition, as discussed, above, in respect of its Green Generation segment (a key growth area for the Group), the Group looks to maintain a prudent investment framework and may sometimes enter into partnerships with strategic investors in order to adopt new technologies or enter new markets. Additionally, the Group aims to utilise asset rotation to sell down a portion of its interest in a project (up to 49 per cent.) after construction has completed in order to recycle capital and capture premium.

In terms of capital structure, the Group is committed to maintaining an investment grade rating of BBB or above, and a net debt to EBITDA ratio of <5x. For the year ended 31 December 2019, the Group's net debt to EBITDA ratio and net debt to adjusted EBITDA ratio were 4.7x and 3.7x, respectively. Excluding the construction debt of approximately EUR 168 million incurred for projects that are not currently contributing to the Group's EBITDA, including the Vilnius CHP and the Pomerania wind farm which are still under construction, as well as the Kaunas CHP which only commenced commercial operation in August 2020, the Group's net debt to EBITDA ratio and net debt to adjusted EBITDA ratio were 3.9x and 3.1x, respectively, for the year ended 31 December 2019.

The Group intends to deliver sustainable and predictable dividends based on a fixed starting level plus a minimum annual growth rate, with flexibility to distribute excess cash, if available.

3.7 Alignment with the National Energy Independence Strategy

The Group's Strategy is also aligned with the National Energy Independence Strategy, which was approved by the Parliament of the Republic of Lithuania on 21 June 2018 and which establishes the national strategy for the Lithuanian energy sector, its implementation principles, strategic directions, objectives and tasks for the periods to 2020, 2030 and 2050. Amongst the key targets set out in the National Energy Independence Strategy are:

- development of renewable energy, including onshore and offshore wind in the Baltic sea;
- investing in smart technologies and digitisation of the Lithuanian energy sector;
- smart electricity metering;
- ensuring sufficient balancing capacities, including potential extension of the Kruonis HPSP;
- synchronisation with the energy system of continental Europe;
- the share of electricity consumption in Lithuania met by domestic generation reaching 70 per cent. domestic energy generation by 2030 and 100 per cent. by 2050;
- the share of domestic energy generation from clean (low carbon) resources reaching 80 per cent. by 2050;
- the share of renewable energy in total energy consumption reaching 45 per cent. by 2030 and 80 per cent. by 2050;
- the share of renewable energy in total electricity consumption reaching 45 per cent. by 2030 and 100 per cent. by 2050; and
- the share of renewable energy in the centralised heat supply sector reaching 90 per cent. by 2030 and 100 per cent. by 2050.

The Group is united by the mission to make the world more energy smart. The Group's activities support these goals through various activities across its operating segments:

- **Green Generation – focused, sustainable and profitable growth.** The Group is expanding its Green Generation portfolio, with a focus in particular on wind energy assets, which may in the future include offshore wind in the Baltic sea, as well as solar, waste-to-energy and biomass.
- **Networks – resilient and efficient energy distribution enabling the energy transition.** The Group is making significant investment in its country-wide distribution network for network

maintenance and efficiency improvement, new connection points and upgrades, smart meter roll-out, network digitisation (including its "Data Hub" platform) and automation.

- **Flexible Generation – reliable and flexible power system.** The Group is actively maintaining its Flexible Generation assets to ensure reliability and system adequacy and to be prepared for increased balancing of renewable energy.
- **Customers and Solutions – innovative solutions for easier life and energy evolution.** The Group is investing in innovative solutions and platforms to help customers become more energy smart.

3.8 2020 to 2023 strategic plan

In furtherance of the Strategy described above, the Group has developed its "Strategic plan 2020-2023", which contains near term targets and strategic aims for the Group and its segments. Amongst other things, the "Strategic plan 2020-2023" sets out the investment plans for the Group through 2023, as set out in the following table:

Investments over 2020 to 2023 by segment

Segment	% of the Group's planned investments from 2020 to 2023	Group's planned investments from 2020 to 2023
Networks	40 to 45%	EUR 800 to 900 million
Green Generation	40 to 50%	EUR 700 to 1,000 million
Other	5 to 10%	EUR 85 to 200 million
Total	100%	EUR 1.7 to 2.0 billion

Other key targets in the 2020 to 2023 strategic plan include:

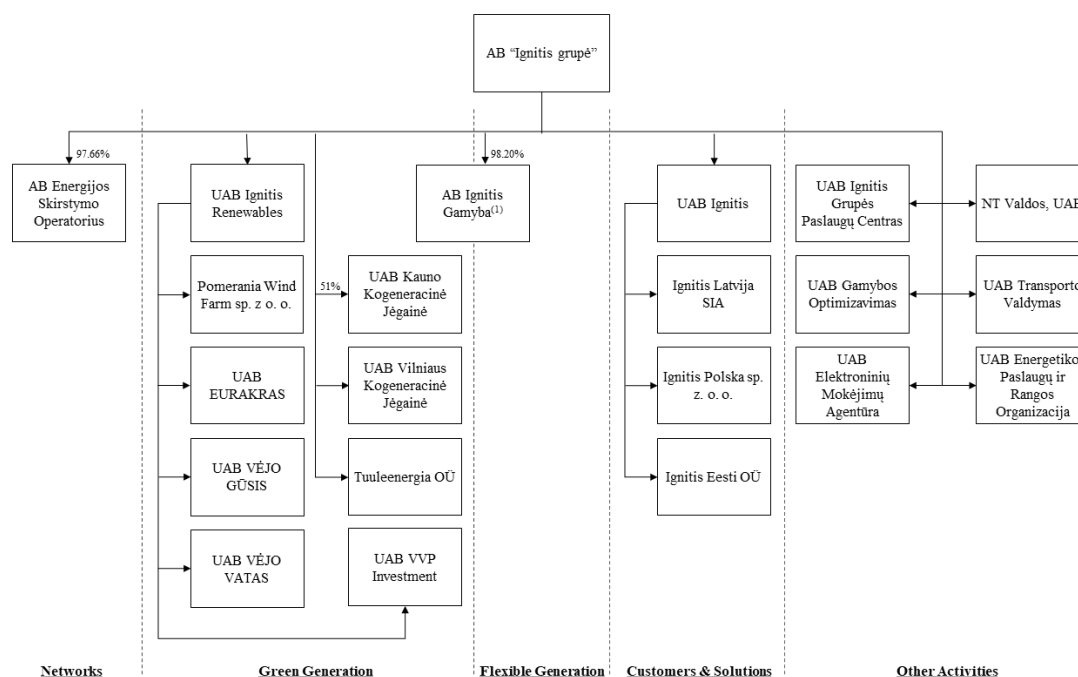
- growing green generation capacity to between 1.6 and 1.8 GW by 2023 (compared to 1.1 GW as at 31 December 2019);
- reducing net CO₂ emissions in line with detailed plan to be aligned with the Science Based Targets Initiative by 2021;
- reducing the SAIFI quality indicator for the electricity distribution network to between 1.09 and 1.11 interruptions per customer by 2023 (compared to 1.31 in 2019);
- installing between 1.1 and 1.2 million smart meters by 2023;
- maintaining the Group's market-leading position for the provision of ancillary services to the TSO in Lithuania;
- growing the retail sales volumes of electricity and gas by between 10 and 20 per cent.;
- maintaining a strong safety record with zero fatal accidents at work;
- maintaining an A+ Corporate Governance Index rating;
- achieving stable or positive development with respect to the Group's Employee Net Promoter Score (29.5 in 2019);
- maintaining a credit rating of BBB or above; and
- maintaining a net debt to EBITDA ratio of less than 5x.

4. ORGANISATIONAL STRUCTURE

4.1 Overview of corporate structure

As at the Latest Practicable Date, the Group consisted of the Company and 21 fully consolidated subsidiaries. The Company is the Group's parent company and is responsible for the co-ordination of its activities and the transparent management of the Group.

The chart below sets out the Group's corporate structure as at the Latest Practicable Date.



Note:

(1) AB Ignitis Gamyba performs functions for both the Group's Green Generation and Flexible Generation segments.

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, ESO. The activities relating to public supply of electricity were transferred from ESO to IGN on 1 October 2018, and the other businesses now comprised within the Customers and Solutions segment (previously operated by Energijos tiekimas, Lietuvos dujų tiekimas, LITGAS and Energijos sprendimu centras) were consolidated under IGN. The Group believes that the consolidation of the Customers and Solutions businesses under IGN created better value added for both its private and business customers, by facilitating the development of diversified higher quality services, and allowing the Group to better prepare for the deregulation of the public supply of electricity market. Please see paragraph 6.4 of this Part 4 ("*Business Overview*") below. The Group's electricity generation activity was concentrated in GEN and UAB "Ignitis renewables" ("**REN**"). REN now coordinates all of the Group's wind farm operations as well as managing the Group's wind development projects across all countries. The provision of information technology, accounting, telecommunications, legal and other services concentrated under UAB "Ignitis grupės paslaugų centras".

The Group is in the process of winding down non-core activities, a process which the Group commenced in 2017 and which has already resulted in the sale of two previous non-core businesses. Remaining non-core businesses currently in the process of being wound down include those conducted by UAB Energetikos paslaugų ir rangos organizacija ("**EPR**"), NT Valdos, UAB ("**NTV**") and UAB "Transporto valdymas" ("**TPV**"). Please see paragraph 6.6 of this Part 4 ("*Business Overview*") below.

Two of the Group's principal subsidiaries, ESO and GEN, were previously each listed separately on the main market of the Nasdaq Vilnius Stock Exchange, with approximately 5.02 per cent. and 3.18 per cent. of their respective shares trading publicly (with the remainder owned by the Company). Both ESO and GEN were delisted in July 2020. The mandatory buyout procedures in respect of GEN were completed in August 2020 and the squeeze out procedures in the court are expected to be initiated by the Company during the course of September 2020. The mandatory buyout procedures in respect of ESO have been frozen by a court resolution in the legal proceedings brought by a minority shareholder of ESO in respect of the price to be paid for his shares in the mandatory buyout. When the court unfreezes the mandatory buyout procedures and the mandatory buyout of ESO shares is completed, the squeeze out procedures in

the court will be initiated by the Company. See paragraph 12.2(f) of Part 4 ("*Business Overview*") for further information relating to the proceedings arising from the mandatory buyout of GEN and ESO.

4.2 Relationship with the Principal Shareholder

As at the date of this Document, the Republic of Lithuania, through the Ministry of Finance of the Republic of Lithuania (the "**Principal Shareholder**") is the sole shareholder of the Company.

The relationship between the Principal Shareholder and the Company is managed primarily through members of the Company's Supervisory Board, which is comprised of seven members – two of whom are nominated by the Ministry of Finance and represent the Principal Shareholder and five of whom are independent members.

Please see paragraph 1 of Part 8 ("*Relationship with the Principal Shareholder and Related Party Transactions*") for further details with respect to the relationship between the Company and the Principal Shareholder.

5. HISTORY AND DEVELOPMENT OF THE GROUP

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

- 1995 AB Lietuvos Energija (now merged into the Group subsidiary GEN) is established, with ownership of electricity transmission and distribution networks, four electricity power plants (including Elektrėnai Complex, Kaunas HPP, Kruonis PSHP and Mažeikiai TE), heating networks, two thermal power plants located in Vilnius and Kaunas and energy construction and services subsidiaries.
- 2001 Assets are separated from AB Lietuvos Energija and transferred to other state-owned companies such that it remains only as a TSO but also retaining the hydro generation capacities of Kaunas HPP and Kruonis PSHP.
- 2008 The Company is incorporated, originally to carry out preparatory works ahead of the previously planned construction of a nuclear power plant.
- 2009 Litgrid AB is formed as a subsidiary of AB Lietuvos Energija to take over the TSO function.
- 2010 The energy sector's reorganisation plan is approved by the Government of Lithuania and implementation of the provisions of the Third Energy Package of the EU commences, requiring, amongst other things, regulated third party access to the grid and the unbundling of electricity and gas distribution from transmission, generation and sale and the unbundling of electricity and gas transmission from generation and sale.

By way of share contributions of the relevant holding companies, the Group becomes the owner and operator of the Lithuanian electricity distribution network and the Elektrėnai Complex.

AB LESTO (the electricity DSO, now merged into ESO and a part of the Networks segment) is formed as a subsidiary of the Company.
- 2011 Lietuvos energija AB (now GEN) is established through the merger of AB Lietuvos Energija (owner of Kaunas HPP and Kruonis PSHP, now part of the Green Generation segment) and the holding company of the Elektrėnai Complex (now within the Flexible Generation segment), marking the end of the process of formation of the Group's power generation unit.
- 2012 The proposal to build a new nuclear power plant in Lithuania is rejected in a referendum, bringing about a change in the Company's strategic direction.

UAB EPSO-G, wholly owned by the Ministry of Energy, is established and acquires the TSO Litgrid AB from the Group.

- 2013 Lietuvos energija AB is renamed AB Lietuvos energijos gamyba (GEN), reflecting the underlying generation business (gamyba means "generation" in Lithuanian).
The legal name of the Company is changed to Lietuvos Energija UAB.
- 2014 The Group is selected as the designated supplier to the Klaipėda LNG Terminal.
The Company acquires AB Lietuvos Dujos, the operator of the Lithuanian natural gas distribution network (now merged into ESO and part of the Networks segment), as well as gas supply and trading business (now part of the Customers and Solutions segment).
The Group initiates its waste-to-energy/biomass CHP plant developments in Vilnius and Kaunas (part of the Green Generation segment); partnership with Fortum is established in respect of the Kaunas CHP project.
- 2016 The Group acquires its first two wind farms, in Lithuania and Estonia, respectively.
ESO is established as a result of the merger of AB LESTO and AB Lietuvos Dujos, resulting in the current structure of the Group's Networks segment.
- 2017 The Group expands its trading activities into Poland following the receipt by the Company's indirect Polish subsidiary of a licence to engage in this activity.
The Group establishes the Smart Energy Fund to invest in start-ups developing new energy technologies.
The Group makes its capital markets debut with the issue of its first green bonds in July 2017.
- 2018 The Group adopts its transformational strategy for the period to 2030, with the aim to:
- increase green generation capacity;
 - expand operations in international markets; and
 - develop and introduce innovations in the energy sector.
- The Group also acquires two additional wind farms in Lithuania and the wind farm project in Mažeikiai, Lithuania.
- 2019 The legal name of the Company is changed from Lietuvos Energija UAB to UAB "Ignitis grupė" and all Group companies are united under the Ignitis brand.
The Group completes a corporate reorganisation to better align its subsidiaries by business segment, including the consolidation of the Group's Customers and Solutions businesses under IGN and the consolidation of the Group's wind assets under REN.
The Group enters the Polish renewables market through the acquisition of a development project for the Group's first wind farm in Poland; construction on this project commences.
The Group launched tender for a strategic partner for the development of offshore wind energy projects.
The process of delisting the shares of the subsidiaries ESO and GEN from the Nasdaq Vilnius Stock Exchange is initiated.

- 2020
- January – The Group enters the gas supply market in Finland, becoming one of the first independent gas suppliers in the country.
 - January – The Group started the installation of the largest 3 MW solar power plant in the Baltic states.
 - March – The Group receives permission from the Government to proceed with its IPO.
 - June – The Group updates its Strategy and publishes its 2020-2023 strategic plan.
 - July – Delisting of shares of ESO and GEN from the Nasdaq Vilnius Stock Exchange is completed.
 - August – The Kaunas CHP Plant commences commercial operations.

6. THE GROUP'S BUSINESS

The Group's business segments were updated in 2019. The current four principal business segments are: (i) Networks, (ii) Green Generation; (iii) Flexible Generation; and (iv) Customers and Solutions.

6.1 Networks

(a) Overview

The Networks segment comprises the Group's electricity and gas distribution businesses. The core activities in this segment are to operate, maintain, manage and develop electricity and gas distribution networks in Lithuania and to ensure their safe and reliable operation. The Networks segment is the largest single contributor to the Group's EBITDA and the second largest contributor to the Group's revenue. Overall, this segment represented 40 per cent. of the Group's revenue and 74.9 per cent. of the Group's adjusted EBITDA in the six-month period ended 30 June 2020 and 37.9 per cent. of the Group's revenue and 69.5 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019 (35.6 per cent. and 76.3 per cent., respectively, in the year ended 31 December 2018).

The following table sets forth the breakdown of the Networks segment adjusted EBITDA between electricity and gas, as well as the adjusted EBITDA margin for the Networks segment during the period under review:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR million, except for percentage)</i>				
Electricity	133.2	139.6	156.4	76.5	84.2
Gas	17.7	29.2	24.1	11.7	12.5
Total	150.9	168.8	180.5	88.2	96.7
Adjusted EBITDA margin	29.5%	38.4%	38.8%	38.5%	40.7%

Currently, the key initiatives in support of the Group's strategy for this segment include the modernisation and renewal of its electricity distribution network (including replacing overhead lines with underground cables or isolated cables), new connections and upgrades and implementation of smart meter roll-out. Other key current initiatives include:

- digitisation projects, such as ESO's "Data Hub" platform, which will provide information about the customers and their electricity consumption habits and allow suppliers to prepare tailored offers and solutions for each customer. ESO launched a trial of this platform in 2020 and expects to launch it more widely in 2023;
- the asset management system, designed to implement a single technological asset management information system intended for storage of representative data on distribution networks, in order to facilitate active asset management and the transition to automated management of network maintenance works; the contract for this project is anticipated to be signed in the fourth quarter of 2020 and due to be completed around the first quarter of 2023;

- improvement of the geographic information system for electricity and gas, in order to implement a single geographic information system that will allow ESO engineers to more efficiently perform equipment monitoring, plan required investments and network maintenance operations, plan faster connections of new customers and manage electricity losses more efficiently; initial migration of gas data and electricity data was completed by the second quarter of 2020 and the any remaining work is expected to be completed by the fourth quarter of 2021, and the implementation of new functionalities is due to be completed around the fourth quarter of 2022;
- voltage quality analysers, in order to analyse and later adopt technological solutions regarding voltage directions and interruptions and improvement of other network quality parameters; the first phase of the project is due to be completed around the first quarter of 2021 and the second phase of the project is due to be completed around the first quarter of 2022; and
- installation of the self-healing network equipment, i.e. devices that would independently, without the dispatcher's intervention, detect the section of damaged network and disconnect (isolate) it from the system; the installation is due to be completed around the second quarter of 2021.

The Networks segment is principally operated by the Group's subsidiary, ESO. Pursuant to its strategic plan, between 2020 and 2023, the Group expects to make investments of EUR 1.7 to 2.0 billion, of which approximately 40 to 45 per cent. will be in the Networks segment. Approximately 45 to 50 per cent. of such planned investments in the Network segments will be allocated for maintenance work, with 57 per cent. of such allocation used for replacing lines and cables, 21 per cent. for the maintenance of the 10/0.4kV substations, 17 per cent. for the maintenance of the 110/35/10kV substations and the remaining 5 per cent. for other related items, such as supplementary equipment, voltage analysers and network management system. The Networks segment ten-year investment plan for 2020 to 2029 includes projected investments of approximately EUR 1.9 billion (EUR 1.7 billion in the electricity distribution network and EUR 215 million in the gas distribution network).

(b) *Distribution of electricity*

(i) *Overview and key operating indicators*

The Group, through its subsidiary, ESO, is the primary distributor of electricity in Lithuania, distributing electricity to approximately 1.8 million connection points covering an area of approximately 65,300 square kilometres (which represents substantially all consumers in Lithuania). The distribution network in Lithuania involves the transfer of electricity from the high voltage (330 to 110 kV) transmission grid (which is owned by the TSO) over medium (35 to 10 kV) and low (10 to 0.4 kV) voltage grids to the ultimate consumers of electricity. Although ESO is distribution system operator (DSO), the Company provides electricity transportation services to its customers, which includes both transmission and distribution service. The customer pays the accumulated service fee, which includes transmission and distribution service. The transmission part is later transferred to the transmission system operator (TSO, LITGRID). Transmission costs are recognised on a pass through principle. ESO's electricity distribution network covers the entire territory of Lithuania and comprises approximately 125,498 kilometres of electricity lines, of which 68.7 per cent. consist of overhead lines and 31.3 per cent. consist of underground electricity cables. ESO's volume of electricity distributed in 2019 comprises approximately 85 per cent. of total annual electricity consumption in Lithuania.

In the year ended 31 December 2019, approximately 30 per cent. of electricity distributed by the Group was consumed by private residential customers with approximately 70 per cent. consumed by industrial and other business customers. The Group's key distribution quality indicators, the System Average Interruption Duration Index ("**SAIDI**") and the System Average Interruption Frequency Index ("**SAIFI**"), each improved in 2018 compared to 2017 as a result of closer cooperation with meteorologists, the digitalisation of the management of dispatch control centres, improved customer service and greater efficiency and effectiveness in the organisation of breakdown removal services, while they deteriorated in 2019 compared with 2018 primarily as a result of increased breakdowns in the medium voltage grids, caused by abnormal weather conditions and fallen trees, as well as a change in SAIFI/SAIDI standards after fully implementing DMS project and centralising the regional dispatch control centres. Despite the deterioration in 2019 compared with 2018, the Group has seen overall improvement in SAIDI in recent years (which was 172.9 in 2016, representing an approximately 50 per cent. reduction from 2016 to 2019), while SAIFI has remained at about the same level (which was 1.250

in 2016). In the six months ended 30 June 2020 SAIDI/SAIFI ratios significantly deteriorated and were 179.23 minutes/0.87 units, compared to 51.26 minutes/0.69 units, respectively, in the six months ended 30 June 2019 as a result of storm Laura in March 2020, which increased SAIDI by 128.25 minutes and SAIFI by 0.19 units. Storm Laura was the strongest storm in Lithuania since hurricane Erwin in 2005, with record whirlwind winds of 28-31 m/s leaving more than 250,000 residents without electricity. More than 90 percent of the storm's consequences were eliminated and electricity was restored in record time of within two to three days.

The Group targets to shorten SAIDI and reduce SAIFI to 85 and 0.83, respectively, by 2025.

The Group expects that its current investments in service quality and network efficiency will improve the distribution network resilience, resulting in an expected decline of the SAIFI indicator by 3 to 5 per cent. annually.

The table below sets out the Networks operating segment's key operating indicators of the electricity distribution business for the years indicated:

Key Operating Indicators – Networks Segment – Electricity Distribution

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Operating Indicators						
Electricity distributed	TWh	9.22	9.59	9.55	4.81	4.69
Electricity distribution network	th. Km	125.15	125.08	125.50	125.13	125.86
New connection points and upgrades ⁽¹⁾	th	29.6	31.0	40.2	19.0	18.3
Time to connect (average)	c.d.	45.9	46.3	32.0	34.4	27.8
Technological costs in electricity distribution network ⁽²⁾	%	6.16	5.96	6.29	5.99	5.58
Supply of last resort ⁽³⁾	TWh	0.41	0.51	0.47	0.25	0.22
SAIDI	min.	137.83	81.37	91.79	51.26	179.23
SAIFI	units	1.32	1.14	1.31	0.69	0.87

Notes:

- (1) Includes the new connection points and upgrades for prosumers of 0.2, 0.7 and 2.3 thousand in the years ended 2017, 2018 and 2019, respectively.
- (2) As percentage of electricity distributed.
- (3) Supply of last resort is a supply of electricity to customers who do not have an agreement with independent suppliers or whose selected independent supplier does not fulfil its obligations or otherwise terminates its electricity supply activities. Supply of last resort is a part of DSO activity, which costs are included to regulated DSO tariff on a pass through basis.

The Group has seen an overall declining trend in technological costs in electricity distribution network in recent years, with the reported costs in the year ended 31 December 2018 being lower due to one-off changes in the declaration of electricity consumed by the B2C segment that year.

Approximately 95 per cent. of maintenance activities for the electricity distribution network are outsourced to third party contractors. The Group engages numerous contractors who are assigned to the maintenance of specific zones, with contract terms of up to three years, on average. Please see paragraph 1.19 of the section titled "*Risk Factors*".

(ii) *Electricity customers and pricing*

Tariffs for electricity distribution are regulated by the NERC by establishing the upper limit (price cap) for tariffs of the distribution services. After upper limits of transmission related and distribution services are approved by the NERC, ESO calculates specific prices of the distribution service for certain groups of customers. Specific prices for distribution are differentiated based on several aspects: the type of the client (private/business), the consumption level, the utilisation of maximum capacity, time of network's use and other factors. Specific prices are calculated by ESO and approved by the NERC as well and, together with PSO component, are applied to all customers according to the established price groups.

The NERC sets price caps for the provision of network services annually on an ex ante basis with WACC set for five-year periods (subject to the cost of debt component being recalculated annually) on the basis

of a reasonable return on the RAB. The current regulatory period for electricity runs through the end of 2021. The allowed tariffs are calculated to reflect operating expenses and taxes (other than corporate income tax), technological losses, RAB depreciation and amortisation and a reasonable return comprising the RAB times the WACC. The allowed annual regulated revenue level is decreased by planned income from supply of last resort activities and other services, such as reactive power service. The allowed annual regulated revenue level is also adjusted by the excess/lack of profit amount for the previous price setting period (for example, where there has been an excess profit due to actual operating expenses being lower than those forecast when setting the tariff). The total annual planned regulated revenue level is divided by planned consumption volumes to calculate the price cap of the distribution service. Price caps are calculated separately for medium and low voltage distribution service.

The following chart illustrates the principal formula for establishing the electricity distribution tariff under the regulatory framework:

$$\begin{aligned}
 & \textbf{Tariff Formula} \\
 & \text{Operating Expenses (+)} \\
 & \text{Technological Losses (+)} \\
 & \text{Depreciation and Amortisation (+)} \\
 & \text{ROI = RAB x Rate of Return (WACC) (+)} \\
 & \text{Temporary Regulatory Differences (+)} \\
 & \text{Supply of Last Resort and Reactive Power Income (-)} \\
 & \quad \div \\
 & \text{Distributed Volume of Energy (kWh)} \\
 & \quad = \\
 & \text{Price Cap (ct/kWh)}
 \end{aligned}$$

Based on the current regulatory model, most of Networks segment EBITDA depends on the RAB value times the WACC and the calculation of depreciation and amortisation. These two components deliver the majority of Networks segment EBITDA. Other costs are generally included in the tariff on the pass through principle.

For electricity, the RAB component includes two parts: (i) the RAB value of feeders and transformers, which were fully depreciated since the introduction of the LRAIC model in 2016 or will be fully depreciated within the current regulatory period and are valued applying the LRAIC model, and (ii) the RAB value of the remainder of the assets (new customer connections and upgrades, feeders and transformers, which will be fully depreciated within upcoming regulatory periods, meters, transport infrastructure, information systems, etc.), which is calculated applying the historical cost approach. In 2020, approximately 50 per cent. of the distribution assets RAB is calculated using the LRAIC model while the other 50 per cent. is calculated using the historical cost model (compared to 47 per cent. and 53 per cent., respectively, in 2019).

The RAB for the portion of the electricity distribution assets calculated using the LRAIC model amounted to EUR 706 million as at 1 January 2020 (compared to EUR 576 million as at 1 January 2019 and EUR 445 million as at 1 January 2018). The RAB for the portion of the electricity distribution assets calculated using the historical cost model amounted to EUR 695 million as at 1 January 2020 (compared to EUR 651 million as at 1 January 2019 and EUR 592 million as at 1 January 2018).

Please see paragraph 4.1(a) of Part 5 ("*Operating and Financial Review*") for a more detailed discussion of the regulatory pricing model for the Group's Networks segment, including the application of the LRAIC model.

The current regulatory period for electricity was originally due to expire at the end of 2020 but was extended for one year as the NERC is currently preparing for the new regulatory period.

(iii) *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 NERC. Please see also paragraph 2.3 of Part 7 ("*Regulation*").

(iv) *Electricity distribution investment plans*

The Group has made investments of approximately EUR 190 million, EUR 213 million and EUR 126 million into its electricity distribution network in the years ended 31 December 2017, 2018 and 2019, respectively, and is planning to continue to significantly modernise its electricity distribution network. Pursuant to its strategic plan, the Group plans to invest approximately EUR 710 million to EUR 800 million over the period 2020 to 2023 and EUR 1.7 billion over the period 2020 to 2029 in the modernisation and renewal of its electricity distribution network. ESO's current 10 year investment plan is focused on network reliability and resilience, new connection points and upgrades, upgrade to smart grid, customer experiences and market facilitation. These investments will aim to significantly improve the resilience of the network to force majeure events and to enhance its intelligence, efficiency and network security.

A significant proportion of this investment is currently intended to improve the resistance of the network to adverse weather conditions by replacing overhead lines with underground isolated cables. Over the next 10 years, underground isolated cables are expected to increase by 11 thousand kilometres, which will bring the expected share of underground cables to 36 per cent. by 2023 and 44 per cent. by 2029 (whereas the share of underground cables as at 31 December 2019 was 31 per cent.).

The Group plans to implement smart grid projects. Several projects are expected to be implemented by 2028 including the automation of the grid, the creation of a single correspondent centre and the installation of an asset management system for the distribution network, in order to facilitate active asset management and the transition to automated management of network maintenance works. Implementation of the Group's smart meter roll-out is expected to be substantially completed for customers consuming more than 1000 kWh per year by 2023, when the Group expects to have installed approximately 1.2 million smart meters. The roll-out of the smart meters is expected to:

- reduce technological and commercial losses as informed by real-time consumption data;
- reduce maintenance costs given the remote monitoring and control functions of the network;
- provide consumption analysis that informs more efficient investments in the maintenance, reconstruction and expansion of the grid;
- help customers to save energy as they have more clarity in their energy consumption; and
- facilitate the market by ensuring the smooth functioning of the retail energy market and equivalent conditions for all market participants.

(c) ***Distribution of Gas***

(i) *Overview and key operating indicators*

The Group, through ESO, distributed natural gas to approximately 0.6 million customers as at 31 December 2019. As at 31 December 2019, the Group owned and operated approximately 9,500 kilometres of gas distribution pipelines in Lithuania. In the year ended 31 December 2019, the Group distributed 6.97 TWh of natural gas to consumers, representing a decrease of 8.29 per cent. or 0.63 TWh compared to 2018 (and a 3 per cent. or 0.23 TWh decrease compared to 2017). In the six months ended 30 June 2020, gas distribution decreased and was 3.59 TWh, compared to 3.80 TWh in the six months ended 30 June 2019. Gas distribution volumes decreased over the past few years, primarily due to higher average weather temperatures. The Group does not distribute gas to consumers in any other country.

The table below sets out the Networks operating segment's key operating indicators of the gas distribution business at the dates indicated:

Key Operating Indicators – Networks Segment – Gas Distribution

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Operating Indicators						
Distributed volume of natural gas	TWh	7.37	7.60	6.97	3.80	3.59
Gas distribution network	th. Km	8.30	8.95	9.48	9.20	9.59
Technological costs in gas distribution network ⁽¹⁾	%	2.1	2.1	2.2	1.9	2.2
New connection points and upgrades	th	12.5	14.7	11.8	5.85	4.03
Time to connect (average)	c.d.	146.2	87.7	65.1	63.6	54.1
SAIDI	min.	1.16	0.61	1.25	0.68	0.24
SAIFI	units	0.007	0.006	0.008	0.005	0.003

Note:

(1) As percentage of gas distributed.

Deterioration of the SAIDI and SAIFI quality indicators in 2019 mainly resulted from third party interruption to the network, which affected more customers, compared to 2018. Also, the overall trends of SAIDI and SAIFI in recent years have shown that there is limited space for improvement (with SAIDI and SAIFI being 0.53 and 0.006, respectively, in the year ended 31 December 2016). In the six months ended 30 June 2020, the SAIDI ratio improved and was 0.24 minutes, compared to 0.68 in the six months ended 30 June 2019; SAIFI improved accordingly from 0.005 in the six months ended 30 June 2019 to 0.003 in the six months ended 30 June 2020, primarily as a result of third party supply disruptions for a smaller number of customers compared with the same period in the prior year.

Gas distribution activity is regulated on the basis of RAB (based on historical cost model), which mainly consists of assets with long useful life (e.g. gas pipelines). The RAB of gas amounted to EUR 227 million as at 1 January 2020 (compared to EUR 189 million as at 1 January 2019 and EUR 144 million as at 1 January 2018).

The Group, through ESO, is responsible for the safe and reliable operation of its gas distribution network. Approximately 90 per cent. of maintenance activities for the gas distribution network are outsourced to third party contractors. The Group engages numerous contractors who are assigned to the maintenance of specific zones, with contract terms of up to three years, on average. Please see paragraph 1.19 of the section titled "*Risk Factors*".

(ii) *Gas customers and pricing*

Tariffs for gas distribution are regulated by establishing the upper limit for tariffs of the distribution services. Specific prices for distribution are established by the Group within the limits approved by the NERC.

Distribution service prices are differentiated as distribution services and apply to all customers according to the established price groups, which are determined based on annual consumption volumes.

The NERC sets price caps for the provision of network services for five-year periods on the basis of a reasonable return on the RAB. The current regulatory period for gas runs until the end of 2023. The allowed tariffs are calculated to reflect operating expenses and taxes, technological losses, RAB depreciation and amortisation and a reasonable return based on the RAB times the WACC. Generally, the regulatory pricing mechanism for natural gas is the same as that for electricity as described above, save that for gas the RAB value is determined solely on the historical cost approach.

Please see paragraph 4.1(a) of Part 5 ("*Operating and Financial Review*") for a more detailed discussion of the regulatory pricing model for the Group's Networks segment.

(iii) *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 NERC for an indefinite period. Prices for gas distribution services are also regulated by the NERC, as discussed above in paragraph 6.1(c)(ii) of this Part 4 ("*Business Overview*"). Please see also paragraph 2.3 of Part 7 ("*Regulation*").

(iv) *Gas distribution investment plans*

In 2019, the cost of development, construction and reconstruction of gas systems amounted to EUR 53 million, a decrease of 7.5 per cent. compared to 2018. In 2019, ESO constructed 505.5 kilometres of gas distribution pipelines (2018: 614.2 kilometres) for new connection points and upgrades to the gas network and connected 11,793 new connection points and upgrades to gas pipelines, which is 20 per cent. less than in 2018 when 14,741 new connection points and upgrades were connected.

The Group has made investments of approximately EUR 37 million, EUR 57 million and EUR 53 million into the gas distribution network in the years ended 31 December 2017, 2018 and 2019, respectively. According to the new ten-year investment plan for 2020 to 2029, the projected investments in the gas distribution network total approximately EUR 90 million to EUR 100 million and EUR 215 million over the 2020 to 2023 and 2020 to 2029 periods, respectively. There is expected to be slower growth in the number of new connection points in the gas segment due to increased connection fees.

6.2 **Green Generation**

(a) *Overview*

The Group's Green Generation segment is focused on the generation of electricity through renewable energy sources, and is the Group's key driver towards sustainable growth and decarbonisation. It is a key part of the Group's commitment to reduce net carbon dioxide (CO₂) emissions to zero by 2050, in line with the "Business Ambition for 1.5°C" initiative of the United Nations and other international organisations that the Group joined in 2019. The Group promotes the use of renewable energy sources and contributes to the initiatives intended to address climate change and the achievement of sustainable development goals. This also aligns with the Group's commitment to fundamental ESG principles, as the Group seeks to create a sustainable generation platform, supporting and connecting local communities, with the support of a robust and transparent corporate governance framework.

With a core focus on the Baltic region and Poland, the Green Generation portfolio currently consists of 1.1 GW of total installed capacity, comprising:

- two hydro power plants in Lithuania, being Kruonis PSHP and Kaunas HPP, with a total installed capacity of 1,000.8 MW;
- four operating onshore wind farms in Lithuania and Estonia with a total installed capacity of 76.0 MW;
- a waste-to-energy/biomass CHP Plant in Lithuania, being the Kaunas CHP Plant, with 24 MW installed electrical capacity and 70 MW thermal capacity (commenced commercial operations in August 2020); and
- the biomass boiler at the Elektrėnai Complex with a 40 MW installed thermal capacity.

In addition to these operating assets, the Green Generation portfolio contains projects representing an additional 249.0 MW of electrical capacity (and 229.0 MW of thermal capacity) under construction, including two additional onshore wind farms (in Poland and Lithuania, respectively) and the waste-to-energy/biomass Vilnius CHP plant in Lithuania. The Group's pipeline to meet its 2023 target also includes projects of approximately 200 MW in capacity in respect of which letters of intent have been signed with Polish solar energy developers. This leaves a residual target of 50 to 250 MW additional projects in order to reach the Group's Green Generation capacity target for 2023, which the Group believes it will be able to achieve based on a residual pipeline of projects under negotiation or consideration representing more than 1 GW in aggregate capacity.

For its post-2023 targets, the Group has signed an LOI with a leading offshore wind specialist to develop a 700 MW offshore wind project in Lithuania (the partner is expected to hold 49 per cent. of the shares in the project, with the Group holding 51 per cent.). In addition to that, the Group has the option to expand the Kruonis PSHP by up to an additional 225 MW.

The Group expects that the expansion of its green generation portfolio will be driven by wind (both onshore and offshore) and solar power. In implementing this expansion, the Group will be able to

leverage the significant experience and technical know-how gained from the development of its current projects nearing completion.

The Group's Green Generation projects under construction amount to approximately EUR 350 million, representing 35 to 50 per cent. of the Group's projected investments in the Green Generation segment from 2020 to 2023, with the remaining 50 to 65 per cent. available for other pipeline projects in order to reach the Group's installed Green Generation capacity target.

The Group's target is to reach 1.6 to 1.8 GW of installed Green Generation capacity by 2023 and 4 GW of installed Green Generation capacity by 2030. Although this segment represented 7.6 per cent. of the Group's revenue and 16.7 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019, the Company expects that this segment will represent a key growth driver for the Group and that the portion of revenue and EBITDA that this segment represents will increase over the near to medium term. The Company expects that the majority of the revenues attributable to this expansion this will be based either on long-term contracts (such as the new Polish wind farm, which will benefit from an indexed CfD (contract for differences) tariff expiring in 2035) or on market prices (such as a majority of the electricity generation from the new waste-to-energy/biomass CHP plants, which will also produce heat and incinerate waste for Vilnius and Kaunas regions, as well as the electricity generation from the wind farm project in Māžeikiai).

The following table sets forth the breakdown of the Green Generation segment adjusted EBITDA by type of energy, as well as the adjusted EBITDA margin for the Green Generation segment during the period under review:

Green Generation Segment Adjusted EBITDA by Type of Energy*

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR million, except for percentage)</i>				
Wind	7.6	7.7	14.2	7.8	7.3
Hydro	27.4	30.0	30.0	15.8	17.6
Waste to energy(WtE)/ Biomass	1.1	0.4	(0.8)	0.5	(1.0)
Total adjusted EBITDA	36.1	38.1	43.4	24.0	23.8
Adjusted EBITDA margin	53.4%	49.7%	52.0%	63.2%	60.1%

* Calculation of Adjusted EBITDA by individual asset involves the allocation of revenues and expenses to the individual assets, which in turn requires management to make certain allocation assumptions.

Although currently the Group's generation and supply activities are separated, the Group anticipates that, in the future, it will utilise the extensive portfolio of supply customers in its Customers and Solutions segment as a route to market for new generation from the expansion of the Green Generation portfolio as well as for wind farms after the expiry of their subsidy schemes, using the supply portfolio as a natural hedge (with 0.5 TWh electricity generated (excluding Kruonis PSHP) as compared to the 5.4 TWh electricity supplied by the Group in the year ended 31 December 2019) for structuring internal PPAs with the Group's Customers and Solutions business.

The principal operating subsidiaries within the Green Generation segment are REN, which coordinates all of the Group's wind farm operations as well as the Group's renewable energy development projects across all countries; GEN, which operates the hydro power plants in Lithuania; and the two special purpose vehicles established by the Group to implement the two CHP plant projects, VKJ and KKJ.

The following table sets forth a breakdown of the total electricity generated by the Green Generation segment by type of energy for the years ended 31 December 2019, 31 December 2018 and 31 December 2017, as well as certain other key operating indicators:

Key Operating Indicators – Green Generation Segment

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Installed Capacity						
Electricity	Mwe	1,042.8	1,076.8	1,076.8	1,076.8	1,076.8
Hydro	Mwe	1,000.8	1,000.8	1,000.8	1,000.8	1,000.8
Wind	Mwe	42.0	76.0	76.0	76.0	76.0
Heat	MWth	40.0	40.0	40.0	40.0	40.0
Electricity generated	TWh	1.14	0.94	1.04	0.46	0.60
Total wind	TWh	0.13	0.12 ⁽¹⁾	0.23	0.12	0.13
Hydro	TWh	1.01	0.82	0.81	0.34	0.46
Waste	TWh	-	-	-	-	0.01
Wind farms availability factor	%	97%	99%	98%	97%	98%
Wind farms load factor	%	36%	28%	34%	35%	39%

Note:

- (1) Electricity generated in power plants owned by the Group. Electricity generated in two wind farms prior to their acquisition by the Group is excluded.

(b) Hydro power generation

The Group owns and operates two hydro power plants in Lithuania: Kruonis PSHP and Kaunas HPP. In the year ended 31 December 2019, its hydro power plants had an installed capacity of 1,000.8 MW of electricity.

The following table sets forth certain information regarding the Group's hydro power plants as at 31 December 2019:

Hydro Power Plant Details

Plant	Installed capacity (MW)	Units	Type of plant	Start of operation
Kruonis PSHP	900	4 units of 225 MW ⁽¹⁾	Pump storage	1992-1998 ⁽¹⁾
Kaunas HPP	100.8	4 units of 25.2 MW	Hydroelectric ("run-of-river")	1959 ⁽²⁾
Total installed capacity	1,000.8	N/A	N/A	N/A

Note:

- (1) Completion of the first turbine in 1992 and full completion in 1998.
(2) Major refurbishment completed in 2010.

Unit No. 2 of the Kruonis PSHP underwent an overhaul in 2018, which extended its expected asset useful. Kruonis PSHP and Kaunas HPP will both have an indefinite expected asset useful life as long as they are adequately maintained.

In the six months ended 30 June 2020, the Group's hydro power plants' generation was 0.46 TWh, compared to 0.34 TWh in the six months ended 30 June 2019. In the year ended 31 December 2019, the Group's hydro power plants generated 0.81 TWh of electricity, representing approximately 76.1 per cent. of the Group's total electricity generated, compared to 0.82 TWh or 80.8 per cent. of the Group's total electricity generated for the year ended 31 December 2018 and 1.01 TWh or 79.0 per cent. of the Group's total electricity generated in the year ended 31 December 2017.

The following table sets forth details of the electricity generation from each of Kruonis PSHP and Kaunas HPP in the years ended 31 December 2017, 31 December 2018, 31 December 2019 and the six-month periods ended 30 June 2019 and 30 June 2020:

Hydro Power Plant Generation

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Kruonis PSHP	TWh	0.55	0.47	0.54	0.17	0.32
Kaunas HPP	TWh	0.46	0.35	0.27	0.17	0.14

* 10-year (2010-2019) average of the electricity generation from Kaunas HPP - 0.37 TWh.

Kruonis PSHP is a pump storage plant with infrastructure supporting the installation of eight power units, where four have already been installed. Each unit has a fixed capacity of 225 MW in pump mode, while operational range in generator varies in the ranges of 40 to 60 MW and 160 to 225 MW with a cycle efficient use rate of 0.74.

With respect to the regulated activity, Kruonis PSHP is responsible for the provision of secondary power reserve to the TSO, with two units of Kruonis PSHP's capacity (450 MW of installed capacity, representing half of Kruonis PSHP's overall capacity) being allocated solely for this service. These two units generate electricity after activation of the secondary power reserve upon instruction of the TSO. The TSO can activate secondary reserve in the amount of up to 400 MW in 2020 for no more than 12 hours in a row. The Group's revenues from this segment are based on reserved capacity, rather than the actual amount of electricity generated. The volume of electricity related to the activation of the secondary power reserve services is relatively limited when compared to the total production volume of Kruonis PSHP.

The price cap set by the NERC covers 4/9 (i.e. 400 MW / 900 MW) of Kruonis PSHP's fixed costs. Covered costs include depreciation and amortisation expenses, while costs not eligible for compensation are negligible. The price cap also includes a reasonable rate of return calculated as RAB times WACC as set by the NERC. Due to the absence of competition and no existing tender process, the price contracted with the TSO is equal to the price cap.

Additionally, Kruonis PSHP and Kaunas HPP provide system recovery service to the TSO, which is designed to be used for the recovery of the electricity system when there is a sudden loss of power in the system or when there is a risk of an electricity "black-out". Kaunas HPP provides this service to the 110 kV grid, while Kruonis PSHP provides this service to the 330 kV grid. The price of this service, which is established by NERC and paid by the TSO, includes the costs of periodic tests of the power plants. The portion of Kruonis PSHP's capacity that is not reserved for the provision of secondary power reserve services to the TSO (comprising two units of Kruonis PSHP's capacity) and the capacity of Kaunas HPP are allocated to providing electricity on market terms.

With respect to Kruonis PSHP, production volume is significantly affected by the spread between "peak" and "off peak" prices. It pumps water using electricity when prices are lower (typically at night) and produces electricity when prices are higher (typically during the day), and typically generates only when the fluctuations between "peak" and "off peak" prices are sufficient to cover the efficiency rate of the plant.

With respect to Kaunas HPP, as the variable costs are lower, the Group generally generates whenever it is possible to do so, although it also utilises the "peak"/"off peak" model to the extent possible such that the plant produces more electricity during the "peak" hours. As the production volumes of the Kaunas HPP plant depend significantly on water flow, they are characterised by a certain seasonality and weather conditions that impact water flow. For example, in the year ended 31 December 2019, electricity generation at Kaunas HPP decreased by 21.8 per cent. compared to the year ended 31 December 2018, primarily due to the water flow in the Nemunas river being 23 per cent. lower. Additionally, the ability to regulate the volume of generation is limited by the Rules for Use and Maintenance of Kaunas HPP Reservoir approved by Environmental Protection Agency by Order of the Director of 29 July 2016 No. 215, the requirements of which restrict the fluctuations of water in the reservoir for environmental purposes. Kaunas HPP has four generators with a 25.2 MW capacity each, rotated by reactive turbines with flexible blades. One turbine allows a flow of up to 158 m³/s of water.

Hydro power plants have a high degree of flexibility in the regulation of their output. The ability to control hydro power plants centrally permits the hydro plants to commence and reduce operation rapidly thereby regulating electricity output. Additionally, neither conventional nor pump storage hydroelectric power plants release polluting emissions into the atmosphere. These plants also represent a relatively 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 or renewable energy generators by operating storage pumps in periods of low demand.

(i) *Customers and pricing*

The electricity produced at the Group's hydro power plants is mainly sold on the Nord Pool Exchange with prices governed by prevailing market prices for the Lithuanian price area. All non-regulated output

by Kaunas HPP is sold on the spot market in order to fully utilise its flexibility during peak hours. Operating expenses incurred for the Kaunas HPP during 2017 to 2019 were approximately EUR 1.1 million on average per annum. All non-regulated output by Kruonis PSHP is sold on the spot market only if a margin on top of the electricity acquisition price and efficiency loss can be earned. The EBITDA attributable to the non-regulated units during 2017 to 2019 was approximately EUR 10.6 million on average per annum. In addition, the exposure to the spot market provides the hydroelectric power plants an option to sell the power at elevated prices during stress events in the system (for example when import capacities are significantly reduced).

The table below sets out the RAB, WACC and depreciation and amortisation for Kruonis PSHP's regulated output for the periods indicated:

Kruonis PSHP – Regulated Output

		<u>2017</u>	<u>2018</u>	<u>2019</u>
RAB	EURm	38.6	37.1	37.3
WACC	%	5.05%	4.95%	5.00%
Depreciation and amortisation	EURm	1.6	1.6	1.7

Some additional volumes of balancing electricity may be sold to the TSO, in circumstances where a trading in imbalance occurs due to a scheduled power supplier failing to meet its electricity supply schedule. The latter quantities are bought by the TSO for each trading period by auction.

The price cap of secondary power reserve services is set by the NERC on a yearly basis. These services are bought by the TSO, with compensation based on the reserved capacity rather than the volume generated. The amount of secondary power reserve services provided by Kruonis PSHP is currently 400 MW (consistent with each of the past three financial years). Two units of Kruonis PSHP's capacity (representing 450 MW in capacity) are allocated solely to provide these secondary power reserve services. The price of electricity generated after activation of the secondary power reserve on the instructions of the TSO, based on the contract, is limited to the price of a specific hour on the electricity exchange multiplied by a factor established in the contract, which is 1.8.

(ii) *Hydro investment plans*

Development of hydro power generation in Lithuania is limited by the topography of the region and the Lithuanian Law on Water. As a result, other than the potential construction of a new unit in Kruonis PSHP, the Group does not currently expect to construct any new hydro power plants in Lithuania. There is technical possibility to construct four new units in Kruonis PSHP, and the additional unit that is being considered by the Group could increase the plant's capacity by up to 225 MW, subject to economic viability. However, no decision has been made at this time as to whether the Group will proceed with the construction of any new unit.

(c) *Wind power generation*

The Group owns four operating onshore wind farms in Lithuania and Estonia with a total installed capacity of 76.0 MW, two of which were purchased in the first quarter of 2016 and the remaining two at the end of 2018.

The following table sets forth the capacity, operating expenses (2019), average load factor (2017-2019) and timing for COD for the Group's operational wind assets:

	<u>Capacity</u> <u>(MW)</u>	<u>Operating expenses</u> <u>2019</u> <u>(EURk/MW)</u>	<u>Avg. Load Factor</u> <u>(%)</u>	<u>COD</u>
Eurakras	24	35	36%	2015
Tuuleenergia	18	29	32%	2013-14
Vejo Vatas	15	37	26%	2011
Vejo Gusis	19	34	28%	2010
Total capacity weighted average	76	33	31%	N/A

The following table sets forth the availability factor and the load factor of the Group's wind assets during the period under review:

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Wind farms availability factor	%	97%	99%	98%	97%	98%
Wind farms load factor	%	36%	28% ⁽¹⁾	34%	35%	39%

Note:

(1) Includes the full year results of Vejo Vatas and Vejo Gūsis, which were acquired by the Group on 5 November 2018.

The Group's onshore wind farms reached contractual availability of 98 per cent. in the year ended 31 December 2019, compared to 99 per cent. in the year ended 31 December 2018 and 97 per cent. in the year ended 31 December 2017.

Further details with respect to the Group's operating wind assets are provided in the table below:

Wind Farm Details

Wind farm	Operating company name	Number of turbines	Turbine type	Capacity per turbine (de-rated)	Year built	Operation and maintenance supplier	Operation and maintenance contract maturity date
1.	UAB Eurakras	8	Nordex N117-3000	3 MW	Dec. 2015	Nordex Energy GmbH	November 2031
2.	UAB Vējo vatas	7	ENERCON E-82	2.3 MW	Oct. 2011	ENERCON GmbH	August 2023
3.	UAB Vējo gūsis	11	ENERCON E-83	2 MW, 9 turbines,	Mar.- Dec. 2010	ENERCON GmbH	December 2021 and December 2022
			ENERCON E-53	0.33 MW, 1 turbine,			
			ENERCON E-33	0.8 MW, 1 Turbine			
4.	Tulleenergia OU	6	ENERCON E-101	3 MW	Nov. 2013 - May 2014	ENERCON GmbH	February 2030

Operation and maintenance services for the Group's wind turbines are fully outsourced to the turbine supplier companies, with operation and maintenance pricing set out in separate maintenance contracts entered into alongside the supply contracts. The maintenance of the balance of the wind farm assets are outsourced to certified local partners on the basis of long-term contracts. The Group's wind assets each have an expected asset useful life of up to 30 years given proper maintenance.

(i) *Customers and pricing*

The Group's existing wind farms have the benefit of renewable support subsidy schemes that provide fixed long-term contracts through an initial subsidy period. During the year ended 31 December 2019, the portion of revenue from the Group's wind farms earned from contracts with fixed long-term feed-in or feed-in-premium tariff was 87 per cent. (78 per cent. for 2018 and 80 per cent. for 2017, respectively). The remainder of revenue is earned from sales based solely on market prices (which during the period under review was attributable to the Group's Estonian wind farm, Tulleenergia).

The following table sets forth the applicable support schemes, subsidies and the expiration of the subsidy periods for each of the Group's four existing operating wind farms:

Support Scheme Details for the Group's Wind Farms

<u>Wind farm</u>	<u>Capacity (MW)</u>	<u>Scheme</u>	<u>Subsidy (EUR/MWh)</u>	<u>End of Subsidy</u>
Eurakras (Republic of Lithuania)	24	FiT	71.0	1 December 2027
Vejo Gusion (Republic of Lithuania)	19	FiT	86.9	1 March 2022 (9 MW) and 1 December 2022 (10 MW)
Tuuleenergia ⁽¹⁾ (Republic of Estonia)	18	FiP	53.7	1 December 2026
Vejo Vatas (Republic of Lithuania)	15	FiT	86.9	1 October 2023

Note:

- (1) 12 MW of the Tuuleenergia wind farm's capacity benefits from the FiP scheme while generation from the remaining 6 MW of capacity is sold at market prices without such support.

Electricity produced from the Group's wind farms in Lithuania is sold pursuant to fixed feed-in tariffs ("**FiT**"), which will expire between 2022 and 2027. Pursuant to the FiT scheme, the Group receives a fixed amount for each MWh of electricity sold and has no exposure to market prices.

The Group's Estonian wind farm, Tuuleenergia, benefits from a feed-in premium ("**FiP**") scheme whereby the Group receives a premium on top of the electricity market price. Electricity produced by the Estonian wind farm is sold on the Nord Pool Exchange through an intermediary, and the feed-in-premium tariff is settled by national transmission system operator Elering AS. As the FiP scheme involves a premium on top of market price, there is some exposure to both market prices and balancing.

(ii) *Wind investment plans*

Please see paragraph 6.2(e) of this Part 4 ("*Business Overview*") below.

(d) *Waste-to-energy and biomass*

Kaunas CHP plant

The Group developed the Kaunas CHP Plant jointly with Fortum, of which the Group owns 51 per cent. and Fortum owns the remaining 49 per cent. At the beginning of December 2017, the construction site for the Kaunas CHP Plant was opened in the Free Economic Zone in Kaunas, and the first construction work on the power plant was officially started. The Kaunas CHP Plant commenced commercial operation in August 2020, with a 24 MW electricity generation capacity and a 70 MW heat generation capacity and, following final testing once the heating season begins in October 2020, is expected to operate at full capacity in the fourth quarter of 2020.

According to the resolution of the Government of 28 May 2014, the project (along with the development of the Vilnius CHP Plant, which is currently under construction) was declared economic project of state significance and the Company was assigned to hold not less than 51 per cent. of shares of the CHP plant. The construction of the Kaunas CHP Plant was funded via a commercial bank loan and shareholders' equity. The project has incurred a cost of investment of EUR 157 million, of which EUR 21 million is expected to be accounted for in the second half of 2020. The Kaunas CHP Plant will support the implementation of the Circular Economy Strategy objectives set by the Commission and the Government, i.e. to dispose of only up to 5 per cent. of waste in landfills.

The new Kaunas CHP Plant is expected to both help resolve waste disposal problems in the region and lower heating bills for Kaunas residents. It is expected that the Kaunas CHP Plant will generate approximately 40 per cent. of the heat required by the Kaunas district and produce electricity meeting the needs of approximately 100,000 households. By incinerating approximately 200,000 tons of waste (around 50 per cent. municipal waste and around 50 per cent. non-hazardous industrial waste), the power plant is expected to generate approximately 170 GWh of electricity and produce approximately 500 GWh of heat annually.

The Kaunas CHP Plant is among the most modern in Europe in terms of environmental protection and energy generation technologies. The selected technology for the plant – high efficient cogeneration – will provide revenue from three main streams: (i) the selling of heat to city district heating networks (by way of monthly auctions), (ii) the selling of electricity on the Nord Pool Exchange or to IGN for activities

of the Group's Customers and Solutions segment and (iii) providing waste incineration services for regional waste treatment facilities and industrial companies (by way of mid-term auctions, and with an upper limit on price based on charges by landfills for tonnes of waste collected) for a local waste gate fee of EUR 35 per ton for municipal waste and EUR 54 per ton for industrial waste (which is lower than the landfill gate fee) based on the recent 12+12 month contracts secured with the suppliers for the 2020-2021 period. Revenue generated from municipal waste services and industrial waste services are each expected to contribute around half of the Kaunas CHP Plant's revenue from waste. Expected operating expenses of Kaunas CHP amount to approximately 0.44 m€MWe.

The following table sets forth the expected electricity generation, waste-to-energy/biomass and waste capacities and output of the Kaunas CHP Plant:

Capacity and Generation for the Kaunas CHP Plant

<u>Plant</u>	<u>Capacity – Electricity (MW)</u>	<u>Capacity – WtE/Biomass (MWth)</u>	<u>Capacity – Waste (tonnes)</u>	<u>Estimated electricity generation per annum (GWh)</u>	<u>Estimated heat generation per annum (GWh)</u>
Kaunas CHP	24	70	200,000*	170	500

* Around 50% municipal waste and around 50% non-hazardous industrial waste

The following table sets forth the historical local heat price for the city where the Kaunas CHP is located between 2017 to 2019:

		<u>Local Heat Price</u>		
		<u>2017</u>	<u>2018</u>	<u>2019</u>
Local heat price	EUR/MWh	21.70	24.70	25.12

Please see the paragraph titled "Green Generation Pipeline" of this Part 4 ("*Business Overview*") below for information on the Vilnius CHP Plant.

Elektrėnai biomass boiler

As discussed below in paragraph 6.3 of this Part 4 ("*Business Overview*"), the Elektrėnai Complex contains a biomass boiler house which produces only heat through the combustion of wood chip, straw and pellets and has an installed thermal capacity of 40.0 MW. In the year ended 31 December 2019, the Group burned 37,494 tons of biomass in the Elektrėnai Complex and generated 0.09 TWh of heat. In the six months ended 30 June 2020, heat generation from biomass was 0.06 TWh, approximately equal to the 0.06 TWh generation in the six months ended 30 June 2019. Heat was sold to UAB Elektrėnų komunalinis ūkis, UAB Kietaviškių gausa and others. Heat was sold according to the description of procedures and conditions of heat purchase from independent heat producers approved by NERC.

(e) ***Green Generation Pipeline***

The Group has a strategic target to reach 1.6 to 1.8 GW of installed Green Generation capacity by 2023 and 4 GW of installed Green Generation capacity by 2030, provided new developments satisfy the Group's return requirements and create additional value. In order to reach this target, the Group is continuously looking to expand its pipeline of green generation projects at various stages.

The Group's pipeline of projects currently under construction includes two wind farm developments with a combined capacity of approximately 157 MW and a waste-to-energy and biomass CHP plant with a capacity of approximately 92 MW of electricity generation capacity and 229 MW of heat generation capacity.

Additionally, the Group has signed letters of intent to acquire a pipeline of solar PV projects in Poland with a targeted combined installed capacity of approximately 200 MW by the end of 2023.

The Group is flexible with respect to the stage of the project lifecycle at which it invests, provided that the Group's return criteria are met. Its current development projects include greenfield projects (its CHP

plant projects), an early stage development project (the Mažeikiai wind farm) and a late stage development project (the Pomerania wind farm).

The following table sets forth details of the Group's Green Generation pipeline:

<u>Green Generation Pipeline</u>			
	<u>Capacity – Electricity (MW)</u>	<u>Capacity – Heat (MWth)</u>	<u>Estimated COD</u>
Under construction			
<i>Wind (onshore)</i>			
Pomerania	94	-	2021
Mažeikiai	63	-	2023
<i>Waste-to-energy / biomass</i>			
Vilnius CHP Plant	92	229	2021
Total under construction	249	229	-
LOIs signed			
Poland solar PV projects	~200	-	2022-2023
Lithuania offshore wind project	700	-	2028
Other opportunities			
Kruonis PSHP expansion	<225	-	Post-2023

(i) *Projects under construction*

Wind

The Group is in the process of constructing two additional onshore wind farms:

- the 94 MW onshore Pomerania wind farm in the Pomerania region of Poland, representing the Group's first wind farm project in Poland, which is currently under construction and is expected to be completed in 2021; and
- the 63 MW onshore Mažeikiai wind farm in the north-western part of Mažeikiai, Lithuania, in respect of which the Group has commenced construction earlier this year.

The following table sets for the capacity, expected operating expenses, expected average load factor and expected timing for COD for Pomerania and Mažeikiai:

	<u>Capacity (MW)</u>	<u>Expected operating expenses per annum (EURk/MW)</u>	<u>Exp. avg. load factor (%)</u>	<u>Expected COD</u>
Pomerania	94	38-42	40%	Q1 2021
Mažeikiai	63	24-28	40%	2023

The total investments required for these two wind farms is expected to be EUR 80 to 85 million (of which EUR 2 million has already been incurred as at 30 June 2020) for Mažeikiai and approximately EUR 130 million (of which EUR 90 million has already been incurred as at 30 June 2020) for Pomerania, in each case including acquisition of the projects. For discussion on the risks associated with the Group's construction projects, please see paragraph 1.4 of the section titled "*Risk Factors*".

In March 2020, the EIB allocated PLN 258 million (approximately EUR 59 million) for the development of Pomerania. The Group intends to fund the remaining project costs related to Pomerania and Mažeikiai using a combination of internal resources and additional external financing sources from capital markets (the Group currently anticipates to further secure 20 to 25 per cent. of debt financing for Pomerania in Autumn 2020), project financing or other corporate finance instruments (with a target of approximately 70 per cent. funding from external financing sources after debt sizing procedures after project finalisation).

The Pomerania wind farm will, once construction is completed, benefit from an inflation-indexed CfD (contract for differences) tariff at a guaranteed rate of PLN 214.98 per MWh (approximately EUR 48.5 per MWh), under the support scheme applicable for renewable energy projects in Poland which has already been awarded to the Group following the Pomerania project being selected as a winner in the basket for wind and PV installation projects of the renewable energy auction held by the Polish Energy

Regulatory Office on 5 November 2018. Pursuant to this arrangement, Zarządca Rozliczeń S.A. (a Polish state-owned company) will pay the Company the difference between the average market price and the CfD tariff. This arrangement is expected to expire at the end of 2035.

The following table sets forth the applicable support schemes, subsidies and the expiration of the subsidy periods for each of the Group's development wind farms:

Support Scheme Details for the Group's Wind Farms

<u>Wind farm</u>	<u>Capacity (MW)</u>	<u>Scheme</u>	<u>Subsidy (EUR/MWh)</u>	<u>End of Subsidy</u>
Pomerania	94	CfD	49* + CPI	2035
Mažeikiai	63	n/a	n/a	n/a

* 4.3921 PLN/EUR rate as of 31 August 2020

The Mažeikiai wind farm is expected to have a higher exposure to market prices; the pricing arrangements for this wind farm have not yet been confirmed, but it is likely that it will have reference at least in part to market prices.

Further details with respect to the Group's development wind assets are provided in the table below (certain details with respect to Mažeikiai have not been determined as at the date of this Document as wind turbine procurement procedures have not been completed yet):

Further Wind Farm Details

<u>Wind farm</u>	<u>Number of turbines</u>	<u>Turbine type</u>	<u>Capacity per turbine</u>	<u>Operation and maintenance supplier</u>	<u>Operation and maintenance contract maturity date</u>
Pomerania	29	Nordex N131/3600	3.3 MW, 23 turbines	Nordex Energy GmbH	Q1 2021
		Nordex N131/3000	3.0 MW, 5 turbines		
		Nordex N117/3000	2.9 MW, 1 turbine		
Mažeikiai	14-15	-	-	-	-

Vilnius CHP plant

The Group is currently developing a CHP plant in Vilnius (the Vilnius CHP Plant), which the Group began implementing in 2015. According to the resolution of the Government of 28 May 2014, the project (along with the development of the Kaunas CHP Plant, which was completed and commenced commercial operations in August 2020) was declared economic project of state significance and the Company was assigned to hold not less than 51 per cent. of shares of the Vilnius CHP plant. The Group currently owns 100 per cent. of the Vilnius CHP Plant, which is being funded by the combination of a loan facility (up to EUR 190 million) provided by the EIB (up to 50 per cent. of the total investment of the project), an EU grant which will cover approximately EUR 135 million of the investments required for the Vilnius CHP Plant, and shareholders' equity. The project is expected to incur a cost of investment of EUR 350 million, of which EUR 270 million had been spent by the end of H1 2020. The Vilnius CHP Plant will support the implementation of the Circular Economy Strategy objectives set by the Commission and the Government, i.e. to dispose of only up to 5 per cent. of waste in landfills. The Group intends to sell down up to 49 per cent. of the Vilnius CHP Plant following the completion of construction, which is a requirement due to EU support for the project.

Upon completion, the Vilnius CHP Plant will have a total installed electricity generation capacity of approximately 92 MW and a total installed heat production capacity of approximately 229 MW. It is expected that the Vilnius CHP Plant, using biomass and municipal waste, will produce nearly half of the district heat supplied to Vilnius and electricity meeting the needs of approximately 230,000 households. The waste-to-energy generation at the power plant is expected to start in the first quarter of 2021, with the biomass activities starting in either the second or fourth quarter of 2021 (depending on the timing of construction completion relative to the heating season). Once operating at full capacity, by incinerating approximately 160,000 tons of municipal waste and burning up to approximately 450,000 tons of

biomass, the power plant is expected to generate approximately 430 GWh of electricity and produce approximately 1,240 GWh of heat annually.

Just as the Kaunas CHP Plant, the Vilnius CHP Plant will be among the most modern in Europe in terms of environmental protection and energy generation technologies, and it will provide revenue from three main streams: (i) the selling of heat to city district heating networks (by way of monthly auctions), (ii) the selling of electricity on the Nord Pool Exchange or to IGN (with respect to the Customers and Solutions segment) and (iii) providing waste incineration services for regional waste treatment facilities for a local waste gate fee of EUR 32 per ton of municipal waste (which is lower than the landfill gate fee) based on the recent 12+12 month contracts secured with the suppliers for the 2020-2021 period. The expected operating expenses of Vilnius CHP amount to approximately 0.16 m€/MWe.

The following table sets forth the expected electricity generation, waste-to-energy/biomass and waste capacities and output of the Vilnius CHP Plant:

Capacity and Estimated Generation for the Vilnius CHP Plant

<u>Plant</u>	<u>Capacity – Electricity (MW)</u>	<u>Capacity – WtE/Biomass (MWth)</u>	<u>Capacity – Waste (tonnes)</u>	<u>Estimated electricity generation (GWh)</u>	<u>Estimated heat generation (GWh)</u>
Vilnius CHP	92	229	160,000	430	1,240

The following table sets forth the historical local heat price and local biomass cost for the city where the Vilnius CHP is located between 2017 to 2019:

Local Heat and Biomass Prices

		<u>2017</u>	<u>2018</u>	<u>2019</u>
Local heat price	EUR/MWh	26.62	26.68	27.80
Local biomass cost	EUR/MWh	11.97	15.18	12.38

(ii) *Projects in respect of which LOIs have been signed*

The Group has signed letters of intent with developers to acquire a pipeline of solar PV projects in Poland with targeted installed capacity of approximately 200 MW by the end of 2022. These projects are expected to benefit from a 15 year CfD scheme. The Group is currently continuing its due diligence with respect to these opportunities and has not yet entered into a binding agreement to acquire these assets.

The Company has also signed a LOI with an international strategic partner to co-develop a 700 MW offshore wind project in Lithuania, with an estimated completion date in 2028. The development of offshore wind in the Baltic sea has strong Government support. On 22 June 2020, the Government issued a decision on offshore wind development, which provides for an area of the Baltic Sea Economic Zone in which development of wind power plants of up to 700 MW might be built by 2030, comprising an area estimated at 137.5 km². Additionally, the Law on Energy from Renewable Sources has been adjusted to accommodate offshore wind development and draft laws which envisage a CfD tariff structure have been published.

The Group with a 51 per cent. stake will be the leading partner for the Lithuanian offshore wind opportunity and will contribute to a joint bidding process with its local market know how as well as superior balancing capabilities and project management experience. The Group's strategic partner, with its 49 per cent. stake in the project, will bring into the project its technical expertise and global experience in offshore wind development.

(iii) *Projects under negotiation or consideration*

The pipeline of further projects under negotiation or under consideration includes a variety of potential renewable projects across onshore wind and solar, with potential installed capacities of more than 1 GW in aggregate, with the majority of these projects located in Lithuania and Poland. The Group is at various stages of consideration with respect to these projects, but has not entered into any binding agreement or letter of intent with respect to any of them.

In addition, as discussed above, the Group has a potential opportunity to further develop its Kruonis PSHP. There is technical possibility to construct new units in Kruonis PSHP, and the additional unit that is being considered by the Group could increase the plant's capacity by up to 225 MW, subject to economic viability.

6.3 Flexible Generation

(a) Overview

The Flexible Generation segment operates the largest electricity generation capacity in Lithuania, the Elektrėnai Complex, with a total gross installed power capacity of 1,055.0 MW. The Elektrėnai Complex provides regulated system services (such as Tertiary Power Reserve Services and Isolated Regime Services) to ensure the flexibility and stability of Lithuania's electricity system. Over 90 per cent. of the adjusted EBITDA for the Flexible Generation segment comes from the provision of regulated system services. This segment represented 7.3 per cent. of the Group's revenue and 8.5 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019 (6.4 per cent. and 6.0 per cent., respectively, in the year ended 31 December 2018)).

Tertiary Power Reserve Services and Isolated Regime Services are expected to be phased out by 2025 after Lithuania power grid is synchronised with the Continental European network. Following the synchronisation, the Group aims to leverage the Flexible Generation assets to provide new ancillary services for local generators, such as frequency containment reserve, automatic frequency restoration reserve and manual frequency restoration reserve.

The principal operator of the Group's Flexible Generation segment is GEN.

The following tables set forth certain key operating indicators of the Flexible Generation segment for the years ended 31 December 2019, 31 December 2018 and 31 December 2017, as well as six-month period ended 30 June 2020:

Electricity Generation – Flexible Generation Segment

		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>H1 2020</u>
Electricity generated	TWh	0.14	0.07	0.02	0.35

Volume of Services Provided to TSO and Installed Capacity – Flexible Generation Segment

		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>H1 2020</u>
Tertiary Power Reserve Services	MW	484	260	260	475
Strategic power reserve	MW	371	212	-	-
Isolated Regime Services	MW	-	-	-	415
Total reserve and Isolated Regime Services	MW	855	472	260	890
Installed capacity – electricity	MW	1,055	1,055	1,055	1,055

(b) Gas-fired electricity generation

The Group's Elektrėnai Complex contains two gas-fired reserve power units, units 7 and 8 (together, the "**Reserve Power Units**"), and the combined cycle gas turbine unit ("**CCGT**"), with a combined gross installed capacity of 1,055 MW as at 31 December 2019. The Reserve Power Units have an installed capacity of 300 MW each, while the CCGT unit has an installed capacity of 455 MW. The Reserve Power Units have an average asset useful life of more than 50 years, while the CCGT has an average asset useful life of 25 to 35 years.

Utilising the Elektrėnai Complex, the Flexible Generation Segment principally provides regulated services to the TSO, including Tertiary Power Reserve Services and Isolated Regime Services, where the business model is based principally upon Reserve Capacity rather than generation. However, from 2020 when Isolated Regime Services made it possible, generation from the Flexible Generation segment has increased.

In 2019, the Group won the auction of the tertiary active power reserve announced by the TSO for 2020, pursuant to which the Reserve Power Units are providing this service in the capacity of 475 MW. The tertiary active power reserve must be capable of activation within 12 hours after the request of the TSO. Since the launch of auctions for tertiary active power reserve in 2016, this is the first time that one supplier has been selected to provide all of the services, and represents a significant increase to the Group's service provision in 2019 (when the CCGT supplied tertiary active power reserve in the capacity of 260 MW).

The Group has also signed an agreement with the TSO to provide Isolated Regime Services in the capacity of 415 MW in 2020 (representing a 67 per cent. share of the Isolated Regime Service market), and such services are to be provided by both the CCGT (370 MW) and unit 8 of the Reserve Power Units (in respect of 45 MW of capacity not used in the provision of Tertiary Power Reserve Services).

In the six months ended 30 June 2020, the Elektrėnai Complex generated 0.35 TWh of electricity sold on the power exchange, increasing almost 36.2 times as compared to 0.01 TWh in the six months ended 30 June 2019, as a result of full commercial availability in the CCGT, as well as low gas and emission allowance prices. In the year ended 31 December 2019, the Elektrėnai Complex generated 0.02 TWh of electricity sold on the power exchange (with 0.023 TWh supplied to the electricity grid), representing a decrease of 63.2 per cent. compared to the year ended 31 December 2018 and a decrease of 82.4 per cent. compared to the year ended 31 December 2017. The decrease was caused predominantly by the Reserve Power Units being kept in preservation mode for most of the year, while the CCGT unit provided Tertiary Power Reserve Services in 2019 and could not engage in merchant generation from the 260 MW of capacity allocated to these services. The Elektrėnai Complex generated 1.9 per cent. of the total electricity generated by the Group in 2019 (compared to 6.9 per cent. and 11.0 per cent. of the total electricity generated by the Group in 2018 and 2017, respectively).

Prior to 2019, both natural gas and fuel oil were used for powering the Reserve Power Units (in 2017 GEN consumed 0.322 TWh of natural gas and 0.017 TWh of fuel oil and in 2018 GEN consumed 0.179 TWh of natural gas). In 2018, a decision was made that fuel oil would not be used for powering the Reserve Power Units and, therefore, from 2019 only natural gas is used. In the year ended 31 December 2019, GEN consumed 0.094 TWh of natural gas in relation to its power generation operations.

The units in the Elektrėnai Complex have a diversified age profile. Construction of the CCGT unit was completed in October 2012 whereas the construction of the currently operational Reserve Power Units was completed between 1971 to 1972 (with a major refurbishment from 2003 to 2009). The Group has a schedule of regular repairs and overhauls for its power plants. Four power generation units in the Elektrėnai Complex (with a combined capacity of 600 MW) were decommissioned in 2014 and 2015 and two additional units (with a combined capacity of 600 MW) are inactive and are currently in the process of being decommissioned.

The Group, through GEN, has permits for an indefinite term to engage in electricity generation activities at the Reserve Power Units and the CCGT unit. Since the establishment of GEN in 2011, all of the Group's power plants in Lithuania, which are owned by GEN, have complied with all environmental requirements and regulations. The Elektrėnai Complex was assigned CO₂ emission allowances with an aggregate value of EUR 57.9 million as at 30 June 2020. For additional information on CO₂ emission allowances and the allocation of CO₂ emission allowances, please see paragraph 2.3(f) of Part 7 ("*Regulation*").

(c) ***Customers and pricing***

The Group participates in auctions to provide Tertiary Power Reserve Services to the TSO, with the pricing determined competitively through the auction process, subject to overall price caps established by the NERC. The total amount of Tertiary Power Reserve Services required by the TSO is 475 MW. Considering the current installed capacities available to bid in the auction and regulations of the auction, at least one of GEN's power units is required to provide the Tertiary Power Reserve Services.

With respect to the Isolated Regime Services, prior to 2020, the pricing mechanism established by NERC for a different form of Isolated Regime Services included an element of reasonable return on investment in the services (based on the RAB times the WACC). The below table sets for the historical RAB, WACC and depreciation and amortisation for CCGT and the Reserve Power Units for the periods indicated:

CCGT and Reserve Power Units – Isolated Regime Services

		<u>2017</u>	<u>2018</u>	<u>2019</u>
CCGT				
RAB	EURm	163.0	159.8	150.5
WACC	%	5.05%	4.95%	5.00%
Depreciation and amortisation (included in allowed revenue)	EURm	9.5	9.9	9.7
Reserve Power Units				
RAB ⁽¹⁾	EURm	74.1	25.6 ⁽³⁾	30.4
WACC	%	5.05%	4.95%	5.00%
Depreciation and amortisation (included in allowed revenue)	EURm	5.3	2.1	2.4

Pursuant to a resolution adopted by the Lithuanian Parliament on 14 November 2019, from the year beginning 1 January 2020 a new methodology applies, which allows electricity producers to trade electricity on market terms to earn a return on investment while providing Isolated Regime Services, and the Isolated Regime Services pricing mechanism no longer includes the element of return on investment.

As a result of this regulatory change, from 2020 the CCGT is able to sell electricity generated at market prices while providing the Isolated Regime Services, and sales at market prices totalled EUR 14.6 million for 388 GWh of electricity produced (with an achieved gross margin of EUR 11.6 per MWh) for the six-month period ended 30 June 2020. It is sold primarily on the Nord Pool Exchange, with prices governed by prevailing market prices for the Lithuanian price area.

(d) ***Planning and optimisation of generation assets***

Planning, optimisation, forecasting, trading, brokerage and other relevant activities are carried out by UAB "Gamybos optimizavimas" ("**GOP**"). GOP activities cover planning and optimisation of GEN's generation assets as well as the Kaunas CHP Plant and the Vilnius CHP Plant, and trades of electricity generated or consumed by GEN, the Kaunas CHP Plant and the Vilnius CHP Plant. Planning electricity generation and consumption involves providing power plants with a schedule of how much electricity is required to be produced or consumed by that power plant and coordinating with the TSO in respect of electricity traded. Additionally, each generation asset of GEN, the Kaunas CHP Plant and the Vilnius CHP Plant can provide balancing services to the TSO. All output of these generation assets is sold on the Nord Pool Exchange. Optimisation of electricity generation capacity involves determining the most financially beneficial method of trading available generation capacity taking into account restrictions such as availability of fuel sources (including gas and water) and environmental restrictions. GOP is also responsible for short-term optimisation of Kaunas HPP, Kruonis PSHP, the Elektrėnai Complex, Vilnius TEC-3, Kaunas CHP and Vilnius CHP on a 24/7 basis all year long.

(e) ***Flexible Generation investment plans***

The Group expects that investments in other segments (which includes the Flexible Generation segment, the Customers and Solutions segment, and other general corporate investments (e.g. IT)) will comprise 5 to 10 per cent. of the Group's investments from 2020 to 2023, translating into EUR 85 to 200 million. However, maintenance investments account for only around EUR 30 million out of this amount (around EUR 10 million for Flexible Generation asset maintenance and around EUR 20 million for Group IT investments). The remaining amounts are reserved for expansion opportunities and will only be invested if the appropriate returns can be generated.

Flexible Generation investments primarily relate to maintaining the reliability of the Flexible Generation assets and system adequacy and will be driven by capacity auctions as well as the TSO's demand for new ancillary services, including primary (frequency containment reserve) and secondary (frequency restoration reserve) reserves. The Group also intends to leverage its Flexible Generation assets to capture the market opportunities that arise due to tightening supply as a result of the gradual decrease of imports from Russia and Belarus to zero over time and the decommission of Poland's coal-fired power generation capacities, as well as the optionality presented by the new Polish-Lithuanian 700 MW interconnector that is expected to be commissioned in 2025. Unlike the investments made into the Group's other principal

operating segments, the investments made into the Flexible Generation segment are primarily for maintenance and the amount is therefore relatively insignificant (on average EUR 1.2 million from 2017 to 2019) as compared to those made into the Group's other segments.

The Group intends to further invest in its Flexible Generation segment to provide flexibility and high reliability of the Lithuanian energy system through reserve and ancillary service, but will invest into new Flexible Generation capacities only if the capacity auctions are won.

6.4 Customers and Solutions

(a) Overview

The Customers and Solutions segment includes the Group's electricity and gas supply, trading, forecasting and balancing business, as well as a range of complementary innovative heating solutions and platforms that the Group offers to its commercial and residential customers, including energy efficiency projects, construction of solar power plants for businesses and residents, installation and operation of electric vehicle charging station and heating solutions. This segment represented 46.1 per cent. of the Group's revenue and 4.1 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019 (49.1 per cent. and 3.0 per cent., respectively, in the year ended 31 December 2018)).

The electricity and gas supply business comprises "business to consumer" ("B2C") and "business to business" ("B2B") sales. The Group operates its Customers and Solutions segment across Lithuania, Estonia, Latvia, Finland and Poland, and is the largest supplier of electricity and gas in the Baltic states based on the number of customers, providing all main energy services to approximately 1.7 million households and approximately 13,700 businesses. The Group expects that new interconnectors under development between Lithuania and Poland for both electricity (the Harmony Link) and gas (the Gas Interconnector Poland – the Republic of Lithuania) may have a positive effect on Lithuanian power prices (as power prices in Poland are generally higher than in Lithuania) while opening up additional business opportunities for the Customers and Solutions segment - for example, allowing greater access to supply gas to the eastern regions of Poland (the Group has in March 2020 applied for a licence to import gas into Poland), and providing alternative sources of importing gas into Lithuania and other markets.

The principal operating subsidiary of the Customers and Solutions segment is the Company's wholly-owned subsidiary, UAB Ignitis ("IGN"). IGN is a member of the Nasdaq Commodities Exchange and is the only Lithuanian electricity supplier that actively participates on this exchange. IGN is also a member of Nord Pool Exchange and the pan-Baltic gas exchange, GET Baltic. The Group also carries out activities in the retail markets in Poland, Estonia, Latvia and Finland.

The following table sets forth certain key operating indicators of the Customers and Solutions segment for the years ended 31 December 2019, 31 December 2018 and 31 December 2017 and for the six-month periods ended 30 June 2019 and 30 June 2020:

Key Operating Indicators – Customers and Solutions Segment

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Electricity Sales						
Retail	TWh	5.03	5.40	5.40	2.63	3.10
Republic of Lithuania	TWh	4.37	4.71	4.56	2.22	2.66
B2C	TWh	2.82	2.97	2.88	1.38	1.45
B2B	TWh	1.55	1.74	1.68	0.84	1.20
Republic of Latvia	TWh	0.66	0.69	0.83	0.41	0.44
Other	TWh	0.00	0.00	0.00	0.00	0.01
Wholesale	TWh	0.00	0.70	4.71	2.26	1.22
Gas Sales						
Retail	TWh	11.28	10.91	8.01	3.75	5.92
Republic of Lithuania	TWh	10.03	10.23	6.74	3.48	3.19
B2C	TWh	1.99	2.13	2.08	1.18	1.26
B2B	TWh	8.05	8.10	4.66	2.30	1.93
Republic of Latvia	TWh	1.25	0.68	1.27	0.27	1.10
Finland	TWh	0.00	0.00	0.00	0.00	1.63
Wholesale	TWh	0.19	0.43	1.82	1.28	1.32
Number of customers						

B2C	1,600,936	1,636,005	1,677,458	1,649,601	1,686,496
B2B ⁽¹⁾	13,852	14,176	13,700	14,574	14,267

Note:

- (1) In 2017, 2018 and H1 2019 the overlapping gas and electricity B2B customers were not eliminated. In 2019 and H1 2020 overlapping gas and electricity B2B customers (of which there were 1,960 and 2,320, respectively) were eliminated and are displayed as a unique number of customers.

(b) **Supply of Electricity**

(i) **Lithuania**

The Group's electricity supply business in Lithuania comprises the public supply to consumers in the B2C market and supply to commercial customers in the B2B market.

The table below sets out the details of the historical margin and quantity for B2B and B2C electricity sales for the periods indicated:

		Year ended 31 December			Six months ended 30 June 2020
		2017	2018	2019	
Gross Margin					
Electricity B2B	EUR/MWh	2.41	(0.79)	0.82	(2.70)
Electricity B2C	EUR/MWh	1.43	1.18	2.81	3.70
Quantity					
Electricity B2B	TWh	2.21	2.43	2.51	1.65
Electricity B2C	TWh	2.82	2.97	2.88	1.45

Public Supply of Electricity (B2C)

With respect to the B2C market, the Group supplies electricity to approximately 1.7 million household customers in Lithuania. Historically this business has not been material to the Group's financial results (representing EUR 0.29 million of adjusted EBITDA (0.1 per cent. of total Group adjusted EBITDA) in the year ended 31 December 2019).

The public electricity supply market currently remains regulated and the public supply of electricity to household customers in Lithuania is mainly provided by the Group, through IGN, which on 1 October 2018 acquired this business from ESO. As the principal public supplier, IGN supplies electricity to household customers on the basis of public tariffs set by the Law on Electricity. Historical and current tariffs for household customers (ct/kWh) are set forth in the table below.⁶

Historical and Current Tariffs – B2C

	2017	2018	2019	H1 2020 ⁽¹⁾	H1 2020 weights, %
Energy purchase price	3.678	3.386	4.527	5.331	45%
Distribution service price cap for low voltage network	1.986	2.145	2.432	2.720	23%
Distribution service price cap for medium voltage network	0.83	0.834	0.901	1.123	9%
System services	0.393	0.529	0.615	0.785	7%
Transmission service	0.672	0.619	0.658	0.814	7%
Public service obligations (PSO)	1.386	1.35	0.903	0.683	6%
Public supply service (IGN)	0.143	0.118	0.281	0.370	3%
Total (without VAT)	9.088	8.981	10.317	11.826	100%
VAT	1.908	1.886	2.167	2.483	
Total (with VAT)	10.996	10.867	12.484	14.309	

Note:

- (1) Energy purchase price and some other components of the tariff have been restated by NERC from 1 July 2020.

⁶ Source: <https://www.regula.lt/Puslapiai/naujienos/2019-metai/2019-lapkritis/2019-11-28/patvirtinti-2020-m-elektros-energijos-tarifai-buitiniams-vartotojams.aspx>

In recent years the public tariff has been lower than the tariffs available from independent electricity suppliers and, therefore, the Group supplied substantially all of the electricity to the B2C market in Lithuania. In the six months ended 30 June 2020, the Group supplied 1.45 TWh, compared to 1.38 TWh in the six months ended 30 June 2019. In the year ended 31 December 2019, the Group supplied 2.88 TWh of electricity to household customers in Lithuania (approximately 99 per cent. of total electricity supplied to household customers in Lithuania), compared to 2.97 TWh of electricity in the year ended 31 December 2018 and 2.82 TWh of electricity in the year ended 31 December 2017. The slight decrease between 2018 and 2019 was largely attributable to some prepayments in 2018 ahead of tariff increases in January 2019.

However, on 7 May 2020, the Parliament of the Republic of Lithuania approved the amendments to the Law on Electricity in relation to the gradual deregulation of public supply of electricity to household customers, which will be implemented in three phases beginning from 1 January 2021, 2022 and 2023, respectively. Under these amendments, the current electricity supply price regulation for household customers will be abolished while the tariffs for electricity distribution and transmission included in the final price will remain regulated, and household customers will have the choice to select an independent electricity supplier. If household customers fail to choose a supplier within a predefined period, they will be automatically shifted to the supply of last resort service performed by the electricity distribution system operator (currently the Group through ESO). This regulatory change is likely to lead to increased competition in the public supply market as well as changes in tariff plans that are currently being offered by independent suppliers. For discussion on the risks associated with of the deregulation of the electricity market in Lithuania, please see paragraph 2.6 of the section titled "*Risk Factors*".

B2B Supply of Electricity

With respect to the B2B market, the Group, through IGN, supplied electricity to 7,991 commercial customers in the year ended 31 December 2019, which is one of the largest electricity customer bases in Lithuania. In the year ended 31 December 2019, the Group supplied 1.68 TWh of electricity to commercial customers in Lithuania, representing a decrease of 3.7 per cent. compared to the year ended 31 December 2018 due to changes in the composition of the sales portfolio (with a higher proportion of smaller customers in 2019). In 2019, the customer base grew primarily by an increase in smaller customers, while the Group maintained its existing base of large customers.

(ii) *The Republic of Latvia*

IGN, through its subsidiary Ignitis Latvija SIA, sold 0.44 TWh of electricity to consumers in Latvia in the six months ended 30 June 2020, compared to 0.41 TWh in the six months ended 30 June 2019. In the year ended 31 December 2019, Ignitis Latvija SIA sold 0.83 TWh of electricity to consumers in Latvia, representing an increase of 20.7 per cent. compared to the year ended 31 December 2018 and an increase of 26.1 per cent. compared to the year ended 31 December 2017. The increase was caused predominantly by active sales, competitive pricing, flexible, tailored products and improved levels of customer service. The Group's subsidiary, Ignitis Latvija SIA, is the third largest power supplier in the Latvian electricity market according to the Group's internal data. The pricing of supply of power to customers in Latvia is determined by market prices and is based on volumes to be supplied, consumption profile, credit rating and length of the contract. Customers may have fixed, spot or baseload pricing.

(iii) *The Republic of Estonia*

In the year ended 31 December 2019, IGN, through its subsidiary, Ignitis Eesti OU, sold 2.25 GWh of electricity to commercial consumers in Estonia compared to a supply volume of 0.05 GWh in the year ended 31 December 2018. The sharp increase in sales was due to one new customer. The pricing of the supply of power to customers in Estonia is determined by market prices and is based on volumes to be supplied, consumption profile, credit rating and length of the contract. Customers may have fixed, spot or baseload pricing.

(c) *Supply of Gas*

(i) *Lithuania*

In the six months ended 30 June 2020, the Group supplied 3.19 TWh of gas in Lithuania, compared to 3.48 TWh in the six months ended 30 June 2019. In the year ended 31 December 2019, the Group

supplied 9.83 TWh of gas in Lithuania, Latvia, the GET Baltic gas exchange and the LNG Terminal, representing a volume decrease of 13.2 per cent. compared to the year ended 31 December 2018 and a decrease of 14.3 per cent. compared to the year ended 31 December 2017.

The decrease of supplied volumes in 2019 was caused primarily by regulatory changes in Lithuania. IGN has been the designated supplier of natural gas in Lithuania since 2015, responsible for ensuring that a minimum quantity of natural gas was delivered through the LNG Terminal. The designated supply model regulation was changed from 1 January 2019, which resulted in the abolishment of a requirement for regulated energy producers to purchase natural gas through the LNG Terminal from the designated supplier. Energy producers were given the option to source natural gas from other suppliers and this resulted in a decline of 42.4 per cent. in the Group's B2B gas sales. This was partially offset by the Group's increased wholesale volumes of electricity. Sales on the GET Baltic gas exchange were 1.31 TWh in the year ended 31 December 2019, compared to 0.13 TWh in the year ended 31 December 2018, and were 1.30 TWh in the six months ended 30 June 2020, compared to 0.89 TWh in the six months ended 30 June 2019.

In 2019, IGN purchased approximately 53 per cent. of the gas it supplied to consumers through the LNG Terminal in Klaipeda. In 2019, the Group purchased LNG from Equinor ASA, Total Gas & Power Limited and other LNG suppliers. The remainder was purchased from Gazprom through natural gas pipelines and other sources such as the wholesale market under short-term natural gas supply contracts. IGN's decision to purchase gas through either the LNG Terminal or from Gazprom was based on price and the need to ensure diversification of supply and fulfilment of the designated supply obligation to the LNG Terminal. Part of the gas purchased was stored in the Incukalns LNG storage facility in Latvia.

The table below sets out the details of the historical margin and quantity for B2B and B2C gas sales for the periods indicated:

		Year ended 31 December			Six months ended
		2017	2018	2019	30 June 2020
Gross Margin					
Gas B2B	EUR/MWh	1.36	1.36	1.38	1.65
Gas B2C ⁽¹⁾	EUR/MWh	1.21	1.20	1.20	1.20
Quantity					
Gas B2B	TWh	9.29	8.78	5.93	4.65
Gas B2C	TWh	1.99	2.13	2.08	1.26

Notes:

(1) Agreed and approved by NERC.

The table below sets out the sources of the Group's gas supply and sourcing volume for the years indicated:

Gas Supply Source and Volume

		Year ended 31 December		
		2017	2018	2019
Equinor	GWh	3,241	3,765	4,591
Other LNG	GWh	3,893	1,913	1,431
Total LNG	GWh	7,134	5,678	6,022
Gazprom	GWh	3,757	3,685	3,871
Other non-LNG pipeline	GWh	1,600	1,204	431
Total non-LNG	GWh	5,357	4,889	4,302
Underground Storage	GWh	301	1,156	1,137
Total	GWh	12,793	11,724	11,461

As at the Latest Practicable Date, the Group has the following material gas supply contracts in place:

- *Equinor ASA long-term contract*: this contract is valid till the end of 2024, with four cargoes delivered spreading evenly across each contracted year. (Purchases under this contract are subject to state aid and designated supply regulation.)
- *Equinor ASA mid-term contract*: this contract is valid till the end of 2022, with two cargoes delivered in January and February, respectively, in each contracted year; Equinor ASA has the option to cancel one of the two yearly deliveries by September in the year preceding the delivery year. (Unregulated.)
- *Gazprom long-term contract*: this contract is valid till the end of 2023, with a 80 per cent. "take or pay" condition on annual nominated volume (resulting in price fixing for $\frac{3}{4}$ of the volume not taken and an obligation for the Group to take this volume or lose it within three years. (Unregulated.)

Public Supply of Gas (B2C)

Gas was supplied to approximately 600,000 natural gas customers in the B2C market in Lithuania in the year ended 31 December 2019. The supply of gas to B2C customers has been deregulated since 2000. However, due to the absence of competition and the Group's market dominance, the NERC is monitoring and approving gas tariffs semi-annually and, therefore, the Group is treating this as a regulated business.

B2B Supply of Gas

During 2019, the Group supplied gas to 7,408 commercial customers in the B2B market, of which 359 customers consumed 1 GWh or more per year (3,388 GWh in total) and 7,129 customers consumed below 1 GWh per year (648 GWh in total). The gas supply pricing to B2B customers is based on volumes to be supplied, consumption profile, credit rating and length of the contract. Most of volumes are sold at Gas hub indexed price – usually the GET Baltic monthly index, or German Gaspool, or Dutch TTF. Some customers have fixed pricing.

(ii) *The Republic of Latvia*

In the year ended 31 December 2019, the Group supplied gas to 16 B2B customers in Latvia.

(iii) *Finland*

In 2019, the Group continued expanding geographically by signing its first gas supply contracts with major business customers in Finland, with supply under these contracts beginning in 2020, coinciding with the liberalisation of the Finnish natural gas market. The Group expects to supply approximately 3 TWh of natural gas in Finland in the year ending 31 December 2020, giving it an estimated 13 to 15 per cent. market share for the B2B natural gas market in Finland.

(d) ***Wholesale trading of electricity***

The Group's electricity trading activities consist of: (i) purchasing electricity for the supply business; (ii) hedging and (iii) proprietary wholesale trading.

The Group companies are members of and trade standard and non-standard physical and financial derivative products on Nord Pool Exchange, Nasdaq Commodities Exchange and TGE (Polish Power Exchange).

The Group's electricity supply and generation portfolios are separated. Accordingly, the Group currently sources all electricity for its supply portfolio directly from the Nord Pool Exchange or through bilateral agreements with third parties. However, as the Group's generation capacity increases through the expansion of its Green Generation portfolio, the Group anticipates that, in the future, it will utilise the supply activities of its Customers and Solutions segment as a route to market for new generation through the entry into power purchase agreements between the two businesses.

The Group hedges retail portfolio exposure using physical and financial instruments traded over-the-counter or on the Nasdaq Commodities Exchange. As at 31 December 2019, IGN had entered into a number of long-term contracts with various durations (the longest duration being until 31 December 2024). The Group has a conservative hedging policy, with a policy to hedge 100 per cent. of its supply

portfolio through either perfect or proxy hedges. As the generation portfolio of the Group grows, the amount of internal long-term offtake contracts is expected to go up and the amount of proxy hedges should decrease.

The Group carries out limited proprietary trading that consists of taking on energy commodity exposures in European markets by means of derivative financial 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 deepen its understanding of the underlying markets as well as generate some additional profits. The Group carries out proprietary trading of electricity in Poland through Ignitis Polska sp. Z o. o., 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 and Operational Ethics Committee. The Group has specific controls in place in terms of quantitative risk limits (including a EUR 2.5 million value at risk limit). 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. The Group's proprietary trading represents a very small portion of its business, with the adjusted EBITDA of the proprietary trading business being EUR 0.1 million in the year ended 31 December 2019.

In the year ended 31 December 2018, the Group recorded a negative wholesale electricity margin (being the gross trading margin divided by volume traded) of EUR 0.63 per MWh (with 0.7 TWh traded) due to restrictions imposed by the Polish government on electricity pricing. In the year ended 31 December 2019, the Group recorded a wholesale electricity margin of EUR 0.25 per MWh (with 4.7 TWh traded). Wholesale trading of electricity generated EUR 0 million for the six-month period ended 30 June 2020.

(e) **Wholesale trading of Gas**

The Group's gas trading activities encompass selling natural gas on wholesale markets through bilateral agreements in Lithuania, Estonia, Latvia, Finland and trading on GET Baltic, the gas exchange operating in the market areas located in Lithuania, Estonia, Latvia and Finland. 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 and Latvian transmission system.

The table below sets out the details of the historical margin and quantity for wholesale trading of gas for the periods indicated:

		Year ended 31 December			Six months ended 30 June
		2017	2018	2019	2020
Gross Margin	EUR/MWh	3.43	1.97	1.36	1.93
GET Baltic Wholesale ⁽¹⁾	EUR/MWh	2.14	0.91	0.96	1.87
Small scale LNG Wholesale ⁽¹⁾	EUR/MWh	3.50	2.44	2.37	5.64
Quantity	TWh	0.20	0.42	1.82	1.32
GET Baltic Wholesale	TWh	0.01	0.13	1.31	1.30
Small scale LNG Wholesale	TWh	0.19	0.29	0.51	0.02

Note:

(1) Weighted average of revenue and sold volumes ratio – GSPL indices.

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

Customers and Solutions investment plans

The Group expects that investments in segments other than Networks and Green Generation (which includes the Flexible Generation segment, the Customers and Solutions segment, and other general corporate investments (e.g.IT)) will comprise 5 to 10 per cent. of the Group's investments from 2020 to 2023, representing approximately EUR 85 to 200 million. However, maintenance investments account for only around EUR 30 million out of this amount (approximately EUR 10 million for Flexible Generation asset maintenance and approximately EUR 20 million for Group IT investments). The remaining amounts are reserved for expansion opportunities and will only be invested if the appropriate returns can be generated.

(f) ***Innovation and Energy Efficiency Initiatives***

The Group is investing in a number of innovative solutions and platforms to help customers become more energy smart, including:

- *Solar*: IGN provides direct sales, or leasing for up to 10 years, of on-site photovoltaic plants allowing businesses access to renewable energy. In the past few years IGN has signed contracts for approximately 5.8 MWp. From July 2019, IGN has offered solar energy power plants for residential customers, which consists of photovoltaic plant panels, inverters, mounting structures, installation services and all other needed equipment. The size of the power plants range from 3 kW up to 30 kW and produce average 1000 kWh/ year per installed kW power. This service enables residential customers to take part in the generation of green energy, while decreasing their electricity costs.
- *Community Solar (Solar parks)*: The remote solar platform www.saulesparkai.lt was launched by the Company in 2019 after the law allowing the production and consumption of electricity in different geographical locations came into force. The functionality of the platform is based on the consumption of the solar energy from remote solar parks. The platform provides solar energy efficiency improvement services for customers who do not have the ability to install solar panels on their roofs, although house owners can use the service as well. The platform publishes solar projects from different developers and customers have the ability to choose from the wide range of solar parks. In the period from 1 October 2019 to 31 May 2020, the platform raised 4.46 MW reservations (approximately 1,140 customers) and during 2020 it is planned to improve the functionality of the platform by installing periodic billing, transferring data to the operator and exchanging further data with developers, as well as introducing new services to customers.
- *EV charging infrastructure (Ignitis On)*: the Group offers e-mobility services, including infrastructure, installation, charging equipment, software and roaming services. The Ignitis On app allows customers to find the nearest available charging stations and pay with their preferred method and 24-hour customer support access is provided at every charging station. From November 2019, the Group started to offer EV home chargers for residential customers together with installation services and other equipment needed for EV charging. The Group offers approximately 70 EV charging stations to the public, which comprises one super-fast (320kWh) charger and 56 fast (50 kWh) charger, and the remaining ones are slow (22 kWh) chargers. These EV charging stations are mostly in Vilnius, and the Group also has either exclusive distribution agreements or representation agreements with the brands Efacec, Elinta and Ensto.
- *ESCO*: ESCO services involve investing in measures to improve the energy performance of the building (including lighting), and recoup most of the investment over the life of the contract from future energy savings. The essence of this model is to achieve maximum energy savings without incurring significant initial investment. Currently the Group executes ESCO projects in Lithuania totalling approximately one million Euro each year; however, the Group expects that this may grow in the future. The Group also started ESCO services in Latvia in 2019.
- *Payment aggregation services*: the Group's subsidiary, EMA, is a licensed payment institution and provides payment aggregation services. The Group is therefore able to offer its customers the option to pay their utility bills together via the Group's online platform. The Group is currently the only market player in the industry in the Baltics providing payment aggregation services.
- *Heating solutions*: the Group offers its customers various heating solutions, which include gas boilers, heat pumps and thermostats, as well as intelligent control systems and monitoring systems for its B2C customers.

6.5 Other Ancillary Businesses

From 2016, the Group through its newly created subsidiary EMA started providing payment aggregation services, which include services for collection of payments for utility services and other periodic payments from customers and their distribution to service providers. The Group considers that these payment aggregation services provide the Group with an important competitive advantage for its

Customers and Solutions segment, helping it to maintain reasonably low churn rates following the deregulation of the B2C supply market. EMA is a licensed payment institution subject to supervision by the financial services regulator. The adjusted EBITDA attributable to this business was EUR 0.3 million in the year ended 31 December 2019.

Provision of information technology, accounting, telecommunications, legal and other services are concentrated in UAB "Ignitis grupės paslaugų centras" ("GSC"). GSC provides public procurement administration, accounting, legal, public relations and employment relationship administration services to the Group's subsidiaries.

6.6 Divestment and closure of non-core activities

The Group is in the process of winding down non-core activities, a process which the Group commenced in 2017 and which has already resulted in the sale of two previous non-core businesses. Remaining non-core businesses currently in the process of being wound down include the following:

(a) *Contracting activities*

Until the beginning of 2018, the Group's full scope contracting activities were conducted through EPR. EPR's activities included 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. During April 2018, in line with the Group's strategy to divest non-core businesses, it was announced that the operations of EPR would be wound down. The majority of the business has already closed down (with only about 15 employees remaining as of 30 June 2020 compared to 489 as of April 2018). There is only one ongoing electrotechnical reconstruction project, which is expected to complete on 30 September 2020, after which the business is expected to be closed entirely by the end of the first quarter of 2021.

(b) *Real estate management services*

The Group's real estate management service activities, which historically included the long-term and short-term lease of administrative, production and warehousing premises, are conducted through NTV.

In line with the Group's strategy to divest non-core businesses, it commenced the auction sale process of its real estate portfolio managed by NTV in 2016, which was concluded in the second quarter of 2020. All real estate has already been sold (comprising EUR 87.8 million in aggregate sale proceeds from over 100 assets sold), other than one real estate asset left on NTV's balance sheet with a book value of EUR 1.7 million, which is not for sale due to a request from the Ministry of Finance.

(c) *Transport services*

Until February 2018, the Group's transport services activities were conducted through NTV. It was engaged in the 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 December 2017, the Group announced that from February 2018 transport service activities managed by NTV would be taken over by TPV.

After initially attempting to sell TPV as a business, the Group decided to sell down gradually on an asset by asset basis in the interest of economic efficiency. The fleet will be sold when the respective contracts with clients expire, with the majority of them expiring by 2024.

(d) *Support Foundation*

On 19 March 2018, the Company, and on 13 March 2018, the Principal Shareholder, made a decision that from 2018, the Group would not grant support and/or charity (except for support to neighbourhood communities in which the Group's wind farms are present). As a result, the Group has also begun procedures to close the support foundation, *Lietuvos energijos paramos fondas*, due to changes in the Law on Charity and Support of the Republic of Lithuania.

7. EMPLOYEES

The number of employees employed by the Group as at the end of each of the last three financial years was as follows:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Total Group employees	4,513	3,813	3,865	3,921
Networks employees	2,502	2,389	2,426	2,461
Green Generation employees	168	161	213	241
Flexible Generation employees	250	247	231	235
Customers & Solutions employees	100	109	117	306
Other employees	1,493	907	878	678
Centralised support functions employees	742	735	787	602
Non-core activities employees	751	172	91	67

The Group focuses on developing employment policies for "two geared" organisation; i.e. to meet the needs of its different business segments through exploring and leveraging the various parts of the organisation. 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 purpose, which is to transform for a more sustainable world.

(a) *Remuneration*

To be competitive in the labour market, the Group's remuneration system was revised substantially in 2019 to reduce the gap between the labour market and the Group's internal remuneration median to be more competitive in a rapidly changing labour market. The Group participates in market remuneration surveys annually. To ensure objective evaluation of an employee's position in the Group, 'Korn Ferry' methodology is being used. The remuneration structure is the same for all Group employees and consists of two parts: a fixed part and a variable part (a percentage of the fixed part). The variable part is paid out quarterly or annually and is linked with individual, team and/or company/Group performance. Separate remuneration schemes are set for employees of highly competitive business areas (renewable project managers, electricity and gas traders and salespersons).

In order to align management and shareholder interests, the Nomination and Remuneration Committee and Supervisory Board on 14 August 2020 approved the guidelines for a management long-term incentive plan, to be implemented as a policy later this year under the proposed "Rules for Granting Shares of the Company", which are required to be approved by a shareholder's meeting of the Company. It is currently expected that the Principal Shareholder will consider and approve the "Rules for Granting Shares of the Company" in September 2020. In addition, in order to attract and retain competent, fast-learning, technologically advanced, globally thinking and innovative, motivated, loyal employees of the Group, the Company intends to adopt an employee share option programme. Please see paragraph 6.5 of Part 6 ("*Management and Corporate Governance*") for further information.

Employees may be entitled to participate in a range of benefit schemes including a pension scheme, health insurance, flexible working hours and additional paid holidays.

(b) *Non-compete*

All employees of the Group have non-compete provisions in their employment contracts, restricting them from carrying on activities in direct competition with the Group's activities, but non-compete provisions can be activated only for those working in commercially sensitive (competitive business) areas in the energy and heating sectors: production of electricity and other energy; supply of electricity, natural gas and liquefied natural gas; services of optimising/planning the operation of power plants; trade in financial derivatives related to electricity, natural gas and liquefied natural gas; management and/or strategy; innovations; commerce, activities of improving energy efficiency and similar activities currently carried out or to be carried out in the future by the Group. Non-compete restrictions may apply for six, nine or twelve months, subject to the decision of the Group's management. Compensation is paid during the non-compete period.

(c) **Trade Unions**

As at 31 December 2019, there were eleven trade unions operating in the Group. Seven of these trade unions operate in ESO and the other four in GEN. 22 per cent. of the Group's employees are unionised and ESO and GEN employees are covered by two collective bargaining agreements. In October 2019, ESO signed an agreement with all seven of the trade unions operating within it, resulting in a representative of the ESO trade unions being appointed to the ESO Supervisory Board. Other Group companies have established work councils, as required by the Labour Code of the Republic of Lithuania ("**Labour Code**"). As at the Latest Practicable Date, the Group has not experienced any strikes or work stoppages.

(d) **Code of Conduct**

As at 23 March 2020 the Group has implemented a Code of Conduct which defines the principles and standards of business ethics, conduct and values which the Group expects each of its stakeholders to adhere to. The key principles are: respect and equal opportunities, promoting a culture of safe work and environment, open and fair activities in the market, responsibility and transparency, and enabling and protecting partnerships. The Group also has a number of other policies that apply to all stakeholders including the Anti-Corruption Policy, Gifts and Entertainment Management Procedures, Conflicts of Interest Management Procedures and the Rules on the Trust Line (whistleblowing).

(e) **Health and Safety**

The Group has a central Occupational Health and Safety Policy for its employees which is designed to build a culture of safety within the Group based on personal responsibility and cooperation. Employees are provided with health and safety training appropriate for their role and the Group has a dedicated training centre to provide training on electricity and gas maintenance tasks. In 2019, GEN adopted the ISO 45001:2018 standard and ESO applies the health management system OHSAS 18001:2007.

8. LICENCES

As at the date of this Document, the Group holds all material licences necessary for the operation of its business. For information on licences and permissions required under the Law on Energy and under other applicable regulations, please see paragraphs 2.3(b), 2.3(h) and 2.3(i) of Part 7 ("*Regulation*").

9. INSURANCE

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

ESO maintains insurance policies covering assets such as dispatch management systems, electrical installations and buildings financed from EU 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.

GEN maintains property and machinery insurance for its power plants, excluding its hydro power plants (as it was not required to take out insurance on the hydro plants under any third party contracts and insurance costs are not eligible for compensation under regulated service pricing frameworks).

The Group has a general liability insurance, which covers main risks such as any damage to a third party, inadequate quality of products (except electricity), employer's liability and environmental damage (when applicable).

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.

"Rizikos cesija", a Lithuanian consultant, carried out a risk assessment report on the Group's insurance policies in 2019 and identified the lack of insurances covering the hydro power plants as a potential high risk given the wide range of accidents that may occur at these power plants.

In response to the findings of the risk assessment report, the Group is considering to insure group liability and its assets under a master insurance policy with expanded coverage and has commenced the relevant

preparation work for the public procurement process, and the expanded master insurance policy is expected to become effective by the second quarter of 2021 and would potentially include insurance covering the hydro power plants, as well as additional risks such as risks relating to cyberattack, fraud and terrorism.

10. 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 acceptable risk. The ultimate risk authority is the Risk Management Supervision and Operational Ethics Committee of the Supervisory Board. Please see paragraph 3.1 of Part 6 ("*Management and Corporate Governance*"). The Risk Management Supervision and Operational Ethics Committee is responsible for reporting to the Supervisory Board on the risks that the Group faces and implementation of risk management or prevention measures.

The Risk Management and Operational Ethics 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 and Operational Ethics 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 Company. Measures and initiatives to mitigate these risks are the responsibility of the management of the Company 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 2020 are:

- (a) Health and safety of employees, residents and contractors;
- (b) Information cyber security (cyber information, data protection and IT security);
- (c) Market changes and competitiveness;
- (d) Corruption; and
- (e) Regulation and compliance.

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 Supervisory Board of the Company.

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 the section titled "*Risk Factors*".

In addition to the Risk Management and Operational Ethics Supervisory Committee, there is the Audit Committee of the Company's Supervisory Board. The Audit Committee of the Company's Supervisory Board ("**Audit Committee**") is responsible for the submission of the objective and impartial conclusions or proposals to the Supervisory Board on the functioning of the audit and control system in the Group. The Audit Committee is responsible for monitoring the process of preparation of financial statements of the Company 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 Company and the Group's subsidiaries, analysing the need for and relevance of these systems and performing the review of the existing internal control management systems.

11. ENVIRONMENTAL MATTERS

The Group's activities are regulated by the following environmental legislation: the Law of Environmental Protection, Law on Energy, Law on Electricity, the Law on Natural Gas, Law on Renewable Resources, Law on Waste Management and Law on Water. Please see paragraphs 2.2 and 2.3 of Part 7 ("*Regulation*"). When planning its activities, the Group assesses the environmental requirements set out in the legislation and takes into account trends in environmental protection. As at the Latest Practicable Date, the Group is in compliance with all material environmental legislative requirements.

The Group has announced its Strategy, demonstrating its intention to create a more sustainable environment. For further information on the Group's Strategy, please see paragraph 3 of this Part 4 ("*Business Overview*"). The Group follows international and national requirements in relation to environmental legislation and norms and each of GEN and ESO maintain the environmental management standard ISO 14001. In December 2019, the Group joined the United Nations initiative "Business Ambition for 1.5°C". By joining this initiative, the Group committed to reduce net carbon dioxide emissions to zero by 2050.

12. LEGAL PROCEEDINGS

12.1 Save as set out below in this paragraph 12.1, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the last 12 months which may have, or have had in the recent past, significant effects on the Company and/or the Group's financial position or profitability:

(a) *Investigation of the Commission against GEN*

On 3 June 2019, the Commission initiated proceedings against GEN pursuant to Article 108(2) of the TFEU. The Commission commenced proceedings on the basis that payments to GEN for (i) mandatory electricity generation and (ii) holding strategic electricity power reserves during the period from 2013 to 2018 were in contravention of Article 107(3) of the TFEU and the EEAG.

The Commission is currently undertaking investigations and it is difficult to conclude if the investigations would lead to any a financial impact on the Group. Both the Ministry of Energy and GEN provided responses in late 2019 to the Commission regarding the ongoing investigations and noted that the total fund received by GEN for the provision of public service obligations during the period under investigation (2013 to 2018) should not be strictly applied when considering any potential contravention of Article 107(3) of the TFEU and the EEAG. For example, not all reconciliations done by the NERC were estimated in the numbers presented by the Commission. Also, full recovery is unlikely as the Commission preliminary concluded that the fund received by GEN for the 2013 to 2014 period fully complied with the "necessity" requirement; i.e., the Republic of Lithuania correctly defined market failure and the need for state intervention for that period.

The Ministry of Energy and GEN are of the view that state aid received by GEN during the period of 2013 to 2018 did not run afoul of any EU state-aid rules. If it is decided that a repayment of the fund received from the state by GEN is required, the final amount of the repayment will be subject to the forthcoming discussions with the Commission.

(b) *IGN, as a third party in the case AB "Achema" and UAB "Achema Gas Trade" vs Government of the Republic of Lithuania*

On 17 June 2019, AB "Achema" and UAB "Achema Gas Trade" filed complaints against the Commission in relation to certain resolutions which require all users of the 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 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 EU. If such complaints are upheld by the court, AB

"Achema" and other market participants may bring claims against IGN, AB Klaipėdos Nafta and AB Amber Grid and/or the Republic of Lithuania claiming compensation for amounts already paid.

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).

12.2 In addition to the legal proceedings described above in paragraph 12.1, 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 Document are described below.

(a) ***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 Power Ltd employees) in connection with bribes alleged to have been made by these parties 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, GEN received a request for information regarding projects related to Alstom Power Ltd. However, neither GEN nor the Group was the subject of this action or any investigation in connection with these charges and no charges were brought against GEN, the Group, its subsidiaries or any of its current or former employees.

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 was related to Alstom projects implemented in Lithuanian Power Plant and Kaunas HPP. GEN 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 GEN or the Group's subsidiaries and, to the Group's knowledge, no homes of employees that worked at the time were searched. To the knowledge of the Group no member of the Group or employee that worked at the time was the subject of this investigation and no charges were brought against the Group, its subsidiaries or employees that worked at the time.

On 11 February 2019 GEN received a remittance of EUR 9.3 million from the Ministry of Finance as a compensation for the potential loss that was allegedly inflicted through the actions carried out by Alstom Power Ltd while implementing Lietuvos Elektrine's, AB Fuel Gas Desulphurisation (FGD) project, implemented from 2005 to 2009. The compensation was ordered for the Republic of Lithuania by the court of the United Kingdom. The Ministry of Finance and GEN has no reliable information about actual damage, if any, made to the company by the illegal actions carried out by Alstom Power Ltd. After evaluating the necessary tax liabilities, the abovementioned compensation was used for the partial coverage of the bank loan related to the project. GEN is not aware of any circumstances regarding the refund of the received compensation. The Group fulfilled its obligation specified by the Ministry of Finance to the Group to defray the received compensation to cover the bank loans related to the implementation of Lietuvos Elektrine's, AB Fuel Gas Desulphurisation (FGD) project.

On 20 April 2020, General Prosecutor's Office of the Republic of Lithuania publicly announced that the Prosecutor of the Organized Crime and Corruption Investigation Department has adopted a resolution to terminate the pre-trial investigation for the allegedly criminal conducts committed prior to the beginning of 2009 and the statutory limitation periods therefore have lapsed, except for the alleged bribery relating to the former Minister of Economy. According to the Prosecutor, after analysis and evaluation of the data collected during the pre-trial investigation, it was established that the obtained data was insufficient to prove the guilt of the suspects, therefore the decision to terminate the pre-trial investigation was made after finding that no offense or misdemeanour was committed.

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

(b) **ESO vs. VE**

On 27 March 2014, UAB "VILNIAUS ENERGIJA" ("VE") brought a claim against ESO before the Vilnius Regional Court claiming damages of EUR 10.7 million. VE and ESO entered into an electricity sale and purchase agreement under which VE 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 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 the Republic of Lithuania, with flexibility to determine the exact Supported Production Volume.

Following several rounds of appeal, on 11 June 2020, the Court of Appeal of Lithuania dismissed all claims made by VE against ESO. VE has a three-month period in which to appeal this latest decision. The Group believes that it will defend its interests in any further appeal of these proceedings successfully and has not made provisions for these proceedings.

(c) **GEN vs. NERC**

On 8 August 2019, GEN filed a complaint to the Vilnius Regional Administrative Court concerning the annulment of the Resolution of NERC No. R2-I-1340 on "*Reimbursement of the amount of public service obligations for public services rendered in 2016*" dated 8 July 2019 and subsequently NERC's determination after the date of the judgment that GEN was required to reimburse NERC with an estimated EUR 2.51 million (being the difference between GEN's forecasted costs for providing the relevant public service obligations during 2016 and actual cost incurred) in relation to GEN's public service obligations for the first year of NERC's public service obligations funding. On 21 November 2019, by the decision of the Vilnius Regional Administrative Court, the complaint was dismissed. An appeal has been filed by GEN, and a hearing before the Supreme Administrative Court of Lithuania has not been scheduled as at the Latest Practicable Date.

(d) **ESO vs. SE**

On 12 March 2020, AB "Šiaulių energija" ("SE") brought a claim against ESO before the Vilnius Regional Court claiming damages of EUR 1.3 million. The claim is in relation to losses suffered by SE due to an accident that occurred on 25 March 2019 on an electricity grid owned by a third person, a Lithuanian electricity transmission system operator, Litgrid AB, who is also a party to these proceedings. The damages account for repair works, electricity costs and loss of earning suffered by SE due to the accident. A hearing in relation to this claim is scheduled for 24 September 2020. The Group believes that that it will defend its interests in these proceedings successfully and has not made provisions for these proceedings.

(e) **Tuuleenergia OÜ ("TOU"), as a third party in the court case Veiko Alberg, Rando Alberg and Marko Alberg vs Lääneranna Parish**

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 in the Tallinn Administrative Court. He requested that construction permits granted by the Varbla Municipality (Lääneranna parish as at 1 January 2018) 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 judgment, the turbines can be positioned where they stand at the moment. On 31 May 2018, the permanent use permits for the wind turbines, which had been annulled by the Supreme Court of Estonia, were issued to TOU.

However, in accordance with Estonian laws, such decision of the parish permits could be challenged until 30 June 2018.

On 2 July 2018 (as 30 June 2018 was not a business day, the deadline for appeal fell on 2 July 2018), A. Alberg, filed a complaint in the Tallinn Administrative Court asking for annulment of the permanent use permits that were issued to TOU and to apply the temporary protection measures to temporarily suspend validation of permanent permits until the case is closed. On 11 July 2018, TOU presented the response for the demand to apply the temporary protection measures. On 13 July 2018, the Tallinn Administrative Court dismissed the demand to apply the temporary protection measures. On 24 July 2018, the Tallinn Administrative Court decided to hear the case by written procedure and intended to rule on 19 December 2018. On 11 September 2018, A. Alberg died, and so TOU filed a request the Tallinn Administrative Court to dismiss the case on the grounds that the applicant's heirs have no interest in the case. However, the case was examined on its merits.

As at the Latest Practicable Date, this is still an ongoing case. While the claim of A. Alberg's heirs was dismissed in full by the decision of the Tallinn Administrative Court on 22 June 2020, on 22 July 2020, A. Alberg's successors, appellants Veiko Alberg, Rando Alberg and Marko Alberg, filed an appeal with the Tallinn District Court to annul the judgment of the Tallinn Administrative Court of 22 June 2020. The Group believes that it will defend its interests in these proceedings successfully and has not made provisions for these proceedings.

(f) ***Proceedings arising from the mandatory buyout of GEN and ESO***

On 28 July 2020, V. Martikonis, a shareholder of GEN, brought a claim before the Vilnius Regional Court requesting the court to determine the fair mandatory buyout price that the Company should pay for each of his shares in the capital of GEN that the Company will purchase from him in relation to the mandatory buyout of residual minority shareholders in GEN. The mandatory buyout process commenced on 18 May 2020, and the Company at the time offered EUR 0.64 for each GEN share, which was approved by the Bank of Lithuania. The Company lodged a statement of defence on 3 September 2020.

On 9 August 2020, V. P. Vaitaitis, a shareholder of ESO, brought a claim before the Vilnius Regional Court requesting the court to determine the fair mandatory buyout price that the Company should pay for each of his shares in the capital of ESO that the Company will purchase from him in relation to the mandatory buyout of residual minority shareholders in ESO and to suspend the mandatory buyout of ESO until a final decision in this case has been reached. The court informed the Company on 12 August 2020 that temporary protection measures have been imposed and that the mandatory buyout of ESO is suspended pending a final decision of the proceeding. The mandatory buyout process commenced on 18 May 2020, and the Company at the time offered EUR 0.880 for each ESO share, which was approved by the Bank of Lithuania. On 19 August 2020, the Company appealed the court's decision to suspend the mandatory buyout process of ESO. The Company is required to lodge a statement of defence by 11 September 2020.

The Company is of the opinion that the above claims would not affect the delisting of the shares of GEN and ESO from trading on the regulated market, both of which ended on 1 July 2020, although it is likely that the claim related to ESO will result in a delay in the completion of the mandatory buyout process due to the temporary suspension imposed by the Vilnius Regional Court. The plaintiffs in these proceedings did not indicate the prices that they are seeking from the Company for their respective shares. In each case, if the court were to determine a different share mandatory buyout price than the price established by the Company, it is likely that this price would be applied to all minority shareholders involved in the mandatory buyout process (whether or not the mandatory buyout of their shares had been completed prior to the court decision). The Company does not expect these proceedings to have any material adverse impact on its financial condition. The Company believes that it will defend these proceedings successfully and has not made provisions for these proceedings.

PART 5 – OPERATING AND FINANCIAL REVIEW

The following discussion of the Group's financial condition and results of operations should be read in conjunction with the Group's historical financial information as at and for the financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 and for the six-month periods ended 30 June 2019 and 30 June 2020 and the accompanying notes included in the Financial Statements and with the information relating to the Group's business included elsewhere in this Document.

The discussion includes forward-looking statements that reflect the current view of the Group's management and involve risks and uncertainties. The Group's actual results could differ materially from those contained in any forward-looking statements as a result of factors discussed below and elsewhere in this Document, particularly in the sections titled "Risk Factors" and "Cautionary note regarding forward-looking statements". Recipients of this Document should read the whole of this Document and not just rely upon summarised information set out in this Part 5 ("Operating and Financial Review").

The following discussion focuses on the audited consolidated financial statements of AB "Ignitis grupė" for the 2017, 2018 and 2019 financial years and the unaudited consolidated condensed interim financial statements of AB "Ignitis grupė" for H1 2020. The audited consolidated financial statements of AB "Ignitis grupė" for the 2017, 2018 and 2019 financial years are prepared in accordance with IFRS as adopted by the EU, and the unaudited consolidated condensed interim financial statements of AB "Ignitis grupė" for H1 2020 are prepared in accordance with IAS 34 Interim Financial Reporting. Financial information is presented in euro, the Group's presentational currency.

This Document contains a discussion of EBITDA, adjusted EBITDA, EBIT, adjusted EBIT, adjusted net profit, investments, investments excluding grants and investments covered by customers, FFO, FFO to net debt, FCF, gross debt, net debt, net debt to EBITDA, net debt to adjusted EBITDA, ROE, adjusted ROE, ROCE and adjusted ROCE, all of which are financial measures not recognised under IFRS. The Group's management use these items as key performance indicators of the Group's business, and these items are presented to enhance the prospective investor's understanding of the Group's results of operations. For an explanation of these measures, see paragraph 4 of Part 3 ("Selected Financial Information").

Unless the context otherwise requires, all references to "the period under review" in this Part 5 ("Operating and Financial Review") are references to the period including the 2017 financial year, the 2018 financial year, the 2019 financial year, H1 2019 and H1 2020.

1. OVERVIEW

The Company together with its directly and indirectly controlled subsidiaries is a leading utility and renewable energy company in the Baltic region. The Group's core business is focused on operating electricity and gas distribution networks, and managing and developing its green generation portfolio. The Group also manages strategically important flexible generation assets, and provides customers and solutions services, such as the supply of electricity and gas, solar, e-mobility, improved energy efficiency, and innovative energy solutions for households and businesses. The Group operates in its home markets – Lithuania, Estonia, Latvia, Poland and Finland – and is evaluating opportunities in other countries on the energy transition path.

The Group is key to the energy security of Lithuania, with the Government as a key long-term stakeholder. The Group has a large, regulated and long-term contracted profit base giving it high visibility into returns, with attractive growth opportunities in relation to its green generation business in particular, as well as the ability to generate stable returns from its Networks business through investment in its distribution network. The Group has undergone a transformation into a regional leader in the transition to green energy, has no coal or nuclear generation facilities in its portfolio and anticipates that investments in green energy will be the main source of growth.

The Group's four principal operating segments are (i) Networks, which comprises the Group's business of distributing electricity and gas to consumers in Lithuania; the Group is the primary distributor of electricity in Lithuania and its distribution network covers the entire territory of Lithuania and operates approximately 9,500 kilometres of gas distribution pipelines; (ii) Green Generation, which is focused on the generation of electricity through renewable energy sources including wind, hydro, solar, biomass and waste, as well as expanding the Group's renewable energy portfolio; (iii) Flexible Generation, which

principally provides regulated system services (such as Tertiary Power Reserve Services and Isolated Regime Services) to ensure the flexibility and stability of Lithuania's electricity system; and (iv) Customers and Solutions, which primarily includes the Group's electricity and gas supply, trading and balancing business, including the supply of gas to consumers in Lithuania, Estonia, Latvia and Finland and supply of electricity procured by its trading business to consumers in Lithuania and, to a lesser extent, to consumers in Latvia, Estonia and Poland.

The largest contributors to the Group's adjusted EBITDA during the period under review were its Networks segment, which represented 69.5 per cent. of the Group's adjusted EBITDA (37.9 per cent. of the Group's revenue) in the year ended 31 December 2019, and its Green Generation segment, which represented 16.7 per cent. of the Group's adjusted EBITDA (7.6 per cent. of the Group's revenue) in the year ended 31 December 2019 (in each case before intragroup eliminations). The Networks segment and Green Generation segment are also the principal focus of the Group's investments (representing 39.5 per cent. and 56.0 per cent., respectively, of the Group's total investments in the year ended 31 December 2019). As the Group continues to expand its Green Generation portfolio in line with its strategy of accelerating the shift towards decarbonisation and renewable energy sources, it expects that its investments in Green Generation will increase and that Green Generation will represent an increasing share of the Group's adjusted EBITDA in future periods. The Networks segment will remain a core part of the Group's financial model, as the Group believes that the stability of this principal revenue stream, which, as a natural monopoly within Lithuania (serving approximately 99.3 per cent. of the market in 2018), is not subject to competitive pressures, contributes significantly to the management of the Group's overall risk profile and provides a solid basis for the implementation of its investment programmes.

The Flexible Generation segment represented 8.5 per cent. of the Group's adjusted EBITDA (7.3 per cent. of the Group's revenue) in the year ended 31 December 2019. The Customers and Solutions segment represented 46.1 per cent. of the Group's revenue in the year ended 31 December 2019 (making it the largest contributor to the Group's revenue) but represented only 4.1 per cent. of the Group's adjusted EBITDA, as it is a lower margin business.

The principal operating companies within the Group are ESO, GEN, REN and IGN. ESO is the subsidiary through which the Group operates its Networks segment. GEN is the subsidiary through which the Group operates its hydro and biomass plants of the Green Generation segment and its Flexible Generation segment; GEN owns four power plants and operates three of them, which are located in and connected to the transmission system in Lithuania. REN is the subsidiary through which the Group coordinates all of the Group's wind farm operations as well as the Group's renewable energy development projects under the Green Generation segment across all countries. IGN is the subsidiary through which the Group operates its Customers and Solutions segment.

The following tables sets forth certain key operating and financial indicators for the Group for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and for the six-month periods ended 30 June 2019 and 30 June 2020:

Key Operating Indicators

		<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
Electricity						
Electricity distributed	TWh	9.22	9.59	9.55	4.81	4.69
Electricity generated	TWh	1.28	1.01	1.06	0.47	0.95
Green share of generation	%	89.11%	93.35%	97.67%	97.95%	63.16%
Green electricity generated	TWh	1.14	0.95	1.04	0.46	0.60
Green Generation capacity	MW	1,159	1,256	1,350	1,350	1,350
Green Generation installed capacity	MW	1,043	1,077	1,077	1,077	1,077
Green Generation projects under construction	MW	116	179	273	273	273
Electricity sales in retail market	TWh	5.43	5.91	5.86	2.88	3.32
Republic of Lithuania	TWh	4.78	5.22	5.03	2.47	2.88
Republic of Latvia	TWh	0.66	0.69	0.83	0.41	0.44
Other	TWh	0	0	0	0	0.01
Electricity sales in wholesale market	TWh	0	0.70	4.71	2.26	1.22
New connection points and upgrades	units	29,640	30,976	40,151	19,025	18,246
SAIDI	min.	137.83	81.37	91.79	51.26	179.23
SAIFI	units	1.32	1.14	1.31	0.63	0.87
Gas						
Gas distributed	TWh	7.37	7.60	6.97	3.80	3.59
Gas sales	TWh	11.47	11.33	9.83	5.02	7.24
New connection points and upgrades	units	12,531	14,741	11,793	5,850	4,030
SAIDI	min.	1.16	0.61	1.25	0.68	0.24
SAIFI	units	0.007	0.006	0.008	0.005	0.003
Heat						
Heat capacity*	MWth	339	339	339	339	339
Heat installed capacity	MWth	40	40	40	40	40
Heat project under construction	MWth	299	299	299	299	299
Heat generated	MWth	0.11	0.10	0.09	0.06	0.15

* The Kaunas CHP Plant commenced commercial operations in August 2020 but was still classified as "under construction" as at 30 June 2020.

Key Financial Indicators

		<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
		<u>(unaudited)</u>			<u>(unaudited)</u>	
		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
Revenue*	EURm	1,100.8	1,070.1	1,090.6	557.9	590.9
Networks	EURm	459.1	381.2	413.8	208.5	236.1
Green Generation	EURm	62.3	78.3	83.3	36.0	39.5
Flexible Generation	EURm	49.5	68.0	79.7	47.4	38.5
Customers and Solutions	EURm	501.8	525.3	502.9	261.5	272.7
Other segments/eliminations**	EURm	28.2	17.1	10.9	4.5	4.1
EBITDA	EURm	227.2	145.3	206.8	105.0	149.8
Networks	EURm	145.1	121.0	134.1	70.6	96.1
Green Generation	EURm	36.1	40.8	42.9	24.0	23.8
Flexible Generation	EURm	42.1	17.4	38.2	26.0	7.7
Customers and Solutions	EURm	(0.8)	(31.2)	(10.1)	(16.3)	25.0
Other segments/eliminations**	EURm	4.7	(2.7)	1.7	0.8	(2.8)
Adjusted EBITDA	EURm	238.2	221.3	259.6	129.9	129.1
Networks	EURm	150.9	168.8	180.5	88.2	96.7
Green Generation	EURm	36.1	38.1	43.4	24.0	23.8
Flexible Generation	EURm	24.5	13.3	22.0	11.9	11.7
Customers and Solutions	EURm	21.2	6.7	10.7	2.9	(1.8)
Other segments/eliminations**	EURm	5.5	(5.6)	3.0	2.9	(1.3)

		Year ended 31 December (unaudited)			Six months ended 30 June (unaudited)	
		2017	2018	2019	2019	2020
EBIT	EURm	97.1	(20.4)	82.8	46.0	93.4
Networks	EURm	90.0	9.3	44.2	28.3	47.0
Green Generation	EURm	25.6	30.0	30.2	17.6	17.5
Flexible Generation	EURm	(5.4)	14.2	25.9	19.7	2.4
Customers and Solutions	EURm	(2.1)	(32.3)	(17.0)	(17.0)	21.8
Other segments/eliminations**	EURm	(10.8)	(41.5)	(0.6)	(2.6)	4.8
Adjusted EBIT	EURm	150.8	133.6	149.7	75.5	74.6
Networks	EURm	100.7	111.5	98.9	48.1	55.8
Green Generation	EURm	25.6	27.3	30.7	17.6	17.5
Flexible Generation	EURm	7.1	1.7	10.4	6.1	6.0
Customers and Solutions	EURm	19.9	5.5	3.8	2.2	(5.0)
Other segments/eliminations**	EURm	(2.4)	(12.3)	5.9	1.4	0.3
Investments	EURm	260.1	418.3	453.2	207.9	187.1
Networks	EURm	226.6	270.4	179.0	95.6	49.3
Green Generation	EURm	11.2	138.2	253.9	107.5	130.4
Flexible Generation	EURm	0.8	2.2	0.5	0.2	0.3
Customers and Solutions	EURm	1.2	0.8	3.2	1.3	0.9
Other segments/eliminations**	EURm	20.3	6.7	16.7	3.3	6.2
Investments (excl. grants and investments covered by customers***)	EURm	232.6	369.2	362.7	174.5	158.4
Networks	EURm	206.4	242.4	149.2	83.3	36.1
Green Generation	EURm	3.9	117.1	193.1	86.4	114.9
Flexible Generation	EURm	0.8	2.2	0.5	0.2	0.3
Customers and Solutions	EURm	1.2	0.8	3.2	1.3	0.9
Other segments/eliminations**	EURm	20.3	6.7	16.7	3.3	6.2
FCF	EURm	(62.8)	(205.2)	(206.2)	(62.4)	(9.5)
Networks	EURm	(63.2)	(152.0)	(46.2)	(29.7)	33.2
Green Generation	EURm	18.8	(59.6)	(158.8)	(62.9)	(88.6)
Flexible Generation	EURm	32.8	27.7	12.6	17.0	22.8
Customers and Solutions	EURm	(49.6)	(54.1)	(21.6)	(6.4)	36.5
Other segments/eliminations**	EURm	(1.7)	32.8	7.9	19.7	(13.5)
Net profit	EURm	93.5	(22.0)	59.0	28.8	71.9
Adjusted net profit	EURm	126.5	99.0	106.0	52.7	54.6

* Sales revenue from external customers only

**For the definition of "other segments/eliminations", please see paragraph 3 of this Part 5 ("Operating and Financial Review").

*** Investments covered by customers include new customers connections and upgrades and infrastructure equipment transfers.

		As at 31 December (unaudited)			As at 30 June (unaudited)
		2017	2018	2019	2020
Gross debt	EURm	614.1	864.5	1,098.3	1,302.4
Net debt	EURm	442.3	736.0	966.5	1,019.2
Net debt/EBITDA of last 12 months	times	1.95	5.07	4.67	4.05*
Net debt/Adjusted EBITDA of last 12 months	times	1.86	3.33	3.72	3.94*
FFO of last 12 months /net debt	%	48.5%	17.6%	19.6%	22.5%*
ROE of last 12 months	%	7.0%	(1.7)%	4.4%	7.7%*
Adjusted ROE of last 12 months	%	9.5%	7.5%	8.0%	8.1%*
ROCE of last 12 months	%	5.7%	(1.1)%	3.8%	5.8%*
Adjusted ROCE of last 12 months	%	8.8%	7.0%	6.9%	6.6%*

* Last 12 months figures for 30 June 2020 refer to the twelve-month period ended 30 June 2020.

Revenue Share by Country

	Year ended 31 December (audited)			Six months ended 30 June (unaudited)	
	2017	2018	2019	2019	2020
		(restated)		(restated)	
	(EUR million)				
Revenue by Country					
Republic of Lithuania	95.9%	93.5%	92.0%	92.8%	89.6%
Other	4.1%	6.5%	8.0%	7.2%	10.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Adjusted EBITDA share by types of activities

	Year ended 31 December (audited)			Six months ended 30 June (unaudited)	
	2017	2018	2019	2019	2020
		(restated)		(restated)	
	(EUR million)				
Adjusted EBITDA by types of activities					
Regulated	78.6%	87.2%	82.0%	79.1%	84.5%
Long-term contracted	2.6%	2.7%	5.1%	5.3%	5.8%
Other	18.8%	10.1%	12.9%	15.6%	9.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

2. **BASIS OF PREPARATION AND RESTATEMENT OF 2017 AND 2018 FINANCIAL STATEMENTS AND H1 2019 INTERIM FINANCIAL STATEMENTS**

The financial statements included in the Financial Statements beginning on page F-2 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IAS 34 Interim Financial Reporting, as applicable. These financial statements are presented in Euro.

For full details of the basis of preparation of the Financial Statements included in this Document, beginning on page F-2, please refer to the section of this Document entitled "*Presentation of Financial Information*" and to Note 2.1 ("*Basis of preparation*") to the 2019 Financial Statements and Note 2.1 to the 2018 and 2017 Restated Financial Statements.

In 2019, the Group's auditor changed from UAB PricewaterhouseCoopers to UAB Ernst & Young Baltic, due to the fact that UAB PricewaterhouseCoopers had been the Group's auditor for the last 10 years and the Group was required to change auditor under relevant legal requirements.

Change in management judgment on applying accounting methods and corrections of errors

In 2019, the Company reviewed certain management judgments on application of accounting principles and identified some errors in prior periods (relating to, *inter alia*, recognition of revenues, receivables, and payables related to regulatory activities). As a result, the Company restated the previously issued consolidated and separate statutory financial statements for the financial year ended 31 December 2018 and, where applicable, comparative financial information for the year ended 31 December 2017 accordingly. Such reissued financial statements, i.e. the 2018 and 2017 Restated Financial Statements, are included in this Document and, unless stated otherwise, the financial information presented in this Document in relation to the financial years ended 31 December 2017 and 31 December 2018 is derived from the 2018 and 2017 Restated Financial Statements.

The 2018 and 2017 Restated Financial Statements account for correction of errors and application of accounting treatments in relation to:

- presentation of revenue received from new customers connection fees;
- presentation of revenue relating to rendering of Public Service Obligations;
- presentation of incomes of Liquefied Natural Gas Terminal's security component collected from customers;

- presentation of incomes of electricity transfer (includes both transmission and distribution) and gas distribution services in Latvia;
- accounting principles for revenue, receivables and payables related to regulated activities; and
- presentation of revenue and costs related to electricity trading exchange market through the forward and future contracts.

Where applicable, comparative financial information for the year ended 31 December 2017 included in the 2018 and 2017 Restated Financial Statements was restated accordingly. For details and explanations, please refer to the Note 3.3 to the 2018 and 2017 Restated Financial Statements.

The 2019 Financial Statements, which are included in this Document, contain restated comparative data for the year ended 31 December 2018. In addition to the restatement of the 2018 consolidated statement of profit or loss and other comprehensive income and the 2018 consolidated statement of cash flows, an additional statement of financial position as at 1 January 2018 and 31 December 2018 is also presented in the 2019 Financial Statements to provide a retrospective correction of errors and application of accounting treatments described above. For details and explanations, please refer to the Note 4.26 and Note 4.27 to the 2019 Financial Statements.

The correction of errors and change of accounting treatment for the Group's financial statements are applied retrospectively in accordance with IAS 8 Accounting Policies (for more information, see Note 4 of the 2019 Financial Statements). The table below sets forth the effect of the corrections on revenue, operating expenses and Adjusted EBITDA in the year ended 31 December 2018:

		<u>2018 as reported</u>	<u>Change in accounting methods</u>	<u>Corrections of errors</u>	<u>Management's retrospective adjustments*</u>	<u>2018 restated</u>
Revenue	EURm	1,254.2	(155.3)	(28.9)	-	1,070.1
Operating expenses	EURm	(1,259.4)	132.7	36.3	-	(1,090.5)
Adjusted EBITDA	EURm	225.2	(4.6)	-	0.6	221.3

**Management adjustments were revised due to additional adjustment made by management. For more information, please refer to Note 42 to the 2019 Financial Statements.*

Additionally, the Interim Financial Information, which is included in this Document, contains restated comparative data for the six-month period ended 30 June 2019 due to corrections of accounting errors, reclassifications between items and changes in accounting methods, in relation to:

- presentation of revenue from electricity trading exchange market;
- reclassification of related party transactions related to revenue received from electricity balancing services;
- reclassification of revenue received from sales of inventory, services and emission allowances;
- reclassification of depreciation of assets held for sale; and
- reclassification related to revenue from derivatives.

For details and explanations, please refer to Note 4 of the Interim Financial Information.

3. OPERATING SEGMENTS

In 2020, the Group changed the composition and presentation of its operating segments, in accordance with the new strategy of the Group and due to changes in the Group's structure. The presentation of the operating segments in the 2019 Financial Statements reflects the revised approach, with four main operating segments:

- (i) Networks;
- (ii) Green Generation;

- (iii) Flexible Generation; and
- (iv) Customers and Solutions.

Consequently, 2018 comparative information has been restated and disclosed accordingly in the 2019 Financial Statements. For more details, see Note 42 in the 2019 Financial Statements.

For the tables included in this Document where a breakdown of information relating to the operating segments is provided, "other segments/eliminations" includes both amounts from "other segments" and "elimination of inter-company transactions and consolidation eliminations" (see Note 42 to the 2019 Financial Statements) or "other segments" and "adjustment on consolidation and elimination of intercompany transactions" (see Note 40 to the 2018 and 2017 Restated Financial Statements), as applicable.

The 2018 and 2017 Restated Financial Statements, which include comparative financial information for the year ended 31 December 2017, have not been restated to reflect the revised operating segments in the 2019 Financial Statements. As mentioned above, 2018 comparative information based on the revised operating segments has been included in the 2019 Financial Statements and, unless otherwise indicated, all segmental financial information for the year ended 31 December 2018 (which is unaudited) has been taken from the comparative information in the 2019 Financial Statements. Additionally, in order to enhance comparability across the period under review, this Document includes unaudited comparative information for the financial year ended 31 December 2017 that has been prepared by the management for purposes of preparing this Document to reflect the revised operating segments (presented on a comparable basis to segment information in the 2019 Financial Statements). This information is unaudited. In the 2018 and 2017 Restated Financial Statements, the Group had four operating segments, including: (i) distribution of electricity and gas (currently comprised within the Networks segment) and electricity supply carried out in the scope of ensuring public supply functions (currently comprised within the Customers and Solutions segment); (ii) electricity generation (currently comprised within the Green Generation and Flexible Generation segments); (iii) trade in electricity (currently comprised within the Customers and Solutions segment); and (iv) trade in gas (currently comprised within the Customers and Solutions segment).

4. SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

The Group's results of operations have been, and will continue to be, affected by many factors, some of which are beyond the Group's control. This section sets out certain key factors that the Group believes have affected the Group's results of operations in the period under review or could affect its results of operations in the future. The Group's four main operating segments each have distinct businesses that are affected by different factors and, therefore, the key factors set out in this section are grouped by operating segment and by those that affect the Group as a whole. Significant factors that affect the businesses, financial condition and results of operations of any of the Group's individual operating segments are likely to have an impact on the Group's results of operations on a consolidated basis. The results of operations of the Networks segment (which represented 69.5 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019) and the Green Generation segment (which represented 16.7 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019) have a particularly significant effect on the Group's consolidated results of operations.

The following significant factors which affect the results of operations of the Group and its operating segments are discussed further below:

Networks Segment

- Impact of regulation and regulatory pricing mechanisms on the Group's distribution business;
- Efficiency and reliability of the network;

Green Generation Segment

- Expansion of the Green Generation segment's installed capacity;
- Volume of electricity generated from the Group's Green Generation assets, load factors and availability;

- Pricing of the electricity achieved by the Group's Green Generation segment;
- Impact of asset rotation programme;

Flexible Generation Segment

- Impact of regulation and regulatory pricing mechanisms on the Flexible Generation segment;
- Synchronisation with the network system of continental Europe and competition for the provision of new ancillary services;
- Market prices of electricity and gas;

Customers and Solutions Segment

- Volume and margins of electricity and gas supplied;
- Deregulation of public electricity supply;
- Phase out of the regulation of the designated supply of gas;
- Effectiveness of hedging activities;

Multiple segments or the Group as a whole

- Impact of regulatory initiatives;
- Seasonality and weather conditions;
- Depreciation and amortisation;
- Currency exchange rates;
- Taxation;
- Macroeconomic conditions in the Baltic region and Poland; and
- Deferred payment on disposal of shares in LitGrid AB.

The discussion below is intended to explain the impact of these factors on the Group's business and results of operations:

4.1 Significant factors affecting results of the Networks segment

(a) Impact of regulation and regulatory pricing mechanisms on the Group's distribution business

The Group's energy distribution business comprised in its Networks segment is fully regulated, and its revenues are based entirely on tariffs for electricity and gas distribution that are regulated by the NERC, which establishes the upper limit for tariffs of the distribution services. Overall, this segment represented 40.0 per cent. of the Group's revenue and 74.9 per cent. of the Group's adjusted EBITDA in the six-month period ended 30 June 2020 and 37.9 per cent. of the Group's revenue and 69.5 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019.

The tariff model is based on the principle of allowing the DSO (being the company's subsidiary, ESO) to earn a return on the capital employed in the distribution business, including being reimbursed for the costs incurred in this business. Distribution costs include operating expenses, taxes (other than corporate income tax), technological losses and depreciation and amortisation of the distribution assets. The basis for calculation of the return on capital are the RAB, which determines the amount of the capital on which the Group is able to earn a return, and the WACC, which determines the cost to deploy that capital. Using this framework, the NERC sets caps on the tariffs for the provision of distribution services for five-year regulated periods to provide required funds and return for running regulated activities. Specific tariffs for

distribution are established by the Group within the tariff caps approved by the NERC, and are included within the overall tariff paid by customers and differentiated as distribution services.

The regulated nature of this business segment provides a significant degree of visibility and stability to the Group's revenues due to the established pricing framework and the five year price setting periods. However, results are subject to change between price setting periods depending on the calculations performed by the NERC at the start of each period, and are further subject to any changes in the regulatory framework, including with respect to the methodology used to determine the RAB and WACC.

In particular, the Group's electricity distribution business may be affected by any changes that may be implemented ahead of the next price setting period beginning in 2022. The current price setting period for electricity was originally due to expire at the end of 2020 but was extended for one year without revision to the tariff caps or methodology for the RAB model, as the NERC is currently preparing for the new regulatory period. The NERC has not significantly revised its methodology for the RAB model for electricity distribution since the beginning of the current price-setting period, but it is uncertain whether any changes will be introduced to the current methodology and what these changes might be. Before setting up the current regulatory methodology NERC hired consultants (PwC) to help it to construct the financial LRAIC model, which encompass a significant part of the current tariff. The NERC is currently in the process of hiring consultants to advise on updating the current LRAIC model. A change by the NERC in methodology relating to electricity distribution could potentially affect the tariff caps for the Group's electricity distribution business. The Group believes that if there adverse changes affecting the Group's Networks business segment, these should be fully or partially offset by other changes to the methodology with positive effect.

The current price setting period for gas runs until the end of 2023.

The following table sets forth the breakdown of the Networks segment adjusted EBITDA for the Networks segment during the period under review:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>(EUR million, except for percentage)</i>				
Investment return (RAB*WACC)	52.6	60.8	68.6	35.1	40.8
Depreciation and amortisation	74.4	81.6	89.1	43.1	44.0
Fees for new connections and upgrades and electricity equipment removal covered by clients	19.8	23.5	26.6	10.1	11.4
Other	4.1	2.9	(3.8)	(0.1)	0.5
Total adjusted EBITDA	150.9	168.8	180.5	88.2	96.7
Adjusted EBITDA margin	29.5%	38.4%	38.8%	38.5%	40.7%

The following is a more detailed discussion of the tariff framework for each of the electricity and gas distribution businesses. The Group's results from period to period, and particularly between different price setting periods, will depend upon the methodology used and the specific calculations performed by the NERC in determining the allowed income and returns of the Group's distribution business.

Tariff methodology

Electricity distribution tariffs are calculated by the NERC according to the Methodology of Setting Price Ceilings of Electricity Transmission, Distribution and Public Supply Services and Public Energy Price Ceilings approved by the NERC's Resolution No O3-3 of 15 January 2015 and subsequent amendments.

Gas distribution tariffs are calculated by the NERC according to the Methodology of Setting Regulated Prices in the Natural Gas Sector approved by the Resolution No O3-367 of 13 September 2013 and subsequent amendments.

The tables below set forth details of the electricity and gas distribution tariff components from 2017 to 2020:

Electricity Tariff Components – 2017 to 2020

ELECTRICITY		2017	2018	2019	2020
<i>Tariff components:</i>					
Depreciation and amortisation	EURm	65.6	69.8	75.7	80.0
Reasonable return (RAB x WACC)	EURm	44.4	51.1	62.5	74.2
Operating expenses	EURm	83.5	88.5	104.5	106.8
Technological losses	EURm	36.1	29.4	36.9	42.4
Supply of last resort and reactive power income	EURm	(9.3)	(9.3)	(13.5)	(13.6)
Excess profits / compensation for loss from prior periods	EURm	(38.5)	(45.4)	(55.0)	(39.9)
TOTAL INCOME LEVEL	EURm	181.8	184.1	211.1	249.9

Natural Gas Tariff Components – 2017 to 2020

NATURAL GAS		2017	2018	2019	2020
<i>Tariff components:</i>					
Depreciation and amortisation	EURm	6.8	7.7	9.2	9.6
Reasonable return (RAB x WACC)	EURm	8.9	10.3	6.7	8.8
Operating expenses	EURm	32.5	32.6	22.2	24.3
Technological losses	EURm	3.9	4.6	5.4	4.1
Excess profits / compensation for loss from prior periods	EURm	(3.7)	(16.6)	(7.0)	(9.8)
TOTAL INCOME LEVEL	EURm	48.4	38.6	36.5	37.0

The total annual planned regulated income level is divided by planned consumption volumes to calculate the tariff cap of the distribution service. In respect of electricity, price caps are calculated separately for medium and low voltage distribution services. The Group has no volume risk, because if actual volumes deviate from those forecasted, the Group is either compensated in future periods (to the extent volumes are lower than anticipated) or has to return excess profits (to the extent volumes are higher than anticipated).

During the period under review, the income received by the Group from the electricity distribution business has increased, due primarily to growing RAB, as well as higher operating expenses due to new obligations including compensations of servitudes and registration of security zones, as well as higher salary, maintenance and other expenses. Additionally, growing average electricity market prices have directly increased the amount of technological losses.

The natural gas distribution income level decreased in 2018 and has remained level in 2019 and 2020, primarily due to the substantial amount of excess profit from prior periods realised (which is deducted from income) and decreased WACC and operating expense levels as a result of the commencement of a new regulatory period in 2019.

Below is a discussion of the principal components of the tariff framework.

RAB

For electricity, the RAB component includes two parts: (i) the RAB value of feeders and transformers, which were fully depreciated since the introduction of the LRAIC model in 2016 or will be fully depreciated within the current regulatory period, is valued applying the LRAIC model, and (ii) the RAB value of the remainder of the assets (new customer connections and upgrades, feeders and transformers, which will be fully depreciated within upcoming regulatory periods, meters, transport infrastructure, information systems, etc.) is calculated applying the historical cost approach. In 2020, approximately 50 per cent. of the distribution assets RAB is calculated using the LRAIC model while the other 50 per cent. is calculated using the historical cost model (compared to 47 per cent. and 53 per cent., respectively, in 2019).

For gas, the RAB is calculated entirely using the historical cost approach.

The following table sets forth the RAB for the Group's electricity and gas distribution assets for the years 2017 to 2020:

RAB, EURm	2017	2018	2019	2020
Electricity (LRAIC) ⁽¹⁾	314	445	576	706
Electricity (Historical cost)	572	592	651	695
Gas (Historical cost)	124	144	189	227
Total RAB	1,010	1,181	1,416	1,628
<i>Growth</i>		17%	20%	15%

Note:

- (1) LRAIC increments for 2021 to 2026 step up (50% synthetic) used for return calculation are expected to amount to EUR 25 to 33 million per annum and LRAIC increments for 2021 to 2026 step up (100% synthetic) used for depreciation and amortisation are expected to amount to EUR 50 to 65 million per annum.

A significant portion of the Group's electricity distribution assets are calculated applying the LRAIC model. With the LRAIC model, the NERC sets the RAB value at the beginning of the price setting period (in 2016 it was based on historical cost) and then models RAB value as of the end of the price setting period, based on the replacement cost value. The change in RAB value for the price setting period is then distributed to each year of the price setting period on a linear basis. Modelling the RAB value at the end of the price setting period by reference to the replacement cost value provides the Group with the required funding resources to maintain planned network investments. Actual network investments in the short-term might be different than the amounts assumed in calculating the replacement cost value; however, it is expected that in the long-term the amounts will be similar. Currently, replacement cost value does not contain any indexation for inflation.

For the current price setting period, the RAB value at the end of the period was calculated for 2020 (originally the final year of the price setting period). The current price setting period was extended until the end of 2021 and the tariffs for 2021 are expected to be approved in mid-October 2020. The current expectation of the management is that the historical cost RAB will include all the investments of 2020, and the LRAIC RAB will remain stable at 2020 level (because the current LRAIC model did not foresee the regulatory period extension by one year).

Based on the current regulatory framework, the Group anticipates a total increase of EUR 150 to 200 million in the LRAIC RAB for the period from 2021 to 2026 (inclusive), while the increment for depreciation calculation in the same 6-year period is expected to be two times higher than that (i.e. EUR 300 to 400 million).

For the portion of the assets for which RAB is based on the historical cost model, investments in the assets would result in an increase in the RAB in the following year.

WACC

The WACC is calculated by the NERC according to the Methodology of Setting the Rate of Return on Investments (the WACC Methodology) approved by the NERC's Resolution No O3-510 of 22 September 2015 and subsequent amendments. The Group is in ongoing discussions with NERC regarding possible improvements of the WACC Methodology, which would lead to higher consistency in application of certain benchmarks within the formula, as well as provide reasonable expectations that the WACC in the future should be at a similar level as the current electricity WACC (slightly over 5 per cent.). Changes to the WACC Methodology are expected to be implemented in the first half of 2021. The actual WACC rate to be applied for the following year is announced by the NERC by 1 August of each year. The WACC is currently being calculated using the below formula:

$$\text{WACC} = R_d \times W_D + R_e \times 1/(1-m) \times W_E$$

where:

R_d = actual cost of debt plus half of the difference between the cap of cost of debt and actual cost of debt, but not more than the cap of cost of debt (set by NERC)

R_e = return on equity

W_D = share of debt capital

W_E = share of equity capital

m = tax rate

The WACC is applied on the RAB value at the beginning of the price setting period. It is stable for the price setting period except for the cost of debt component, which is recalculated annually depending on the Company's actual funding costs and the cap set by the regulator; the cap of cost of debt is calculated based on the average interest rate during the most recent twelve-month period of long-term loans given to non-financial corporations, as announced by the BoL.

In 2016, the first year of the relevant regulatory period for electricity, the regulated WACC was 5.24 per cent.

The following table sets forth the WACC for the Group's electricity and gas distribution assets for the years 2017 to 2021:

WACC	2017	2018	2019	2020	2021
Electricity (LRAIC)	4.90%	4.90%	5.00%	5.30%	5.34%
Electricity (Historical cost)	4.94%	4.88%	5.04%	5.28%	5.34%
Gas (Historical cost)	7.09%	7.09%	3.59%	3.84%	3.90%
WACC (RAB weighted average)	5.20%	5.15%	4.85%	5.08%	5.14%

While the Group expects that electricity WACC for the next electricity price setting period should remain around the current level (and that gas WACC should converge towards it in the next gas price setting period), based on discussions with the regulator, management believes that there are a number of variables that the regulator is taking into consideration and, therefore, a decrease in electricity WACC to reflect the lower interest rate environment (similar to what was observed for the Group's gas network) cannot be ruled out. Any such decrease would have a correspondingly adverse economic impact on the Networks segment and the Group.

Depreciation and amortisation

The depreciation component is calculated based on the RAB value, applying an average useful life rate of 40, 30 or 20 years, depending on the asset. Depreciation for LRAIC RAB is calculated by the NERC for the entire regulatory period and is publicly announced at the beginning of the period. Increases in depreciation and amortisation expenses result in a higher overall income level allowed for the Group.

The following table sets forth details of the depreciation and amortisation expenses included in the allowed revenues from 2017 to 2019 and the average useful life applied to different assets:

Depreciation and Amortisation

D&A (EURm)	2017	2018	2019
Electricity (LRAIC)	33	34	35
Electricity (Historical cost)	34	39	45
Gas (Historical cost)	7	8	9
Total D&A	74	82	89

Average useful life of new investments (years)

Electricity (LRAIC)	40
Electricity (Historical cost)	30
Gas (Historical cost)	45
Average	35

Regulatory operating expenses

Allowed regulatory operating expenses include all operating costs that are related to the distribution operations, as defined and accepted by the NERC. Such costs include wages, repair and maintenance expenses, transport, rent, utilities, IT, office, tax costs (other than corporate income tax) and other. Allowed costs exclude costs for bad debt expenses, sponsorship and gifts, as well as operating expenses from unrelated activities. The allowed operating expenses level is set by the NERC for the first year of the regulatory period, and is then recalculated annually to take account of inflation and changes in labour costs. The allowance is reset at the beginning of each price setting period by reference to the actual operating expenses in the prior price setting period.

Allowed regulatory operating costs must be reasonable and are subject to cost efficiency (the NERC sets a 1 per cent. required efficiency level – for example, if wages are expected to grow by 7 per cent. the NERC includes only 6 per cent. allowed growth for wages in the tariff). The allowed level of operating expenses can be expanded in the event of new obligations being imposed on the Group by newly passed legislation (for example, GDPR, compensation for servitudes, etc).

The table below provides the comparison of allowed and actual regulatory operating expenses for 2017 to 2019:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Electricity allowed operating expenses	84	89	105
Electricity actual operating expenses	72	67	80
Difference	11	21	25
Gas allowed operating expenses	32	33	22
Gas actual operating expenses	20	19	21
Difference	12	13	1

** The actual operating expenses are operating expenses according to regulatory accounting requirements. The amounts differ from the operating expenses recognised according to IFRS. Major differences between regulatory accounting and financial reporting are recognition of lease expenses (operating expenses according to regulatory accounting requirements vs IFRS 16), recognition of capitalised salaries according to IFRS and expensed upon the regulatory requirements and other.*

The Group is not compensated if it exceeds the allowed level. If the Group's actual operating expenses are lower than the allowed level, this could be subject to benefit sharing (the Company could be allowed to retain 50 to 100 per cent. of the savings relating to its electricity business since 2016 and 50 to 100 per cent. of the savings relating to its gas business since 2019), but only if the Group can prove that the savings came from its actions; otherwise, the savings would need to be returned fully in the following periods as excess profits. Historically, 100 per cent. of savings resulting from outperformance against the allowed levels of operating expenses have had to be returned as excess profits. Additionally, the benefit shared amount could be cancelled later in the event that network reliability targets (SAIDI, SAIFI) are not met. Please see paragraph 4.1(b) of this Part 5 ("*Operating and Financial Review*") below.

Technological losses

Technological losses for the electricity distribution business encompass network losses, electricity for own needs and commercial losses (differences between customers' declared volumes and consumed volumes). Natural gas network losses include technological losses and gas for own needs. Electricity/gas network losses depend on the electricity/gas purchase price for the upcoming year, which is forecasted by NERC according to the available market information, price calculation formulas or specific prices indicated in the contracts on electricity/gas purchase/sale. The income difference arising from the difference between the forecasted and actual purchase price is evaluated by setting the natural gas price for the next year.

For both electricity and gas, the forecast amounts of technological losses are included in the tariff on a pass through basis. Differences between the forecast and actual amounts are compensated in the following price setting periods.

Other services

The Group provides various other services which are directly related to DSO activity (for example, change of a meter, meter transfer service, temporary restriction of supply, renewal of supply, supply of last resort and reactive power service). These services are charged directly to the end users and included in the DSO service on a pass-through basis, and the Group's planned revenue from these services is deducted when calculating the DSO's allowed annual revenue under the RAB/WACC model. The Group's adjusted EBITDA from these services for the year ended 31 December 2019 is not returned to the consumers through the regulated DSO tariff, which amounted to approximately EUR 1 million.

Profit adjustments from prior periods

The allowed annual regulated income level for each price setting period is also adjusted to reflect any deviation in actual and regulated income amounts in the previous price setting period and any excess or shortfall of profit in the prior period is provided for in the tariff calculation for the subsequent period (spread across the five-year price setting period). These adjustments are made, for example, when there are differences between the forecast and actual volumes of electricity and gas distributed or between forecast and actual purchase prices of electricity and gas for own use or when operating expenses are lower than forecast (and the savings are not due to the Group's actions), in which case the excess profit achieved by the Group in that period will be deducted in subsequent periods.

According to the regulation, these adjustments for prior periods may result in either increases or decreases to the tariff received by the Group, to reflect a shortfall or excess of profit in the prior period, respectively. For the current price setting period, the Group's regulated income level for the distribution business has been adjusted to reflect excess profit in the prior price setting period.

Temporary regulatory difference amounts in electricity are evaluated twice per price setting period. For the first two years of the price setting period the Group gets compensated in the year 4 (average 2.5 years), for the 3-5 years of the price setting period you get compensated in the second year of the next price setting period (average 3 years). In gas segment temporary regulatory difference amounts are evaluated three times per price setting period: (1) for the first two years the Group gets compensated in the fourth year of the price setting period; (2) for the third and fourth years the Group gets compensated in the first year of the next of the price setting period; (3) for the fifth year of the price setting period the Group gets compensated in the second year of the price setting period.

These adjustments do not have an impact on the Group's adjusted EBITDA, because, when calculating adjusted EBITDA, Networks segment results in each period are adjusted for temporary regulatory differences, to eliminate the difference between the actual profit earned during the reporting period and the profit allowed by the NERC.

The following tables set forth the opening and closing balances of the temporary regulatory differences between 2017 and 2020 for each of the electricity and gas distribution businesses:

Electricity Distribution – Temporary Regulatory Differences

<i>EURm</i>	Opening balance	New amounts of temporary regulatory differences ⁽²⁾	Temporary regulatory differences realised through the tariff	LRAIC temporary difference amounts, which Group's management does not treat as excess profits	Realised LRAIC excess profit amount, which according to the management should be refunded to ESO ⁽³⁾	Closing balance
2017	77.7 ⁽¹⁾	14.3	(38.5)	31.4	-	84.9
2018	84.9	14.4	(45.4)	-	-	53.9
2019	53.9	23.4	(27.1)	-	(27.5)	22.7
2020	22.7	n/a ⁽⁴⁾	(23.6) ⁽⁵⁾	-	(27.5)	n/a

Notes:

- (1) The opening balance as at 1 January 2017 includes 23.5 million euro LRAIC temporary difference for 2016. The Group does not treat these amounts as excess profits according to current regulation, and believes, that these amounts deducted from the tariff of 2019-2020 will be returned to the Group in upcoming regulatory period (refer to Note 3 of this table)
- (2) Based on approved regulation, temporary regulatory difference amounts in electricity are evaluated twice per regulatory period. Due to extension of the current regulatory period, according to management assumptions, temporary regulatory differences for 2018 to 2021 will be evaluated in 2022 or 2023 distribution prices.
- (3) While setting the prices for 2019, the NERC deducted the depreciation and amortisation and WACC amounts calculated from the difference between LRAIC RAB and Historical cost RAB. The Group disagreed with such treatment and contended that it contradicted the approved regulation and brought a complaint against the NERC. After the Company received an official letter from the NERC that the deducted amounts would be taken into account in the next regulatory period, and the Group's auditors confirmed such judgment by signing their opinion, the complaint was withdrawn.
- (4) New amounts of temporary regulatory differences are not estimated for full year 2020. According to managements estimate new amounts of temporary regulatory differences during first half of 2020 amounted to EUR 30.8 million, this amount can either increase or decrease during the second half of 2020. The amount for the second half of 2020 are not known and is treated as forward looking information, therefore not evaluated in this table
- (5) The full annual realisable amount through the tariff of 2020. The amount also includes temporary regulatory differences for compensation of servitudes.

A positive balance represents a liability for the Group (i.e. the Group will need to return the balance to the regulator) and a negative balance is an asset for the Group (i.e. the Group will receive the amount in future periods). There is a negative closing balance of temporary regulatory difference in 2020, which the Group expects will be distributed in the next regulatory period; the exact amounts and the years for the compensation to be distributed will be determined when the tariff is set for 2023.

Natural Gas Distribution – Temporary Regulatory Differences

<i>EURm</i>	Opening balance	New amounts of temporary regulatory differences ⁽¹⁾	Temporary regulatory differences realised through the tariff	Closing balance
2017	27.2	14.2	(3.7)	37.8
2018	37.8	14.8	(16.7)	35.9
2019	35.9	1.4	(7.0)	30.3
2020	30.3	n/a ⁽²⁾	(9.8) ⁽³⁾	n/a

Notes:

- (1) Based on approved regulation, temporary regulatory differences in the gas segment are evaluated three times per regulatory period.
- (2) New amounts of temporary regulatory differences are not estimated for full 2020. According to managements estimate new amounts of temporary regulatory differences during first half of 2020 amounted to EUR 5.2 million, this amount can either increase or decrease during the second half of 2020. The amount for the second half of 2020 are not known and is treated as forward looking information, therefore not evaluated in this table
- (3) The full annual realisable amount through the tariff of 2020.

During the period under review, the temporary regulatory differences applicable to the Group arose primarily as a result of differences between allowed and actual operating expenses and fluctuations in purchase prices and volumes of electricity and natural gas. Starting from the next regulatory period, with a new level of allowed operating expenses established, the temporary regulatory differences are anticipated to decrease.

Investments

As discussed above, the RAB is affected by the investments made, or expected to be made, in the relevant assets during the period.

The Group invests significantly in its distribution networks in order to ensure their stability, reliability and efficiency, with these investments forming a significant portion of the Group's overall investments. Investments in the Networks segment totalled EUR 226.6 million, EUR 270.4 million and EUR 179.0 million in the years ended 31 December 2017, 31 December 2018 and 31 December 2019, respectively, and the current budget for the year ending 31 December 2020 is EUR 175 million. Pursuant to the Group's Strategic plan 2020-2023, the Group is planning to invest EUR 800 to 900 million and EUR 1.9 billion in the modernisation and renewal of its electricity and gas distribution networks over the periods 2020 to 2023 and 2020 to 2029, respectively, with the aim to significantly improve the resilience of the networks to force majeure events, enhance their intelligence, efficiency and network security and improve the network quality indicators. The cash requirements for these investments are expected to negatively affect the Group's free cash flows in the short to-medium term. However, the Group expects the trends in free cash flows to stabilise and move in a positive direction in the medium term.

Assets financed by subsidies (for example, EU grants) and direct payments from customers (principally fees for new connections and upgrades, as well as electricity equipment removal) are excluded from the calculation of the RAB. While fees for new connections and upgrades and electricity equipment removal would impact the adjusted EBITDA of the Networks segment (by increasing the revenue), other subsidies, such as the EU grants, would impact the adjusted EBITDA (and reflected directly in the Group's cash flow).

The below table provides further detail with respect to the investments factored or expected to be factored into the tariff calculations for the period 2017 to 2023:

<i>Investments</i>	2017	2018	2019	2020	Total for 2020-2023
		<i>(EUR million)</i>			
Electricity (LRAIC)	92.7	65.4	34.7	51.6	260-280
Maintenance	92.7	65.4	34.7	51.6	260-280
Electricity (Historical cost)	97.4	147.9	91.5	89.3	450-520
New connections and upgrades	48.8	71.3	67.9	65.6	250-260
Smart meters	-	-	-	0.8	115-150
Maintenance	45.2	65.1	14.1	17.7	75-85
Electricity equipment removal	3.5	4.9	5.2	4.1	10-20
Other	-	6.6	4.4	1.0	0-5
Gas (Historical cost)	36.5	57.1	52.7	34.2	90-100
New connections and upgrades	26.7	47.7	44.9	23.1	55-60
Maintenance	9.7	9.4	7.8	11.1	35-40
Investments	226.6	270.4	179.0	175.0	800-900
<i>Grants and investments covered by customers</i>	2017	2018	2019	2020	Total for 2020-2023
		<i>(EUR million)</i>			
Electricity (LRAIC)	-	-	-	-	-
Electricity (Historical cost)	14.9	19.7	22.0	22.1	105-125
New connections and upgrades (covered by customers)	11.3	12.5	15.0	11.8	65-70
Grants	0.1	2.7	2.1	6.5	30-35
Electricity equipment removal (covered by customers)	3.5	4.5	4.9	3.8	10-20
Gas (Historical cost)	5.3	8.3	7.7	6.9	15-25
New connections and upgrades (covered by customers)	5.0	6.5	6.7	5.9	15-20
Grants	0.3	1.7	1.0	1.1	0-5
Grants and investments covered by customers	20.2	28.0	29.8	29.0	120-150
Investments (excl. grants and investments covered by customers)	206.4	242.4	149.2	146.0	650-780

(b) *Efficiency and reliability of the network*

The performance of the Networks segment depends substantially upon the availability and efficient operation of the Group's distribution network, which covers the entire territory of Lithuania and comprises approximately 125,500 kilometres of electricity lines and approximately 9,500 kilometres of gas distribution pipelines in Lithuania. Monitoring and enhancing the quality and efficiency of the distribution network is therefore one of the Group's key strategic priorities.

As the Group is the primary distributor of electricity and gas in Lithuania, the volume of electricity and gas distributed by the Group, and the number of new connection points and upgrades, depends primarily upon the overall consumption of energy in Lithuania, which is affected by fluctuations in Lithuania's GDP and other economic factors, demographic factors, temperature and other climate conditions and other factors. For example, the significant growth in the number of prosumers (i.e., energy consumers who also participating in energy production activities) in the market is expected to drive future volume of electricity distribution.

In general, the efficiency of the Group's distribution activities helps, in the long-term, to reduce operating expenses and reduce the tariff to customers, which can make the overall system more competitive. Although the Group has a natural monopoly in respect of electricity and gas distribution in Lithuania, more competitive pricing can increase the number of customer connections, for example, by making Lithuania more attractive for foreign investors.

The efficiency of the Group's electricity and gas distribution activities primarily impact the costs of the Networks segment, but under the regulatory tariff framework may also affect the reasonable return (WACC) received by the Group for the distribution business. Based on current regulation if the Group does not meet network reliability targets, the NERC has the ability to charge the Group with penalties for each quality indicator separately. The maximum penalty amount per indicator would be an amount equal to 2 per cent. times the WACC (for example, instead of 5.34 per cent. in 2021, 5.23 per cent. would be applied, which translates into a penalty of 0.11 per cent). The regulatory framework places a high degree of responsibility on the Group for the safe and reliable operation of its electricity distribution network and this is reflected in the pricing framework.

The level of efficiency has an impact on a variety of the Networks segment's operating expenses, including in particular repair and maintenance expenses, the volumes of electricity and gas purchased for own use, IT expenses and wages. As part of the regulatory tariff framework, operating expenses are included in the calculation of the maximum tariff set by the NERC for each price setting period. The amount allowed for operating expenses is set by the NERC for the first year of the price setting period, subject to annual adjustments for inflation and wage cost increases. If the Group's actual operating expenses are higher than those contemplated in the tariff calculation, the Group will generally not be compensated (save in the case of higher costs as a result of new regulations). This will therefore result in a reduction in the Networks segment's allowed profit for the period. During the period under review, this has not affected the Group's results as its actual operating expenses have been lower than the amounts provided for in the calculation of the tariff. It is possible that in the next price setting period the headroom for operating expenses provided for in the calculation of the tariff will be lower, but the Group currently expects that this headroom will still be sufficient to cover its actual operating expenses.

If, on the other hand, the Group's actual operating expenses are lower than those contemplated in the tariff calculation, the difference would potentially be subject to a benefit sharing mechanism whereby the Group would be permitted to retain a portion of the cost savings (typically between 50 per cent. and 100 per cent.). However, in order to benefit from this, the Group would need to demonstrate the reason for the cost savings and establish a justification for sharing the benefit. To the extent the Group is allowed any benefit sharing, this could be withdrawn later in the event that the Group does not meet network reliability targets with respect to SAIDI and SAIFI.

SAIDI and SAIFI are the primary quality indicators used by the Group to measure the efficiency of its distribution networks. SAIDI measures the average duration of unplanned interruptions in electricity or gas distribution and SAIFI measures the average number of unplanned long interruptions per customer. These indicators may vary from period to period based on a variety of factors, including breakdowns in the Group's network grids, weather and environmental factors and third party network interruptions.

The regulated quality indicators (SAIDI and SAIFI) exclude outages attributable to force majeure (weather and environmental factors) and third party network interruptions. The Company also monitors and sets internal targets for the full quality indicators, including force-majeure and third party network interruptions.

The table below sets forth the quality indicators regulated by NERC for both electricity and gas during the period under review:

		2017		2018		2019		2020	
		Target	Actual	Target	Actual	Target	Actual	Target	Actual
<i>Electricity:</i>									
SAIDI	min	52.12	49.06	52.12	42.06	52.12	48.71	52.12	-
SAIFI	units	0.72	0.67	0.72	0.68	0.72	0.81	0.72	-
<i>Gas:</i>									
SAIDI	min	0.44	0.56	0.44	0.20	0.35	0.22	0.35	-
SAIFI	units	0.0056	0.0036	0.0056	0.0033	0.0033	0.0027	0.0033	-

The Group did not meet the target SAIFI set by the NERC for electricity in 2019 following the Company's centralised and more stringent qualification of outage to force-majeure or due to third party activities resulting from the NERC's investigation of quality indicators for the period of 2012-2018. If the Group does not meet network reliability targets, the NERC has the ability to charge the Group penalties for each quality indicator separately. The maximum penalty amount per indicator would be an amount equal to 2 per cent. times the WACC (for example, instead of 5.34 per cent. in 2021, 5.23 per cent. would be applied, which translates into a penalty of 0.11 per cent). The penalty according to current regulation will most likely be imposed in the second year of the following regulatory period.

The Group also did not meet the target SAIDI set by the NERC for gas in 2017 due to a few outages attributed to staff errors. Due to breach of the SAIDI ratio, NERC decreased the allowed reasonable return rate of gas from 3.59% to 3.58% in year 2019. That resulted in regulated revenue being lower by EUR 18.7 thousand in 2019. Therefore, in addition to any impact on operating expenses, failures in the reliability and efficiency of the distribution network could have a direct impact on the returns allowed to the Group during the period.

The table below represents quality indicators of electricity and gas, which includes all unplanned outages including force-majeure and third party network interruptions:

		2017	2018	2019	2019 1H	2020 1H
<i>Electricity:</i>						
SAIDI	min	137.83	81.37	91.8	51.26	179.23
SAIFI	units	1.32	1.14	1.31	0.69	0.87
<i>Gas:</i>						
SAIDI	min	1.161	0.606	1,249	0.68	0.24
SAIFI	units	0.007	0.006	0.008	0.0050	0.0030

The SAIDI and SAIFI indicators for both the electricity distribution business and the gas distribution business generally deteriorated in the year ended 31 December 2019 as compared with the year ended 31 December 2018, largely as a result of breakdown in the medium voltage grids caused by weather-related factors such as fallen trees (in the case of electricity distribution) and increased third party network interruptions (in the case of gas distribution).

In the six-month period ended 30 June 2020, SAIDI/SAIFI ratios significantly deteriorated compared to the six-month period ended 30 June 2019 as a result of storm Laura in March 2020, which increased SAIDI by 128.25 minutes and SAIFI by 0.19 units. Storm Laura interrupted electricity distribution to more than 250,000 residents, and was the largest storm since 2005 when hurricane Erwin struck Lithuania. Electricity was restored to all customers who experienced outages in just between two and three days.

4.2 Significant factors affecting results of the Green Generation segment

(a) Expansion of the Green Generation segment's installed capacity

The Group's results depend substantially upon the total installed capacity of the Group's generation facilities, as well as the mix of these facilities. Going forward, the Group expects that increases in its

installed capacity will be comprised primarily of the development of further Green Generation assets, as part of the Group's overall strategy of contributing to decarbonisation by growing its green energy share to meet regional energy commitments. The Group is actively expanding its Green Generation portfolio, both in Lithuania and regionally, and expects that this segment will grow substantially in the coming years and represent an increasingly large portion of the Group's adjusted EBITDA, as well as its investments. The Group's overall adjusted EBITDA, as well as its costs and investments, are also expected to increase in line with the growth in the Group's portfolio.

Since 2016, the Group has expanded and diversified its Green Generation portfolio through the acquisition of four onshore wind farms (two in the first quarter of 2016 and the remaining two at the end of 2018), with a total installed capacity of 76.0 MW, as well as the development of the Kaunas CHP Plant which commenced commercial operation in August 2020, providing approximately 24 MW of electricity generation capacity and 70 MW heat generation capacity. Including the Group's two hydro powerplants, the Green Generation portfolio currently consists of 1.1 GW of total gross installed capacity.

The following table sets forth the breakdown of Green Generation adjusted EBITDA by assets during the period under review:

Green Generation Adjusted EBITDA by Assets*

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
			(EUR million)		
Kruonis PSHP	11.3	12.9	17.2	7.3	12.7
Kaunas HPP	16.1	17.1	12.9	8.6	4.9
Total hydro	27.4	30.0	30.0	15.8	17.6
Eurakras	4.6	4.0	5.1	2.6	2.8
Tuuleenergia	3.0	3.1	3.7	1.9	1.7
Vėjo vatas	0.0	0.2	2.7	1.5	1.6
Vėjo gūsis	0.0	0.4	3.8	2.0	2.0
Pomerania	0.0	0.0	(0.1)	0.0	(0.3)
Mažeikiai	0.0	0.0	(0.1)	0.0	(0.1)
REH**	-	-	(0.8)	(0.2)	(0.5)
Total wind	7.6	7.7	14.2	7.8	7.3
Vilnius CHP	(0.5)	(0.7)	(1.2)	(0.4)	(1.1)
Kaunas CHP	(0.3)	(0.5)	(1.6)	(0.6)	(0.9)
Elektrėnai biomass boiler	1.8	1.6	2.0	1.5	1.0
Total WtE/Biomass	1.1	0.4	(0.8)	0.5	(1.0)
Total Green Generation adjusted EBITDA	36.1	38.1	43.4	24.0	23.8

* Calculation of Adjusted EBITDA by individual asset involves the allocation of revenues and expenses to the individual assets, which in turn requires management to make certain allocation assumptions.

** REH – UAB “Ignitis Renewables” (holding)

In addition to these operating assets, the Green Generation portfolio also contains projects representing an additional 249 MW of electrical capacity and 229 MW of waste-to-energy/biomass capacity under construction, as set out in the following table:

Green Generation Pipeline – Projects Under Construction

	<u>Location</u>	<u>Capacity – Electricity (MW)</u>	<u>Capacity – WtE/Biomass (MWth)</u>	<u>Status</u>	<u>Estimated COD</u>	<u>Total investment</u>
Wind (onshore)						
Pomerania	Poland	94	-	Foundations complete	Q1 2021	EUR 130m
Mažeikiai	Republic of Lithuania	63	-	Tendering suppliers and building roads	2023	EUR 80-85m
Waste-to-energy/ biomass						
Vilnius Plant	CHP Republic of Lithuania	92	229	Construction 80% complete	Q1 2021 (waste-to-energy unit) Q2 or Q4 2021 (biomass unit)	EUR 350m
Total under construction		249	229			

The following table sets forth the Group's historical and planned investments in Green Generation projects under construction:

Green Generation Investments

	<u>As at 30 June 2020</u>	<u>H2 2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u>
			<i>(EUR million)</i>			
Vilnius CHP	270	50	30	-	-	350
Kaunas CHP	136	21	-	-	-	157
Pomerania	90	37	3	-	-	130
Mažeikiai	2	4	19	60	-	85
Total	498	112	52	60	-	722

The Group has a growing pipeline of further renewable projects, with target technologies including onshore wind, offshore wind, waste-to-energy, biomass and solar. This includes:

- Solar PV projects representing approximately 200 MW in installed capacity in respect of which letters of intent have been signed with developers to acquire these projects between 2022 to 2023;
- A 700 MW offshore wind project in Lithuania that the Group aims to jointly develop with a strategic partner with whom a letter of intent is signed, and the final partnership document is expected to be signed in 2020; and
- The potential construction of an additional unit in Kruonis PSHP, which could increase the plant's capacity by up to 225 MW, subject to economic viability.

The Group is flexible with respect to the stage of the project lifecycle at which it invests, provided that the Group's return criteria are met. Its current development projects include greenfield projects (Vilnius and Kaunas CHP plant projects), early stage development projects (the Mažeikiai wind farm) and late stage development projects (the Pomerania wind farm). The Group may also sometimes enter into partnership arrangements with third parties to develop a project (such as its partnership with Fortum in connection with the development of the Kaunas CHP Plant and its offshore wind partnership). The Group's target is to reach 1.6 to 1.8 GW of installed green energy capacity in 2023 and 4.0 GW of installed green energy capacity by 2030.

The Group's ability to achieve these targets will depend upon being able to identify and secure suitable projects meeting its investment criteria, which will be affected by, among other things, competition. In the renewable energy sector, competition is focused on bidding for new or acquiring existing projects, securing delivery and installation of key equipment and on-grid pricing. Certain competitors may have better access to local government support and to financial, infrastructure or other resources than the Group, enabling them to be more competitive in the development and acquisition of new renewable energy projects. In addition, barriers to entry are relatively low in Lithuania and other jurisdictions in which the Group operates its Green Generation segment and the Group may face even greater competition in the future.

Nevertheless, the Group believes that it does benefit from certain competitive advantages which strengthen its ability to bid successfully for new projects. These include the Group's size, as the top green generation capacity owner in Lithuania (representing 57 per cent. of the country's green generation capacity) and the second largest green generation capacity owner in the Baltic region, the Group's robust financial structure and the Group's existing successful track record in green energy expansion.

The expansion of the Group's portfolio affects the Group's results of operations and financial position in a number of respects. Initial acquisition costs for project assets will be reflected in the Group's cash flows as cash outflows at the time of acquisition. New developments require a significant amount of investments, and the Group expects that its investments allocated to the Green Generation segment will remain at a high level as the green portfolio expands. The Group anticipates that 40 to 50 per cent. of its investments for the period from 2020 to 2023 will be dedicated to the Green Generation segment. Please see paragraph 9 of this Part 5 ("*Operating and Financial Review*") below for a discussion of the Group's investments during the period under review, including with respect to the currently ongoing Green Generation developments referred to above. To the extent that required investments are higher or lower than that anticipated by the Group at the time of approving the development, this could have an impact on the Group's results of operations, as well as the Group's return on investments. Additionally, any delays in the COD could give rise to additional costs and delay the commencement of revenues, which could have a direct impact on the Green Generation segment's results.

The Group may also incur additional debt in connection with project acquisitions and developments. For example, the Group has entered into a guaranteed loan facility with the EIB in the amount of EUR 190 million in connection with the development of the Vilnius CHP Plant, a guaranteed loan facility with Swedbank in the amount of EUR 120 million (of which 51 per cent. is attributable to the Group and 49 per cent. is attributable to the Group's commercial partner, Fortum) in connection with the development of the Kaunas CHP Plant and a secured loan agreement with the EIB in the amount of PLN 258 million (approximately EUR 59 million) for the development of the new wind farm in Poland. The Group expects that it will increasingly utilise project finance loans in connection with new developments (either before or after the project completion date), alongside other types of corporate financing. As the Group's debt increases, its interest expenses will increase.

Once development of a new facility is completed and commercial operations begin, the Group will benefit from additional revenues and will also have additional operational costs (including operations and maintenance costs, staff costs, contractor costs, and other costs). Therefore, different periods may not be entirely comparable due to differences in the installed capacity base between the periods. During the period under review, this is reflected in the increased generation from the two wind farms acquired at the end of 2018 in the year ended 31 December 2019 and the six-month period ended 30 June 2020. As the Kaunas CHP Plant commenced commercial operation in August 2020, and the Pomerania and Vilnius CHP Plants are expected to commence commercial operations by the first quarter and second quarter of 2021, respectively, they will result in further increases in generation, revenues and operational costs in the near term.

The actual results of new developments may differ materially from those assumed in the business case at the time the Group's investment in the project is approved for a variety of reasons, including assumptions in relation to investment requirements, electricity prices, load factors, capture price effects, balancing costs and other matters later proving to be incorrect.

(b) *Volume of electricity generated from the Group's Green Generation assets, load factors and availability*

The revenues and adjusted EBITDA of the Green Generation segment depends partially upon the volume of electricity generated by the Group's wind farms and hydroelectric plants and, once operational, the Group's waste-to-energy/biomass CHP plants.

The following table sets forth the electricity generated by the Green Generation segment and certain other key operating indicators during the period under review:

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Electricity generated by Green Generation assets	TWh	1.14	0.94	1.04	0.46	0.60
Wind	TWh	0.13	0.12 ⁽¹⁾	0.23	0.12	0.13
Hydro	TWh	1.01	0.82	0.81	0.34	0.46
Waste	TWh	0	0	0	0	0.01
Wind farms availability factor	%	97%	99%	98%	97%	98%
Wind farms load factor	%	36%	28% ⁽²⁾	34%	35%	39%
Hydro plants availability factor						
Kruonis PSHP (pump storage)	%	96%	86%	89%	87%	92%
Kaunas HPP (run-of-river)	%	87%	93%	94%	99%	98%
Hydro plants load factor						
Kruonis PSHP (pump storage)	%	7%	7%	8%	5%	9%
Kaunas HPP (run-of-river)	%	52%	41%	32%	41%	34%
Kruonis PSHP efficiency ⁽³⁾	%	72%	71%	71%	70%	72%

Notes:

- (1) Electricity generated in power plants owned by the Group. Electricity generated in Vejo Vatas and Vejo Gusis prior to acquisition is excluded.
- (2) Includes the full year results of Vejo Vatas and Vejo Gusis, which were acquired by the Group on 5 November 2018.
- (3) Calculated as the average value of the production and consumption efficiency factors; includes excitation and transformer losses and excludes synchronous compensator operation.

Wind

The load factor of the Group's portfolio of wind farms was on average (weighted) 36 per cent. in 2017, 28 per cent. in 2018 (including the full year results of Vejo Vatas and Vejo Gusis, although these were only acquired by the Group on 5 November 2018) and 34 per cent. in 2019. The load factor is impacted by, among other things, site specific wind speeds and general weather conditions, the specific turbines, availability of wind farms and the extent to which the Group has wind farms in the ramp-up stage, and is therefore subject to change between years and within the year. Wind farm power generation availability (i.e. the ability of the wind farm to generate electricity) also depends primarily upon weather conditions. Please see paragraph 4.5(b) of this Part 5 ("*Operating and Financial Review*") below. The Group benefited from a significant (81.4 per cent.) increase in wind generation in the year ended 31 December 2019, which was partially a result of the acquisition of two wind farms in November 2018 but also due to more favourable weather conditions (demonstrated by the 6.0 percentage point increase in the load factor).

The Group is currently developing two additional wind farms (in Poland and Lithuania, with installed capacities of 94 MW and 63 MW, respectively), and the Group's electricity generation from wind will increase substantially when these wind farms become operational, currently expected to be in the first quarter of 2021 and the second quarter of 2023, respectively. The Group anticipates that the two new plants combined will produce approximately 0.56 TWh per annum once fully operational, more than double the Group's wind generation in the year ended 31 December 2019. Compared to the average load factor of 31 per cent. from 2017 to 2019 for the Group's current portfolio, the Group expects the load factor for these additional two wind farms to be approximately 40 per cent. over the life-cycle, primarily driven by technical development and sites with better wind conditions.

The Group's onshore wind assets have average useful lives of up to 30 years.

Hydro

The Group's hydro plants currently represent a substantial majority of the Group's overall energy generation. In the year ended 31 December 2019, the Group's hydro plants generated 0.81 TWh of electricity, representing approximately 75.9 per cent. of the Group's total electricity generated, compared to 0.82 TWh or 80.7 per cent. of the Group's total electricity generated for the year ended 31 December

2018 and 1.01 TWh or 78.9 per cent. of the Group's total electricity generated in the year ended 31 December 2017. In the six-month period ended 30 June 2020, hydro power plants generation was 0.46 TWh and was 0.34 TWh in the six-month period ended 30 June 2019.

The volume of generation from the Group's hydro plants depend partly upon the regulated activities performed for the TSO during the period, the spread between "peak" (day) and "off peak" (night) prices of electricity and partly upon the water level in the river Nemunas and the Kaunas reservoir. Volumes also differ between the Group's two hydro plants due to the different technology used: the Kruonis PSHP plant using pump storage and the Kaunas HPP plant using a run-of-river system. Kruonis PSHP and Kaunas HPP will both have an indefinite expected asset useful life as long as they are adequately maintained.

With respect to the regulated activity, Kruonis PSHP is responsible for the provision of secondary power reserves to the TSO, with two units of Kruonis PSHP's capacity (representing 450 MW of installed capacity – half of Kruonis PSHP's overall capacity) being allocated solely to this service. These two units generate electricity after activation of the secondary power reserves upon instruction of the TSO. The TSO can activate secondary reserve in the amount of up to 400 MW in 2020 for no more than 12 hours in a row. The Group's revenues from this segment are based on reserved capacity, rather than the actual amount of electricity generated. The volume of electricity related to the activation of the secondary power reserve services is relatively limited when compared to the total production volume of Kruonis PSHP.

Additionally, Kruonis PSHP and Kaunas HPP provide the system recovery service to the TSO, which is supposed to be used for the recovery of the electricity system when there has been a sudden loss of power in the system, when there is a risk of an electricity "black-out". Under this service, Kaunas HPP provides the service to the 110kV grid while Kruonis PSHP provides the service to the 330kV grid.

With respect to the unregulated activity, the operating models for Kruonis PSHP and Kaunas HPP are distinct.

At the Kruonis PSHP, production volume is significantly affected by the spread between "peak" and "off peak" prices. It pumps water using electricity when prices are lower (typically at night) and produces electricity when prices are higher (typically during the day), and typically generates only when the fluctuations between "peak" and "off peak" prices are sufficient to cover the efficiency rate of the plant.

At the Kaunas HPP, as the variable costs are lower the Group generally generates whenever it is possible to do so, although it also utilises the "peak"/"off peak" model with Kaunas HPP to a certain extent, managing water flows to the extent possible such that the plant produces more electricity during the "peak" hours. As the production volumes of the Kaunas HPP plant depend significantly on water flow, they are characterised by a certain seasonality and variation between periods based on water conditions. For example, in the year ended 31 December 2019, electricity generation at Kaunas HPP decreased by 21.8 per cent. compared to the year ended 31 December 2018, primarily due to the water flow in the Nemunas river being significantly lower. Additionally, the ability to regulate the volume of production is limited by the Rules for Use and Maintenance of Kaunas HPP Reservoir approved by Environmental Protection Agency by Order of the Director of 29 July 2016 No. 215, the requirements of which restrict the fluctuations of water in the reservoir for environmental purposes. Please see paragraph 4.5(a) of this Part 5 ("*Operating and Financial Review*") below.

The following table sets forth the historical investments for Kruonis PSHP and Kaunas HPP during the period under review:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
Kruonis PSHP..... <i>EUR million</i>	1.1	3.5	0.2	0.1	0.0
Kaunas HPP..... <i>EUR million</i>	0.1	0.1	0.1	0.0	0.1
Total hydro investments<i>EUR million</i>	1.2	3.6	0.4	0.1	0.2

Average capital expenditure between 2017 and 2019 for Kruonis PSHP and Kaunas HPP were EUR 1.6m and 0.1m, respectively.

Waste-to-energy/biomass CHP plants

The Group commenced commercial operation of the Kaunas CHP Plant in August 2020 and it is expected to operate at full capacity in the fourth quarter of 2020. The plant has a total installed electricity generation capacity of approximately 24 MW and a total installed heat production capacity of approximately 70 MW. The Group is also currently developing the Vilnius CHP Plant, which has a total installed electricity generation capacity of approximately 92 MW and a total installed heat production capacity of approximately 229 MW, and is expected to commence commercial operation in the first quarter of 2021.

The Kaunas CHP will be operated as a base load producer. The Group expects that it will generate electricity year-round other than two one to two week planned outages before and after the main heating season for overhaul and maintenance works. The Vilnius CHP Plant will consist of two cogeneration units: a waste-to-energy cogeneration power plant unit and biomass cogeneration power plant unit. The waste-to-energy unit will be operated as a baseload heat producer, and the Group expects that, as with the Kaunas CHP Plant it will generate electricity year-round other than two one to two week planned outages before and after the main heating season for overhaul and maintenance works. The biomass cogeneration unit is expected to be operated only during the main heating season, which lasts approximately six to seven months each year.

Once operating at full capacity, by incinerating approximately 200 thousand tons of waste (approximately 50 per cent. municipal waste and approximately 50 per cent. non-hazardous industrial waste), the Kaunas CHP will generate approximately 170 GWh of electricity and produce approximately 500 GWh of heat annually. The Vilnius CHP Plant, by incinerating approximately 160 thousand tons of municipal waste and burning up to approximately 450 thousand tons of biomass per annum, will generate approximately 430 GWh of electricity and produce approximately 1,240 GWh of heat annually.

(c) *Pricing of the electricity achieved by the Group's Green Generation segment*

The revenues and adjusted EBITDA of the Green Generation segment are affected by the prices the Group achieves for electricity produced from its Green Generation assets. Each type of asset is subject to different pricing dynamics, as described below.

Wind

The Group's existing wind farms have the benefit of renewable support subsidy schemes that provide fixed long-term contracts through an initial subsidy period. During the year ended 31 December 2019, the portion of revenue from the Group's wind farms earned from contracts with fixed long-term feed-in or feed-in-premium tariff was 87 per cent. (78 per cent. for 2018 and 80 per cent. for 2017, respectively). The CfD tariff in Poland is linked to the annual consumer price inflation, while the renewable support tariffs in Lithuania and Estonia are not inflation-linked. The remainder of revenue is earned from sales at market prices (which during the period under review was attributable only to the Group's Estonian wind farm).

The following table sets forth the applicable support schemes, subsidies and the expiration of the subsidy periods for each of the Group's four existing operating wind farms:

Wind Farm Support Schemes

<u>Wind farm</u>	<u>Capacity (MW)</u>	<u>Scheme</u>	<u>Support (EUR/MWh)</u>	<u>End of Support Scheme</u>
Eurakras (Republic of Lithuania)	24	FiT	71.0	1 December 2027
Vejo Gusis (Republic of Lithuania)	19	FiT	86.9	23 March 2022 (9 MW) and 31 December 2022 (10 MW)
Tuuleenergia ⁽¹⁾ (Republic of Estonia)	18	FiP	53.7	1 December 2026
Vejo Vatas (Republic of Lithuania)	15	FiT	86.9	1 October 2023

Note:

- (1) 12 MW of the Tuuleenergia wind farm's capacity benefits from the FiP scheme while generation from the remaining 6 MW of capacity is sold at market prices without such support.

Electricity produced from the Group's wind farms in Lithuania is sold pursuant to fixed feed-in tariffs, which will expire between 2022 and 2027. The Group's Estonian wind farm benefits from a feed-in

premium scheme whereby the Group receives a risk premium on top of the electricity market price. Electricity produced by the Estonian wind farm is sold on the Nord Pool Exchange through an intermediary, and the feed-in-premium tariff is settled by national transmission system operator Elering AS.

The Group's wind assets each have an expected asset useful life of up to 30 years given proper maintenance.

The Group also expects that the 94 MW wind farm that it is currently developing in Poland will, once construction is completed, benefit from an indexed CfD (contract for differences) tariff which has already be awarded to the wind farm during the relevant auction, under the support scheme applicable for renewable energy project in Poland. Pursuant to this arrangement, Zarządca Rozliczeń S.A. (a Polish state-owned company) will pay the Company the difference between the average market price and the CfD tariff of approximately 50 EUR/MWh (which amount is inflation-indexed). If the market price is higher than the CfD tariff, the Group will not be required to return the gain in the year when it was earned, but will be required to return the cumulative balance upon expiry of the CfD tariff. This arrangement is expected to be valid for 15 years with expected expiry in 2035.

As a result of the above, the Group's generation from wind farms is currently not affected significantly by movements in the market price of electricity. However, as the current support schemes expire, the exposure to market prices will increase as the Group will be required to sell the electricity generated on the open market. Additionally, the Group's new Lithuanian wind farm, expected to begin construction later this year, is expected to have a higher exposure to market prices; the pricing arrangements for this wind farm have not yet been confirmed, but it is likely that it will have reference at least in part to market prices. Please see paragraph 4.5(a) of this Part 5 ("*Operating and Financial Review*") below.

The support schemes available to the Group in the future with respect to its wind developments in the future will be subject to changes in regulatory initiatives and government support. Please see paragraph 4.5(a) of this Part 5 ("*Operating and Financial Review*") below for further information.

The following table sets forth further details of financial results by operating wind farms for the years 2017 to 2020:

Financial Results by Operating Wind Farms*

		Year ended 31 December			Six months ended 30	
		2017	2018	2019	June	
					2019	2020
<i>Eurakras:</i>						
Volumes sold	GWh	74.1	67.3	83.3	42.5	44.9
FiT	EUR/MWh	71.0	71.0	71.0	71.0	71.0
Revenue	EURm	5.3	4.8	5.9	3.0	3.2
SG&A expense	EURm	(0.7)	(0.7)	(0.8)	(0.4)	(0.4)
Adjusted EBITDA	EURm	4.6	4.0	5.1	2.6	2.8
<i>Vėjo vatas:**</i>						
Volumes sold	GWh	N/A	N/A	37.8	19.7	22.2
FiT	EUR/MWh	N/A	N/A	86.9	86.9	86.9
Revenue	EURm	N/A	N/A	3.3	1.7	1.9
SG&A expense	EURm	N/A	N/A	(0.5)	(0.2)	(0.3)
Adjusted EBITDA	EURm	N/A	N/A	2.7	1.5	1.6
<i>Vėjo gūsis:**</i>						
Volumes sold	GWh	N/A	N/A	51.3	25.8	28.5
FiT	EUR/MWh	N/A	N/A	86.9	86.9	86.9
Revenue	EURm	N/A	N/A	4.5	2.2	2.5
SG&A expense	EURm	N/A	N/A	(0.6)	(0.3)	(0.4)
Adjusted EBITDA	EURm	N/A	N/A	3.8	2.0	2.0
<i>Tuuleenergia:</i>						
Volumes sold on FiP	GWh	33.2	29.2	34.0	18.1	21.7
Volumes sold on merchant price	GWh	53.5	46.4	53.6	28.6	34.0
FiP	EUR/MWh	53.7	53.7	53.7	53.7	53.7
Merchant price	EUR/MWh	32.1	45.0	43.9	40.8	24.4
Revenue	EURm	3.5	3.7	4.2	2.1	2.0
SG&A expenses	EURm	(0.5)	(0.5)	(0.5)	(0.2)	(0.3)
Adjusted EBITDA	EURm	3.0	3.1	3.7	1.9	1.7

* Calculation of Adjusted EBITDA by individual asset involves the allocation of revenues and expenses to the individual assets, which in turn requires management to make certain allocation assumptions.

*** Vėjo vatas and Vėjo gūsiss were acquired by the Group on 5 November 2018 and, therefore, the table only presents the financial results of these assets for the year ended 31 December 2019 (the first full year of the Group's ownership of the assets) and the six-month periods ended 30 June 2019 and 30 June 2020.*

Operating expenses for the Group's operational wind farms are currently approximately EUR 33,000 per MW. Operating expenses for the Pomerania wind farm and the Mažeikiai wind farm are expected to be approximately EUR 38,000 to 42,000 per MW and EUR 24,000 to 28,000 per MW, respectively.

Hydro

Approximately 6.7 per cent. of the Group's revenue from its hydro plants in 2019 is based on regulated activities (secondary power reserve services and system recovery service) provided to the TSO. The price cap of secondary power reserve services is set by NERC on a yearly basis, based on a RAB/WACC model. The Group earns revenue for the reserved capacity (currently 400 MW, consistent with each of the past three financial years) rather than the amount of electricity actually generated under this service. The price of electricity generated after activation of the secondary power reserve on following the instructions of the TSO, based on the contract, is limited to the price of a specific hour on the electricity exchange multiplied by a factor of 1.8 as specified in the contract with the TSO.

Kruonis PSHP and Kaunas HPP also provide a system recovery service to the TSO, which is used for the recovery of the electricity system when there has been a sudden loss of power in the system. The price of this service, which is established by NERC and paid by the TSO, includes the costs of periodic tests of the power plant.

The remaining electricity generated from the Group's hydroelectric plants is sold at market prices. It is sold primarily on the Nord Pool Exchange, with prices governed by prevailing market prices for the Lithuanian price area. Some additional volumes of balancing electricity may be sold to the TSO, in circumstances where a trading in imbalance occurs due to a power plant failing to meet its electricity generation schedule. The latter quantities are bought by the TSO for each trading period by auction.

The price cap set by the NERC covers 4/9 (i.e. 400 MW / 900 MW) of Kruonis PSHP's fixed costs. Covered costs include depreciation and amortisation expenses, while costs not eligible for compensation are negligible. The price cap also includes a reasonable rate of return calculated as RAB times WACC as set by the NERC. Due to the absence of competition and no existing tender process, the price contracted with the TSO is equal to the price cap.

The following table sets forth certain components of Kruonis PSHP's adjusted EBITDA structure from 2017 to 2019 and for the six-month periods ended 30 June 2019 and 2020:

Components of Kruonis PSHP Adjusted EBITDA*

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Kruonis PSHP adjusted EBITDA (Commercial)	EURm	7.7	9.5	13.6	5.5	10.9
RAB	EURm	38.6	37.1	37.3	N/A	N/A
WACC	%	5.05%	4.95%	5.00%	N/A	N/A
Investment return (RAB*WACC)	EURm	2.0	1.8	1.9	0.9	0.9
Depreciation and amortisation	EURm	1.6	1.6	1.7	0.9	0.9
Kruonis PSHP adjusted EBITDA (Regulated)	EURm	3.6	3.4	3.6	1.8	1.8
Total Kruonis PSHP adjusted EBITDA	EURm	11.3	12.9	17.2	N/A	7.3

** Calculation of Adjusted EBITDA by individual asset involves the allocation of revenues and expenses to the individual assets, which in turn requires management to make certain allocation assumptions.*

Kruonis PSHP's margins are affected more by the spread between "peak" and "off peak" prices than by the overall average electricity price level in the market. The production margin for Kruonis PSHP (being the difference between buying and selling electricity, after accounting for efficiency of the plant) averaged EUR 14 per MWh during 2017 to 2019, and increased consistently over the period. The Group expects Kruonis PSHP's margin to grow over time due to the greater amount of renewable energy sources in the market.

Whiles Kruonis PSHP benefits from fluctuations between "peak" and "off peak" prices, Kaunas HPP benefits principally from increases in market prices.

The following table sets forth certain components of Kaunas HPP adjusted EBITDA structure from 2017 to 2019 and the six-month periods ended 30 June 2019 and 2020:

Components of Kaunas HPP Adjusted EBITDA*

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		Volumes sold	TWh	0.47	0.36	0.28
Realised market price	EUR/MWh	36.9	50.5	49.6	49.9	35.7
Average market price	EUR/MWh	35.1	50.0	46.1	46.0	28.2
Premium to market price	%	5.1%	0.9%	7.7%	8.6%	26.8%
Gross profit	EURm	17.2	18.2	13.9	9.0	5.4
SG&A expense	EURm	(1.1)	(1.1)	(1.0)	(0.4)	(0.5)
Total Kaunas HPP adjusted EBITDA	EURm	16.1	17.1	12.9	8.6	4.9

* Calculation of Adjusted EBITDA by individual asset involves the allocation of revenues and expenses to the individual assets, which in turn requires management to make certain allocation assumptions.

Waste-to-Energy/Biomass CHP Plants

Possessors of waste generally must either dispose of the waste in landfills or incinerate it. To dispose of waste in landfills, the possessor must pay a landfill gate fee, which varies across regions and depends on the nature of the waste (e.g. municipal or industrial, non-hazardous or hazardous waste, etc.) and environmental tax. The average landfill gate fee is EUR 60 to 70 per ton for municipal waste and EUR 70 to 80 per ton for industrial waste in 2020.

Environmental tax for non-hazardous waste landfilling in 2020 is EUR 5 per ton. This will increase by EUR 5 per ton each year and in the year 2024 it would become EUR 25 per ton.

The Group believes that the amount of waste to be incinerated is sufficient to support many years of waste-to-energy generation.

The following table sets forth the average historical prices of biomass in Lithuania from 2017 to 2019. This information is provided for historical comparison purposes only; the prices paid by the Group in the future will be based on then current market prices, which will vary from the historical prices.

Historical Prices of Biomass

	2017	2018	2019
Historical prices of biomass.....EUR/MWh	11.97	15.18	12.38

The selected technology for both CHPs – high efficient cogeneration – will provide revenue from three main streams: (i) the sale of heat to city district heating networks (by way of monthly auctions), (ii) the sale of electricity on the Nord Pool Exchange or to IGN for activities of the Group's Customers and Solutions segment and (iii) provision of waste incineration services for regional waste treatment facilities as well as industrial companies (by way of mid-term auctions, and with an upper limit on price based on charges by landfills for tonnes of waste disposed). The Group believes that this diversity of revenue streams will be a key competitive strength for the CHP plants.

The following table shows the average achieved price for heat (the heat price for independent heat producers) in the locations of each of Vilnius CHP and Kaunas CHP for 2017, 2018 and 2019:

Average Prices for Heat

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Vilnius			
Average achieved price for heat..... <i>EUR/MWh</i>	26.62	26.68	27.80
Kaunas			
Average achieved price for heat..... <i>Eur/MWh</i>	21.7	24.70	25.12

The following tables show the contracted gate fees and expected operating expenses in each Vilnius and Kaunas CHP:

Average Prices for Waste*

	<u>Vilnius CHP</u>	<u>Kaunas CHP</u>
Gate fee (Municipal waste)..... <i>EUR/t</i>	32	35
Gate fee (Industrial waste)..... <i>EUR/t</i>	n/a	54

* Based on the recent 12+12 months contracts secured with the suppliers for 2020-2021 period.

Expected operating expenses

The expected operating expenses of Kaunas CHP and Vilnius CHP are 0.44 m€MWe and 0.16 m€MWe respectively.

Exposure to market prices of electricity

In addition to the exposure to market prices arising out of its wind and hydro assets, as discussed above, the Group expects that, in the future, generation from its two new waste-to-energy/biomass CHP plants will also be sold by reference to market prices. It is also expected that imports from Russia and Belarus will decrease and there will be greater connection with the generation capacity in Poland. The Group anticipates, therefore, that the proportion of its generation sold at market prices will increase over time and the Group's exposure to fluctuations in market prices will increase as a result. There will also be a natural hedge on electricity price within the Group as the Group's current supply portfolio of approximately 5 TWh is substantially higher than the Group's generation portfolio of approximately 0.5 TWh. Therefore, increased merchant exposure will be offset by the Group's supply portfolio and the Group's overall exposure should not increase.

The Group sells its electricity at prices determined by the Nord Pool Exchange, which are set on the basis of supply and demand.

Therefore, the Group's revenue is, and will increasingly be, subject to fluctuations in electricity prices and, because the Group's costs are largely fixed, decreases in electricity prices would generally have an adverse effect on the Group's profitability.

Electricity and gas prices may fluctuate greatly depending on the macroeconomic environment and other relevant factors, such as prices for other energy sources, which, in turn, are affected by, amongst other factors, prices in neighbouring countries (such as Poland, Sweden, Finland, Estonia, Latvia), imports from Russia, weather, temperatures, wind flow, the hydrological situation and other climatic conditions. 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 Link" interconnection) and carbon credits traded under the EU emission trading scheme and coal prices.

The average quarterly electricity spot prices of Lithuania for the second quarter of 2020 was approximately EUR 28.78 per MWh, as compared to EUR 44.09 per MWh, EUR 44.96 per MWh and EUR 34.06 per MWh for the first quarters of 2019, 2018 and 2017, respectively.

The following table sets forth average hourly electricity spot prices of the Nordpool system, Lithuania, Latvia and Estonia for the years ended 31 December 2017, 2018 and 2019 and for the six-month periods ended 30 June 2019 and 2020.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
Nordpool system prices.....	29.41	43.99	38.94	41.22	10.53
Prices of Lithuania.....	35.13	50.00	46.12	45.96	28.15
Prices of Latvia.....	34.68	49.90	46.28	46.07	28.24
Prices of Estonia.....	33.20	47.07	45.86	45.18	28.21

(d) *Impact of asset rotation programme*

A key part of the Green Generation segment strategy is to partner with financial investors to enhance returns and to recycle capital by utilising asset rotation (which involves selling down a portion of the Group's interest in a project, typically after construction has been completed). The Group is already implementing this strategy with respect to its waste-to-energy/biomass CHP Plants, where within six months of the completion of the Vilnius CHP plant's construction, a tender procedure for up to 49 per cent. of the shares of VKJ (the development company owning the plant) will be organised.

The Group expects that it will also increasingly utilise this asset rotation model with respect to wind and solar investments.

The asset rotation programme is expected to have a material impact on EBITDA through the realisation of divestment gains.

The asset rotation programme provides the Group with additional cash resources which the Group may then redeploy in making further investments in its Green Generation portfolio. The Group generally expects that it will maintain a majority interest in the investments (as with Kaunas CHP and Vilnius CHP) and will therefore consolidate the full revenues of the investments in line with IFRS; however, the Group's dividends from the relevant operating subsidiaries will be proportional to the Group's interest.

4.3 Significant factors affecting the results of the Flexible Generation segment

(a) *Impact of regulation and the regulatory pricing mechanism on the Flexible Generation segment*

The majority of the Group's Flexible Generation business comprises regulated services, primarily the provision of system services to the TSO in Lithuania, to ensure the flexibility and stability of Lithuania's electricity system, utilising the 1,055.0 MW Elektrėnai Complex, which includes principally two gas-fired Reserve Power Units and the CCGT. These facilities currently provide system services including Tertiary Power Reserve Services and Isolated Regime Services to the TSO. The Group has flexibility as to which of the Reserve Power Units or CCGT it uses in the provision of the various services.

The following table sets forth the volumes of the services provided by the Group from 2017 to 2020:

		<u>Volume of Services Provided to TSO</u>			
		2017	2018	2019	2020
Tertiary Power Reserve Services	MW	484	260	260	475
Strategic power reserve.....	MW	371 ⁽¹⁾	212	-	-
Isolated Regime Services.....	MW	-	-	- ⁽²⁾	415
Total reserve and other services	MW	855	472	260	890

Notes:

(1) Based on the maximum power available throughout a year.

(2) Both Units No. 7 and 8 were in preservation mode most of the year when providing this service; the exact power dedicated for the service was not indicated and is thus not provided in the table.

The results of the Flexible Generation segment will be significantly affected by the volume of services sought by the TSO, the increasing competition for the provision of these services and the overall price caps set by NERC.

Although the specific services sought by NERC change from year to year, the services are generally priced based on a return on investment, calculated by multiplying the RAB and WACC set by NERC.

The RAB is based on the historical cost approach. Depreciation and amortisation is calculated using depreciation rates set by NERC.

The following table sets forth details of the RAB and WACC set by NERC for the Elektrėnai Complex during the period from 2017 to 2020:

Year		2017	2018	2019	2020	2021
RAB used for calculation of return on investment of Elektrėnai Complex	EURm	237.1	185.4	180.9 ⁽¹⁾	N/A	N/A ⁽²⁾
Depreciation and amortisation for regulated services of electricity sector	EURm	14.8	12.0	12.1	N/A	N/A ⁽²⁾
WACC	%	5.05%	4.95%	5.00%	5.07%	3.50%

Notes:

- (1) Accounted only for when Units 7 and 8 were not in preservation mode; i.e., 2 months for Unit 7 and 3 months for Unit 8.
(2) The Group understands that the NERC will set the RAB and depreciation and amortisation for the new period (2021) by the end of 2020.

The fluctuation in RAB and WACC during the period from 2017 to 2020 was principally the result of changes in the volume of provided services. For example, in 2020 the RAB does not include value for the CCGT unit as it is not providing regulated services that have reference to RAB (but rather an Isolated Regime Service that uses a different pricing mechanism, as discussed below). Depreciation and amortisation has mostly been compensated by regulated tariffs.

The following table sets forth further details of the Flexible generation adjusted EBITDA by unit for the years 2017 to 2020:

Flexible Generation Adjusted EBITDA by Unit*

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
<i>CCGT (Commercial):</i>						
Volumes sold	TWh	-	-	-	-	0.34
Mark-up	EUR/MWh	-	-	-	-	11.6
Gross profit	EURm	-	-	-	-	3.9
OPEX	EURm	-	-	-	-	(0.2)
CCGT adjusted EBITDA (Commercial)	EURm	-	-	-	-	3.7
<i>CCGT (Regulated):</i>						
RAB	EURm	163.0	159.8	150.5	N/A	N/A
WACC	%	5.05%	4.95%	5.00%	N/A	N/A
Investment return (RAB*WACC)	EURm	8.2	7.9	7.5	3.8	0.0
D&A	EURm	9.5	9.9	9.7	4.9	4.9
Other	EURm	-	(0.9)	-	-	-
CCGT adjusted EBITDA (Regulated)	EURm	17.7	16.9	17.2	8.6	4.9
Total CCGT adjusted EBITDA	EURm	17.7	16.9	17.2	8.6	8.6
<i>Unit 7:</i>						
RAB	EURm	30.7	0.0	14.4	N/A	N/A
WACC	%	5.05%	4.95%	5.00%	N/A	N/A
Investment return (RAB*WACC)	EURm	1.6	0.0	0.7	0.3	0.5
D&A	EURm	2.3	0.0	1.2	0.6	0.9
Other	EURm	-	(2.8)	-	-	-
Unit 7 adjusted EBITDA	EURm	3.9	(2.8)	1.9	1.0	1.4
<i>Unit 8:</i>						
RAB	EURm	43.4	25.6	16.0	N/A	N/A
WACC	%	5.05%	4.95%	5.00%	N/A	N/A
Investment return (RAB*WACC)	EURm	2.2	1.3	0.8	0.4	0.4
D&A	EURm	3.0	2.1	1.2	0.7	1.0
Other	EURm	-	(1.9)	-	-	(0.1)
Unit 8 adjusted EBITDA	EURm	5.2	1.5	2.0	1.1	1.3
Other	EURm	(2.3)	(2.2)	0.9	1.2	0.4
Total Flexible generation adjusted EBITDA	EURm	24.5	13.3	22.0	11.9	11.7

* Calculation of Adjusted EBITDA by individual asset involves the allocation of revenues and expenses to the individual assets, which in turn requires management to make certain allocation assumptions.

The following table sets forth the historical investments for the Flexible Generation assets during the period under review:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
CCGT <i>EUR million</i>	0.1	0.6	0.1	0.0	0.0
Units 7-8 <i>EUR million</i>	0.6	1.3	0.4	0.2	0.3
Total Flexible generation investments <i>EUR million</i>	0.8	2.2	0.5	0.2	0.3

Average capital expenditure between 2017 and 2019 for CCGT and Units 7-8 of Elektrénai complex were EUR 0.3m and 1.2m, respectively.

Tertiary Power Reserve Services

In the year ending 31 December 2020, the Group is providing Tertiary Power Reserve Services through the Reserve Power Units. (This service was provided by the CCGT in the year ended 31 December 2019.)

The price cap for the Tertiary Power Reserve Services generally covers all expenses related to the provision of the service including depreciation, amortisation and return on investment based on the current mechanism, albeit some relatively minor expenses related to the provision of the service (such as costs related to recognition of long-term employee benefits) are not compensated.

The Group's revenue for this service is based on reserved capacity, rather than the actual amount of electricity generated.

The Group participates in auctions to provide Tertiary Power Reserve Services to the TSO, with the pricing determined competitively through the auction process, subject to overall price caps established by NERC. The total amount of Tertiary Power Reserve Services required by the TSO in 2020 is 475 MW. Taking into account the size of the market of Tertiary Power Reserve Services and the list of potential suppliers, at least one of the Group's units is currently needed to provide Tertiary Power Reserve Services in order for the TSO to be able to purchase the full required volume. With respect to the residual volume of required services, in order to be selected above other potential suppliers, the Group may be required to bid to provide the services at a lower price than the cap established by NERC.

In 2019, the Group won the auction of the tertiary active power reserve announced by the TSO for 2020, pursuant to which the Group is providing this service in the full capacity of the auction of 475 MW. This represents a significant increase to the Group's service provision in 2019 (when the Group supplied tertiary active power reserve in the capacity of 260 MW).

The following table sets forth the volumes and prices of the services provided by the Group from 2017 to 2020:

		<u>Volume of Services Provided to TSO</u>			
		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Tertiary Power Reserve Services	MW	484	260	260	475
Strategic power reserve.....	MW	371 ⁽¹⁾	212	-	-
Isolated Regime Services.....	MW	-	-	- ⁽²⁾	415
Total reserve and other services	MW	855	472	260	890

Notes:

- (1) Based on the maximum power available throughout a year.
- (2) Both Units No. 7 and 8 were in preservation mode most of the year when providing this service; the exact power dedicated for the service was not indicated and is thus not provided in the table.

Isolated Regime Services

From the year beginning 1 January 2020, the Group is providing the Isolated Regime Services through the CCGT and part of Unit 8 (one of the Reserve Power Units) pursuant to a signed agreement with the TSO. In 2019, a portion of the capacity of Units 7 and 8 were used for testing of this service.

Prior to 2020, the pricing mechanism established by NERC for a service similar to this Isolated Regime Service included an element of reasonable return on investment in the services. Pursuant to a resolution adopted by NERC on 14 November 2019, from the year beginning 1 January 2020 a new methodology applies, which allows electricity producers to trade electricity on market terms to earn a return on investment while providing Isolated Regime Services, and the Isolated Regime Service pricing mechanism no longer includes the element of return on investment in the form of RAB times WACC.

The price cap for the Isolated Regime Services generally covers all expenses related to the provision of the service including depreciation and amortisation based on the current mechanism, albeit some relatively minor expenses related to the provision of the service (such as costs related to recognition of long-term employee benefits) are not compensated. Return on investment is not included in the price cap and has to be earned in the market.

As a result of this pricing framework, a portion of the Flexible Generation segment's business now includes generation of electricity sold at market prices. All of CCGT's capacity under current regulation as of 2020 is available for merchant business. It is sold primarily on the Nord Pool Exchange, with prices governed by prevailing market prices for the Lithuanian price area. During the six-month period ended 30 June 2020, the Group earned revenues of EUR 43.3 million from these market sales and the Lithuanian electricity market price was EUR 28.2 EUR/MWh during this period. Under current regulation CCGT's EBITDA as of 2020 therefore roughly corresponds to the depreciation and amortisation plus gross profit earned on merchant business. Please see paragraph 4.5(c) of this Part 5 ("*Operating and Financial Review*").

The following table sets forth the load factor of CCGT during the period under review:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
CCGT load factor %	3.66%	1.72%	0.54%	0.29%	19.26%

Note: CCGT unit was providing Tertiary Power Reserve Services in the year ended 31 December 2019.

The CCGT has an average useful life of 25 to 35 years.

(b) *Synchronisation with the network system of continental Europe and competition for the provision of new ancillary services*

The Law on Connection of the Lithuanian Power System to the Synchronous Grid of Continental Europe, passed by the Lithuanian Parliament on 13 June 2019, establishes the framework for the organisation and implementation of the disconnection of the Lithuanian energy system from the post-Soviet BRELL ring and for Lithuania to independently manage its electric power system through synchronisation with the network system of continental Europe. This synchronisation is expected to be effective in 2025, and is in line with the EU "Roadmap for synchronising the Baltic grids with the European network by 2025". The Flexible Generation segment aims to contribute to the success of this synchronisation, including by providing new balancing services and commissioning additional units or refurbishing existing units subject to capacity auction results.

The grid synchronisation could affect the Group's results of operations in a number of respects. The Group expects that the synchronisation will open new market opportunities for the Group, including the provision of new ancillary services to the TSO as well as new opportunities in other jurisdictions, such as Poland. On the other hand, the markets for the Tertiary Power Reserve Services will cease to exist after the grid synchronisation based on the latest information from the TSO. The Isolated Regime Services are also likely to be discontinued following the grid synchronisation. The synchronisation may also result in additional competition as other European companies may be able to participate in the auctions for the provision of system services required by the TSO. The Group therefore expects that the landscape for specific services will change substantially as a result of the grid synchronisation, although

different ancillary services will be required and the Group believes that it is well placed to compete for the provision of these services.

The Group believes that both the CCGT and Reserve Power Units are well-positioned to be successful in the upcoming auctions in relation to capacity provision under the newly established capacity remuneration mechanism. This mechanism will provide an advance payment to generators in exchange for being ready to generate electricity, in order to minimise the risk of a shortfall in generation in the market. Generators will be able to bid for participation in this mechanism by way of auction. The first capacity auction in relation to this service is expected to be organised later in 2020 or in 2021 (subject to approval of the new mechanism by the EU Commission), for delivery in 2025 to 2026.

(c) *Market prices of electricity and gas*

The Group's CCGT unit is permitted to sell electricity generated on the market while providing Isolated Regime Services and revenue generated from CCGT is therefore affected by fluctuations in the market prices for electricity. Additionally, as the CCGT unit and the Reserve Power Units use gas in their operations, the Flexible Generation segment's costs will be affected by fluctuations in the market prices for gas. However, in the case of the Tertiary Power Reserve Services performed by the Reserve Power Units, the Group is not affected by gas price fluctuations as these costs are passed through. Margins for the Flexible Generation business will generally be higher when electricity prices are higher and gas prices are lower. With respect to the CCGT, the Group evaluates both electricity and gas prices before production and only produces if deemed profitable. The Group anticipates that in the future prices may increase due to decreased imports from Russia and Belarus and greater interconnection capacity with Poland.

The Group sells its electricity at prices derived from the Nord Pool Exchange, which are set on the basis of supply and demand.

Electricity and gas prices may fluctuate greatly depending on the macroeconomic environment and other relevant factors, such as prices for other energy sources which, in turn, are affected by, amongst other factors, prices in neighbouring countries (such as Poland, Sweden, Finland, Estonia, Latvia), imports from Russia, weather, temperatures, wind flow, the hydrological situation and other climatic conditions. 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 Link" interconnection) and carbon credits traded under the EU emission trading scheme and coal prices.

The average quarterly electricity spot prices of Lithuania for the second quarter of 2020 was approximately EUR 28.78 per MWh, as compared to EUR 44.09 per MWh, EUR 44.96 per MWh and EUR 34.06 per MWh for the first quarters of 2019, 2018 and 2017, respectively.

The following table sets forth details of the value of the gas purchased by the Group for generation for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and for the six-month periods ended 30 June 2019 and 30 June 2020:

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
Gas purchased	EURm	30.2	27.2	21.8	11.0	16.6

The Group purchases gas at prices derived from gas indices, including Gaspool (Argus) and TTF (Argus/ICE). Both of the Gaspool (Argus) and TTF (ICE) natural gas indices have shown significant decreases in recent years, dropping from as high as approximately EUR 27 per MWh in the fourth quarter in 2018 to approximately EUR 7 per MWh in the second quarter of 2020.

4.4 Significant factors affecting the results of the Customers and Solutions segment

In addition to the factors listed below, the results of the Customers and Solutions segment are significantly affected by the prices of electricity and gas. Please see paragraph 4.5(a) of this Part 5 ("*Operating and Financial Review*") below.

The following table sets forth the financial results of Customers and Solutions segment from 2017 to 2020:

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
B2C supply	EURm	3.5	4.0	5.8	2.1	3.1
B2B supply	EURm	14.2	0.0	2.2	(3.3)	(6.5)
Wholesale	EURm	4.3	3.8	2.4	2.0	2.6
Other	EURm	(0.7)	(1.1)	0.3	2.2	(1.1)
Total adjusted EBITDA	EURm	21.2	6.7	10.7	2.9	(1.8)
Investments	EURm	1.2	0.8	3.2	1.3	0.9

(a) *Volumes and margins of electricity and gas supplied*

In the year ended 31 December 2019, 46.1 per cent. of revenue for the Customers and Solutions segment was attributable to the Group's electricity supply business (conducted in Lithuania, Latvia and Estonia) and gas supply business (conducted in Lithuania, Latvia, Estonia and Finland), although it only accounted for 4.1 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019. The Group is the largest supplier of electricity and gas in the Baltic states based on number of customers, supplying approximately 1.7 million households and approximately 13,700 businesses.

The following table sets forth the sales volumes for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and for the six-month periods ended 30 June 2019 and 30 June 2020, as well as the number of customers as at the period end for each of these periods:

Sales and Customer Information for the Electricity and Gas Supply Businesses

		2017	2018	2019	H1 2019	H1 2020
Electricity Sales						
Retail	<i>TWh</i>	5.03	5.40	5.40	2.63	3.10
Republic of Lithuania	<i>TWh</i>	4.37	4.71	4.56	2.22	2.66
B2C	<i>TWh</i>	2.82	2.97	2.88	1.38	1.45
B2B	<i>TWh</i>	1.55	1.74	1.68	0.84	1.20
Republic of Latvia	<i>TWh</i>	0.66	0.69	0.83	0.41	0.44
Other	<i>TWh</i>	0.00	0.00	0.00	0.00	0.01
Wholesale	<i>TWh</i>	0.00	0.70	4.71	2.26	1.69
Gas Sales						
Retail	<i>TWh</i>	11.28	10.91	8.01	3.75	5.91
Republic of Lithuania	<i>TWh</i>	10.03	10.23	6.74	3.48	3.19
B2C	<i>TWh</i>	1.99	2.13	2.08	1.18	1.26
B2B	<i>TWh</i>	8.05	8.10	4.66	2.30	1.93
Republic of Latvia	<i>TWh</i>	1.25	0.68	1.27	0.27	1.10
Finland	<i>TWh</i>	0.00	0.00	0.00	0.00	1.63
Wholesale	<i>TWh</i>	0.19	0.43	1.82	1.28	1.32
Number of Customers						
Number of B2C customers		1,600,936	1,636,005	1,677,458	1,649,601	1,686,496
Number of B2B customers ⁽¹⁾		13,852	14,176	13,700	14,574	14,267

Note:

- (1) In 2017, 2018 and H1 2019, the overlapping gas and electricity B2B customers were not eliminated. In 2019 and H1 2020, overlapping gas and electricity B2B customers (of which there were 1,960 and 2,320, respectively) were eliminated and figures are shown as numbers of unique customers.

The results of operations of the electricity and gas supply businesses are driven principally by the volume and margins of electricity and gas sold. These volumes are influenced both by the number of customers supplied by the Group and by overall consumption levels. The overall volumes of electricity and gas supplied are also affected by the expansion of the Group's supply business into new markets. For example, in 2019 the Group continued expanding geographically by signing its first gas supply contracts with major business customers in Finland. The Group expects its sales of gas in the B2B market for the year ending 31 December 2020 to exceed that of the year ended 31 December 2019 by approximately 2 to 3 TWh (or 20 to 30 per cent.).

The Group's market share of supplied volumes is affected by factors including regulation, competition, pricing, the success of the Company's sales channels, the availability of flexible and tailored products

and customer service levels. The Group currently supplies approximately 99 per cent. of total electricity supplied to B2C customers in Lithuania. This is largely a factor of the public supply framework currently in place. However, the public supply of electricity in Lithuania is in the process of being fully deregulated, which is likely to result in increased competition in the B2C market and could have a significant effect on the volumes of electricity supplied by the Group. Please see paragraph 4.4(b) of this Part 5 ("*Operating and Financial Review*") below.

In general, the volumes of electricity and gas consumption are affected by a variety of macroeconomic factors including GDP and demographic factors such as the number and size of households. During the COVID-19 lockdown in April and May 2020 in Lithuania, electricity consumption by the Group's B2B supply customers decreased by approximately 15-18 per cent., driven largely by factory closures and reduced business activity. Although in terms of overall consumption this was largely offset by an approximately 4-5 per cent. increase in electricity consumption by the Group's B2C supply customers during that period due to a higher concentration of people at home, the movements still had a negative net effect on the Group's revenues during this period as the Group had lower B2B sales.

The Group is exposed to fluctuations in the prices obtained for the electricity and natural gas it supplies to its customers. The Group's electricity generation and supply activities are currently separated, meaning that the Group sources both the electricity and gas that it supplies to customers from the market. In 2019, IGN purchased approximately 53 per cent. of the gas it supplied to consumers through the LNG Terminal in Klaipeda. In 2019, the Group purchased LNG from Equinor ASA, Total Gas & Power Limited and other LNG suppliers. The remainder was purchased from Gazprom through natural gas pipelines and other sources such as the wholesale market under short-term natural gas supply contracts.

Although the Group generally passes the market prices of electricity and gas through to its customers, some customers (representing approximately 100 per cent. of the Group's B2C sales and 17 per cent. of the Group's B2B sales) have the benefit of fixed pricing. The electricity volumes subject to such fixed pricing arrangements are in excess of the Group's electricity generation capacities, and the Group does not generate gas, meaning that the Group is exposed to increases in the market prices of electricity or gas (as the case may be) above the price fixed in the relevant supply contract.

The Group has a conservative hedging policy and seeks to hedge 100 per cent. of its supply portfolio through proxy hedges and, to a lesser extent, perfect hedges. Additionally, the Group's exposure to fluctuations in electricity prices for its supply business is generally the opposite to that for its generation business – for the supply business (absent the effect of hedging), decreases in the market price for electricity generally have a positive effect on the supply business's results. This could provide a degree of natural hedging to the overall business in the future. Currently the Group's fixed supply volumes are substantially higher than the Group's generation volumes; however, the Group has the option to, and intends to, utilise some of its generation to supply the supply portfolio in the future as part of its overall management of price fluctuations.

Sales Volumes and Margins

In analysing the performance of the electricity and gas supply business of the Customers and Solutions segment, the Group's management monitors gross margin, being revenue less cost of goods sold, divided by quantity sold.

Sales Volumes and Margins for B2B and B2C supply - Electricity

Gross margins for the supply of electricity to B2C customers is regulated by NERC, in Eur/MWh, as set forth in the following table for the period under review, which is showing an overall upward trend:

		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>H1 2020</u>
Electricity B2C sales volumes	TWh	2.82	2.97	2.88	1.45
Electricity B2C gross margin.....	EUR/MWh	1.43	1.18	2.81	3.70

Gross margin for the supply of electricity to B2B customers depends on customer size and type of product supplied. More than 60 per cent. of B2B electricity sales are at a fixed price, which is hedged against the fluctuation of spot electricity price during delivery period. The following table sets forth the average margin for the Group's B2B electricity sales (including hedge effect) for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the six months ended 30 June 2020:

		2017	2018	2019	H1 2020
Electricity B2B sales volumes	TWh	2.21	2.43	2.51	1.65
Electricity B2B gross margin*	EUR/MWh	2.41	(0.79)	0.82	(2.70)

** Lithuania*

Gross margin for H1 2020 has been adversely affected by COVID-19 and proxy hedge effects of the fixed portfolio as, during the lockdown months, B2B consumption dropped and a mismatch arose between the hedged volume and the actual volume sold. This, combined with a decrease in electricity market prices, resulted in losses for the Group.

Sales Volumes and Margins for B2B and B2C supply - Gas

Gross margin for the supply of gas to B2C customers is monitored (regulated) by NERC, in Eur/MWh, as set forth in the table below for the period under review:

		2017	2018	2019	H1 2020
Gas B2C sales volumes.....	TWh	1.99	2.13	2.08	1.26
Gas B2C gross margin	EUR/MWh	1.21	1.20	1.20	1.17

Gross margin for the supply of gas to B2B customers in EUR/MWh is set forth in the table below for the period under review:

		2017	2018	2019	H1 2020
Gas B2B sales volumes.....	TWh	9.29	8.78	5.93	4.65
Gas B2B gross margin*	EUR/MWh	1.36	1.36	1.38	1.65

** Lithuania*

(b) *Deregulation of public electricity supply*

The public supply of electricity in Lithuania (supply to B2C customers) represented 0.1 per cent. of the Group's adjusted EBITDA in the year ended 31 December 2019 (compared to 0.1 per cent. in 2018 and 0.1 per cent. in 2017). The Group currently supplies approximately 99 per cent. of total electricity supplied to B2C customers in Lithuania. This is largely a factor of the public supply framework currently in place. Although household consumers are able to choose to be supplied from independent electricity suppliers, they are still able to rely on the Government to supply electricity at a regulated tariff. The public supply of electricity is currently conducted through the Group subsidiary, IGN. As the principal public supplier, IGN supplies electricity to consumers who have not chosen an independent supplier, on the basis of public tariffs set by the Law on Electricity. During the period under review, the public tariff was lower than the tariffs available from independent electricity suppliers and, therefore, the Group supplied substantially all of the electricity to the B2C market in Lithuania.

Historical tariffs for households (ct/kWh) are set forth in the table below:

Historical Tariffs for Households (B2C)

	2017	2018	2019	H1 2020 ⁽¹⁾	H1 2020 weights, %
Energy purchase price	3.678	3.386	4.527	5.331	45%
Distribution service price cap for low voltage network	1.986	2.145	2.432	2.720	23%
Distribution service price cap for medium voltage network	0.83	0.834	0.901	1.123	9%
System services	0.393	0.529	0.615	0.785	7%
Transmission service	0.672	0.619	0.658	0.814	7%
Public service obligations (PSO)	1.386	1.35	0.903	0.683	6%
Public supply service (IGN)	0.143	0.118	0.281	0.370	3%
Total (without VAT)	9.088	8.981	10.317	11.826	100%
VAT	1.908	1.886	2.167	2.483	
Total (with VAT)	10.996	10.867	12.484	14.309	

Note:

- (1) Energy purchase price and some other components of the tariff have been restated by NERC from 1 July 2020.

However, on 7 May 2020, the Parliament of the Republic of Lithuania approved the amendments to the Law on Electricity in relation to the gradual deregulation of public supply of electricity to household customers, which will be implemented in three phases beginning from 1 January 2021, 2022 and 2023, respectively. Under these amendments, the current electricity supply price regulation for household customers will be abolished while the tariffs for electricity distribution and transmission included in the final price will remain regulated, and household customers will have the choice to select an independent electricity supplier. If household customers fail to choose a supplier within a predefined period, they will be automatically shifted to the supply of last resort service performed by the DSO (currently the Group through ESO). Supply of last resort has been provided to B2B customers since 2010. From 1 January 2021, the supply of last resort will also apply to those households that were obliged to but did not choose an independent supplier. The price for supply of last resort is 25 per cent. higher than the average monthly electricity exchange price in the Lithuanian price zone. The higher price of electricity charged by the supplier of last resort encourages consumers to choose independent suppliers. This regulatory change is likely to lead to increased competition in the public supply market as well as changes in tariff plans that are currently being offered by independent suppliers.

Nevertheless, the Group cannot anticipate all of the changes that may arise from the ongoing deregulation of the Lithuanian energy market. The Group believes that deregulation should lead to a smaller market share for the Group, but at the same time will contribute to improved margins, which the Group believes will have a net positive effect on its EBITDA. Currently adjusted EBITDA from this activity is not significant (approximately EUR 0.3 million in 2019).

Designated supply regulation stipulated fixed sales margin to heating customers at 0.24 EUR/MWh. After regulation changed in 2019, IGN lost some volumes of sales to heating customers at this low margin, but gained new customer and gas exchange volumes, export volumes at higher margin.

(c) *Phase out of the regulation of the designated supply of gas*

During the period under review, the volumes of gas supply by the Group were affected significantly by changes in regulation in 2019, which led to a decrease in total supplied volumes (comprising designated supply, export, B2B and B2C) but with no overall impact on margins (as the lower total volumes were offset by an increase in exports at higher margins) during the period under review, as shown in the following table:

		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>H1 2020</u>
Gas sales volumes					
Volume of gas sales (Retail)	<i>TWh</i>	11.28	10.91	8.01	5.91
Volume of gas sales (Wholesale trading)	<i>TWh</i>	0.2	0.42	1.82	1.32
Gas sales margins					
Gas sales margin (Retail)*	<i>EUR/MWh</i>	1.33	1.33	1.33	1.55
Gas sales margin (Wholesale trading)	<i>EUR/MWh</i>	3.43	1.97	1.36	1.93

*Lithuania

The decrease of supplied volumes was caused primarily by regulatory changes related to the designated supply model. IGN had been the designated supplier of natural gas in Lithuania since 2015, responsible for ensuring the LNG Terminal is operational at all times providing baseload LNG deliveries (around four conventional LNG cargoes per year until 2024). There was also a requirement on energy producers to purchase natural gas through the LNG Terminal from the designated supplier. To ensure the fulfilment of this designated supply function, IGN entered into a contract with Equinor, valid until 2024, to purchase the requisite annual LNG cargoes.

The designated supply model regulation was changed from 1 January 2019, which resulted in the abolition of a requirement for regulated energy producers to purchase natural gas through the LNG Terminal from the designated supplier. Energy producers were given the option to source natural gas from other suppliers and the increased competition resulted in a decline of 42.4 per cent. in the Group's B2B gas sales compared to the year ended 31 December 2018 as producers sourced natural gas through the wholesale market. This was partially offset by the Group being allowed to sell minimum baseload LNG in the market. Sales on the GET Baltic gas exchange were 1.31 TWh in the year ended 31 December 2019, compared to 0.13 TWh in the year ended 31 December 2018, and were 1.30 TWh in the six months ended 30 June 2020, compared to 0.89 TWh in the six months ended 30 June 2019.

This designated supplier model is expected to last until the end of 2024, and the mandatory amounts of LNG amounting 3.9 TWh will be removed from the market and such amounts will be replaced by merchant gas supplies. While the abolishment of the designated LNG supply model will lead to a smaller market share of the Group, it will at the same time improve the Group's margins, so the net effect for the segment's EBITDA is expected to be neutral.

(d) *Effectiveness of hedging activities*

The Group has a conservative hedging policy, with a policy to hedge 100 per cent. of its supply portfolio through proxy hedges and, to a lesser extent, perfect hedges.

The Group seeks to hedge the risks relating to volatility in wholesale energy prices by entering into fixed price bilateral contracts and futures contracts on commodity exchanged in over-the-counter commodity markets and swaps traded in over-the-counter financial markets. Whenever the Company enters into fixed price sales agreements of either power or natural gas, the Company seeks to hedge these positions by entering into physical and financial forward contracts. However, as the relatively low liquidity of direct physical and financial instruments available in the Group's markets at times limits the hedging efficiency of the Group's power portfolio, the Group also enters into forward instruments from correlated markets. Hedging positions are formed based on anticipated customer consumption forecasts, and deviation of consumption affects the effectiveness of the hedge result. These instruments involve additional exposures for the Group. The Group's results of operations are affected by the extent and effectiveness of the Group's hedging activity and the success of the Group in anticipating consumption levels and market movements.

As the generation portfolio of the Group continues to grow, the amount of internal offtake contracts is expected to increase correspondingly, resulting in expected decreased in the amount of proxy hedges.

In the Group's financial statements, gas hedges are accounted for as cost of goods due to the available hedging policy (in accordance with IFRS 15). Electricity hedges are accounted for as part of revenues, as, for accounting purposes, they are treated as speculative trading.

4.5 **Significant factors affecting multiple segments or the Group as a whole**

(a) *Impact of regulatory initiatives*

The Group's results of operations are affected by Government as well as Ministry of Energy policies and regulatory initiatives, both nationally and internationally, including those discussed above. These policies and initiatives affect the Group's strategic direction, the amount and direction of the Group's investments and ultimately the revenues and returns the Group generates from its business as the Group adapts its activities to align with regulatory priorities.

For example, the Group has aligned its strategy with the National Energy Independence Strategy approved by the Parliament of the Republic of Lithuania on 21 June 2018, which sets targets for Lithuanian domestic energy production and the transition towards renewable energy sources, and has been a key driver of the Group's increased investments in its Green Energy segment, as well as investments in the distribution infrastructure of its Networks segment and in maintaining the capacity of its Flexible Generation segment to provide services to support the reliability of the Lithuanian energy system.

Besides regulations within Lithuania, the Group is also subject to various EU regulatory requirements, such as the state-aid notification rules, which prohibit the Group from receiving any state or public aid which would distort or threaten to distort competition by favouring the Group unless such state or public aid falls within one of the exemptions set out in the Treaty on the Functioning of the EU. The Group is also subject to regulation in the other jurisdictions in which it does business, including Poland, Estonia and Latvia.

The Green Generation segment, in particular, is affected by changes in regulatory initiatives, which include support schemes for energy from renewable sources. On 20 December 2018, the Parliament of the Republic of Lithuania adopted amendments to the Law on Energy from renewable energy sources and amended previous support schemes. The new support scheme entered into force on 1 May 2019 after approval at the EU level and, under the new scheme, support is allocated via competitive auctions organised by NERC which are scheduled according to the Government's approved triennial timetable. In

auctions, the producers compete by submitting bids for the premiums they want to receive on top of the electricity market price and indicating the total amount of electricity they will be able to deliver. NERC sets the maximum price for the total remuneration and payments to the producers which are calculated based on Nord Pool Exchange price in Lithuanian bidding zone. The payments to the producers stop when the amount of electricity produced and supplied to the grid reaches the amount of electricity appointed at auction.

In general, the development of renewable energy sources relies, in large part, on national and international regulatory and financial support for such development. For several years the EU, the Republic of Lithuania and other jurisdictions in which the Group does business (including Poland) have adopted policies and subsidies actively supporting renewable energy and decarbonisation. These regulatory initiatives have contributed to demand for renewable energy generally and therefore for electricity generated by the Group's Green Generation assets. Regulation also contributes to the revenue received for the electricity the Group generates. The support for renewable energy has been strong in recent years, and the EU and the Republic of Lithuania have periodically reaffirmed their desire to sustain and strengthen that support. Additional regulatory requirements could contribute to increases in demand for renewable energy and/or to increases in electricity prices.

However, regulatory changes could also have the opposite effect. For instance, governmental support and financial incentives may increasingly be provided to other or new forms of renewable energy over established renewable energy technologies like onshore wind and hydro-electricity. These initiatives may sometimes give more expensive, less established renewable technologies, such as gasification, tidal and offshore wind power, larger subsidies than those available for onshore wind, hydro-electricity and waste, for example. A failure to continue, extend or renew the regulatory incentives and programmes currently in place, or other shifts in the regulatory approach to renewable energy, could have an impact on the Group's business, results of operations, financial condition and cash flows.

See also paragraphs 4.1(a) and 4.4(a) of this Part 5 ("*Operating and Financial Review*") above.

(b) *Seasonality and weather conditions*

The Group's results are affected by seasonality as well as weather conditions in several respects.

In relation to demand, energy consumption is seasonal and is affected significantly by climatic conditions. In the Baltic region, energy consumption fluctuates during different seasons of the year. Average hourly consumption during the summer is approximately 1,200 to 1,350 MWh, while during the winter it is approximately 1,400 to 1,550 MWh. Therefore, the Group's revenues from its supply business is lower in the summer than in the winter, and, once the Vilnius CHP Plant and Kaunas CHP Plant are both operational (the Vilnius CHP plant is still currently under construction), the revenues from their heating operations will also be lower in the summer than in the winter. Variations in air temperature and other climatic conditions between different years may affect the Group's results from period to period.

In relation to supply, the Group's electricity output from many of the Group's green power generation facilities, including its hydro power and wind facilities (and, in the future, solar power facilities), is subject to changes in climatic and other environmental conditions.

The Group's Kaunas HPP facility, being based on a run-of-river mechanism, is particularly subject to fluctuations in water flows. Water flows vary each year and depend on factors such as precipitation, rate of snowmelt and seasonal changes.

The Group's electricity output from its wind farms is subject to fluctuations in wind conditions. Long-term predictions are subject to uncertainties due to, among other things, the placement of wind measuring equipment, the amount of data available, the extrapolation and forecasting methods used to estimate wind speeds and differences in atmospheric conditions and errors in meteorological measurements. Moreover, wind conditions over a limited period of time may substantially deviate from the long-term average due to natural wind fluctuations, causing significant short-term volatility in the performance of the Group's wind farms.

The levels of generation at the Group's Green Generation facilities (and revenues attributable to these businesses) will vary from period to period accordingly.

(c) *Depreciation and amortisation*

As the Group continues to own more fixed and intangible assets as it expands both domestically and internationally, its depreciation and amortisation charges have increased over time. These charges also reflect the amortisation of grants and subsidies that the Group has received. The Group incurred a depreciation and amortisation expense of EUR 109.9 million in depreciation and amortisation for the year ended 31 December 2019, reflecting an increase of 25.3 per cent. from EUR 87.7 million for the year ended 31 December 2018. This increase was principally as a result of new investments, revaluation of distribution network assets at the end of 2018 and the impact of IFRS 16.

(d) *Currency exchange rates*

The Group's commercial agreements are primarily denominated in Euro. However, as the Group continues to expand into foreign markets, it has entered into and will continue to enter into agreements that are denominated in foreign currencies. For example, the Group established a subsidiary Ignitis Polska Sp. z o.o. in 2017, whose assets and liabilities are recorded in Polish Zloty.

During the period under review, foreign currency exchange rates have not had a significant effect on the Group. For the years ended 31 December 2019 and 2018, less than 0.1 per cent. of the Group's revenues and less than 0.1 per cent. of the Group's costs were denominated in currencies other than the euro.

However, the Group's expansion activities may result in it having a greater exposure to foreign currency exchange rates. In particular, increased activities of the Group's Polish subsidiary Polska Sp. z o.o., as well as the commencement of operations of the Group's wind farm in Pomerania, Poland (expected to be completed in 2021) will give the Group greater exposure to foreign currency rate fluctuations between euro and Polish Zloty. While the Group does not currently have any PLN/EUR exchange rate swaps, the Group might consider entering into such swaps in the future.

As the Group's exposure in Poland increases, an adverse development in the exchange rate between the euro and the Polish zloty could have an increasingly negative effect on the Group. In addition, since the Group presents its financial statements in euro, a decline in the value of Polish zloty against the euro could in the future have a negative effect on the Group's results of operations and financial position.

(e) *Taxation*

Taxation can have a significant impact on the Group's results of operations. The Group is subject to income tax in Lithuania, as well as income taxes in Poland, Latvia and Estonia. The Group had a cumulative income tax expense of EUR 6.7 million for the year ended 31 December 2019. The Group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires the Group's management to make judgements and assumptions regarding the amount of deferred tax that can be recognised, as well as the likelihood of future taxable profits. The Group is allowed to fully deduct interest expenses that do not exceed interest income, and an excess amount that does not exceed the higher of EUR 3 million 30 per cent. of the Group's taxable EBITDA, which could potentially impact the tax position of the Group.

In order to increase the efficiency, competitiveness and energy efficiency of national companies, Lithuania adopted a corporate income tax incentive allowing companies investing in fundamental technological renewal to reduce taxable profits by up to 100 per cent. since 2009. This incentive significantly impacts the income tax expenses for ESO, as ESO has had sufficient amounts of unused investment relief to cover 100 per cent. of its taxable profit since 2009. ESO may use this incentive by investing in fixed assets intended for:

- production or supply of new or additional products or services or increasing the capacity of these activities;
- implementation of a new production/service supply process;
- a substantial change in available process (or part thereof); and
- introduction of technologies protected by international invention patents.

As at 31 December 2019, ESO had EUR 102.5 million of unused investments for tax incentive, of which EUR 46.5 million can be utilised until 31 December 2021 and EUR 56.0 million can be utilised until 31 December 2022.

(f) *Macroeconomic conditions in the Baltic region and Poland*

The Group's operations are based almost exclusively in the Baltic region (in particular Lithuania, where the Group generates a significant majority of its revenue) and Poland. Macroeconomic trends in the Baltic region and Poland have historically had, and the Group expects they will continue to have, an impact on the Group's business and results of operations, in particular real GDP growth in Lithuania and the wider Baltic region, industrial production in the region, service sector growth and personal consumption influence the demand for and consumption of electricity and gas.

The following table presents the GDP growth and other selected additional macroeconomic data for Lithuania, Estonia, Latvia and Poland for the specified periods:

		2017	2018	2019
Republic of Lithuania				
Annual GDP	US\$ billion	48	49	51
GDP per capital	US\$ thousand	17	18	19
Inflation (GDP deflator)	%	4.3%	3.3%	3.0%
Unemployment (of total labour force)	%	7.1%	6.1%	6.3%
Republic of Estonia				
Annual GDP	US\$ billion	25	26	28
GDP per Capital	US\$ thousand	19	20	21
Inflation (GDP deflator)	%	3.6%	4.5%	3.2%
Unemployment (of total labour force)	%	5.8%	5.4%	4.4%
Republic of Latvia				
Annual GDP	US\$ billion	30	32	32
GDP per Capital	US\$ thousand	15	16	17
Inflation (GDP deflator)	%	3.0%	4.0%	2.6%
Unemployment (of total labour force)	%	8.7%	7.4%	6.3%
Poland				
Annual GDP	US\$ billion	601	632	659
GDP per Capital	US\$ thousand	16	17	17
Inflation (GDP deflator)	%	1.9%	1.2%	3.0%
Unemployment (of total labour force)	%	4.9%	3.8%	3.3%

Source: Wood Mackenzie, World Bank

The Baltic region and Poland have benefited from high average real GDP growth in recent years, with average real GDP growth since 2012 of 3.4 per cent. in Lithuania, 3.4 per cent. in Poland, 3.3 per cent. in Estonia and 3.0 per cent. in Latvia, compared to an EU average of 1.4 per cent. over this period. Additionally, Lithuania and other countries in the region have also experienced superior growth in electricity consumption in recent years, with electricity consumption in Lithuania increasing by an average of 2.2 per cent. per annum between 2009 and 2018 (compared to an EU average of 0.4 per cent. per annum).

However, the effects of COVID-19 and the actions taken in Lithuania, the wider Baltic region and elsewhere in response to it have had a significant economic impact in Lithuania and the wider region (including the Group's other key target markets of Latvia, Estonia and Poland) in 2020 and it is unclear how long these effects will continue, particularly if these events give rise to a sustained economic slowdown in Europe or globally. The ongoing impact of COVID-19 cannot yet be fully assessed, but the Bank of Lithuania forecast in June 2020 that Lithuanian GDP would decrease by 9.7 per cent. in 2020. This represents one of the lowest GDP declines in the EU, with other Baltic countries also suffering a relatively lower impact from COVID-19 as compared with Western European countries.

In general, growth of Lithuania's real GDP, and of the Lithuanian economy generally, will have a positive impact on energy consumption in Lithuania, which, in turn, will have a positive effect on the Group's business and results of operations. However, a downturn in the growth of Lithuania's GDP and of the Lithuanian economy in general, whether due to the effects of COVID-19 or otherwise, could have an adverse effect on energy consumption in Lithuania and, in turn, on the Group's business and results of operations.

(g) *Deferred payment on disposal of shares in LitGrid AB*

The Group has an amount receivable of EUR 158.7 million from EPSO-G UAB in respect of deferred consideration for the transfer of shares in LitGrid AB (electricity TSO in Lithuania) from the Company to EPSO-G UAB in 2012. The amount is stated at fair value through profit or loss, because the final amount payable by EPSO-G UAB for the shares depends on the calculation of the final price premium. The deferred consideration is due to be paid by 2022, with EUR 14.5 million to be paid in 2020 and another EUR 14.5 million to be paid in 2021, and the remainder to be paid in full in 2022.

The amount of the price premium under the relevant purchase-sale agreement depends on the return on regulated assets of the electricity transmission activity during the years 2014 to 2018. At the initial assessment of the price premium, the Group concluded that the price premium is negative and amounts to EUR 4.7 million at 31 December 2019. According to EPSO-G UAB's calculations, the price premium at 31 December 2019 is negative and amounts to EUR 27.1 million.

The Company disagrees with EPSO-G UAB's prepared calculations. The parties are currently in discussions as to how to resolve the situation. For the purposes of the statement of financial position, the Company's management has assessed and recognised the negative price premium for the amount of EUR 15.9 million (30 June 2020 and 31 December 2019), on the assumption that the possible agreement between the parties would be the average value of the Company's and EPSO-G UAB's calculations. After this assumption, the gross receivable on disposal of the shares of LitGrid AB amounting to EUR 174.5 million was reduced by EUR 15.9 million to EUR 158.7 million, as the sales price will be adjusted by the price premium.

5. **CURRENT TRADING AND RECENT DEVELOPMENTS**

In the seven months from January to July 2020, the Group generated revenue of EUR 680.0 million, which is 5.2 per cent. more compared to the same period in 2019 (EUR 646.4 million). The Group's revenue has increased mainly due to price of power distribution service, which is comprised of power transmission, distribution and public service obligations (PSO) components. The adjusted EBITDA indicator of the Group for the seven months from January to July 2020 was equal to EUR 149.4 million, i.e. 2 per cent. more compared to the same period of 2019 (EUR 146.5 million). It was mostly the result of the growing value of the Group's regulated assets due to investments in the renewal of the distribution networks and efficient use of Kruonis PSHP.

On 26 August 2020 the Ministry of Finance, the authority implementing the rights of the sole shareholder of the Company, adopted a decision to change the nominal value and number of shares issued by the Company. In accordance with the decision of the Ministry of Finance, the nominal value of one ordinary registered share of the Company was changed from EUR 0.29 to EUR 22.33. Upon the change of the nominal value of one Share, the authorised capital of Ignitis Group will be divided into 54,283,757 Shares. Due to this change, the amount of the Company's authorised capital does not change. The nominal value and number of Shares was considered changed as of the registration of the new version of the Company's Articles of Association in the Register of Legal Entities on 31 August 2020.

6. **EXPLANATION OF STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS**

The following is a brief description of the most significant line items that are included in the Group's statement of profit or loss and other comprehensive income.

Revenue from contracts with customers

The Group's revenue is primarily derived from electricity and gas distribution, sale of electricity and gas, sale of electricity generated by the Group, public electricity supply, income from capacity reserve services and gas security component income. Under the Group's sales contracts, the customers do not generally have rights to the return or seek a refund on the electricity or gas that has been consumed; therefore, the Group has minimal exposure to potential refund liabilities or any corresponding adjustments to revenue that has already been recognised. The Group's revenue from distribution, sale or supply of energy products is recognised monthly upon the actual consumption of energy by its customers, which is determined according to the readings of the energy meters.

Connection fees also contribute to the Group's overall revenue. Revenue that comes from the connection fees is deferred and recognised as revenue over the estimated average useful life of the assets providing the connection service, which is generally 27 years for the electricity grid and 46 to 55 years for the gas grid. Connection fees received from customers are deferred and recorded as liabilities under connection contracts with customers in the Group's statement of financial position.

Revenue from contracts with customers also includes public service obligation ("**PSO**") fees received by the Group. The purpose of PSO services provision is to implement the strategic objectives of the energy, economic and environmental policy of Lithuania, ensuring the implementation of the interests of all electricity consumers. Under the PSO scheme approved by Lithuanian Ministry of Energy, PSO fees are collected by electricity suppliers from end users through the electricity tariff and then transferred to the budget from which the Public Service Obligation Funds are distributed to PSO service providers. From 1 January 2019 the Group does not render such PSO service, but the Group has an irrevocable obligation to receive the resulting difference in accordance with applicable laws regarding the PSO funds related to PSO services that were rendered in previous years. The Group changed the method of accounting for the PSO fee from 1 January 2018 by treating the Group as an agent in relation to the PSO fee and therefore netting PSO fee income and expenses.

Other income

Other income comprises principally operating lease income, gain/(loss) from derivatives (commodities), interest income, gain/(loss) on the disposal of non-current assets, dividend income and other income that does not constitute revenue from contracts with customers. In the year ended 31 December 2019, it also included one-off compensation from the Ministry of Finance for the indemnification of potentially inflicted damage by Alstom Power Ltd. during the implementation of the project of Lietuvos Elektrinė in 2005 to 2009.

Operating expenses

The Group's operating expenses comprise primarily:

- purchases of electricity and gas for trade and related services;
- purchases of gas and heavy fuel oil (to provide fuel for certain of the Group's generation facilities);
- depreciation and amortisation (primarily in relation to the estimated useful lives of the Group's tangible assets, including property, plant and equipment and right-of-use assets, charged to the Group's statement of comprehensive income on a straight-line basis with no significant residual value over the assets);
- salaries and related expenses (including primarily wages paid to the Group's staff);
- repair and maintenance expenses
- revaluation of property, plant and equipment;
- impairment (reversal of impairment) of amounts receivable and loans;
- impairment (reversal of impairment) of property, plant and equipment; and
- other expenses (which comprise principally taxes, write-offs of property, plant and equipment, customer service expenses, telecommunications and IT services, transport, utilities, write-offs of non-current and current amounts receivables (bad debts), consultation services, expenses of low-value inventories, personnel development, business trips and expenses related to emission allowances, their revaluation and provisions.

At each reporting date, the Group reviews the book values of its property, plant and equipment, intangible assets and right-of-use 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 loss. Where an impairment loss subsequently reverses (except for goodwill, the impairment for which is never reversed), 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 statement of profit or loss and other comprehensive income.

Finance income

Finance income includes interest income and other income from financing activities. The Group's interest income comes primarily from the Company loan given to EPSO-G in relation to the purchase of LitGrid AB shares, which were sold by the Company in 2012.

Finance expenses

Finance expenses include interest expenses, interest and discount expense on lease liabilities, changes in exchange rates and other expenses relating to financing activities. The majority of the Group's interest expenses relate to the long-term bonds issued by the Group and loans received from commercial and institutional banks.

Results of the revaluation and closing of derivative financial instruments

Results of the revaluation and closing of derivative financial instruments did not have a significant effect on the Group's financial results during the period under review.

Current year income tax and deferred income tax

Current year income tax represents the sum of tax currently payable under the laws of each jurisdiction in which the Group operates. Under the Republic of Lithuania Law on Corporate Income Tax, the income tax rate of 15 per cent. was assessed on profit in each of the years ended 31 December 2017, 2018 and 2019.

Deferred income tax is accounted for using the liability method. Deferred tax assets and deferred tax liability are recognised for future tax purposes to reflect differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent that is probable to reduce the taxable profit in future. These 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 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.

7. RESULTS OF OPERATIONS

Results of operations for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and six-month periods ended 30 June 2019 and 30 June 2020

The following table sets forth certain of the Group's historical revenue and expense items for the years ended 31 December 2017, 31 December 2018 and 31 December 2019, as well as the six-month periods ended 30 June 2019 and 30 June 2020.

	Year ended 31 December (audited)			Six months ended 30 June (unaudited)	
	2017	2018 (restated)	2019	2019 (restated)	2020
	<i>(EUR million)</i>				
Revenue from contracts with customers	1,081.2*	1,024.3	1,079.3	556.8	588.3
Other income	19.6*	45.8	11.3	1.1	2.6
Revenue	1,100.8	1,070.1	1,090.6	557.9	590.9
Operating Expenses					
Purchase of electricity and gas for trade and related services	(712.3)	(768.5)	(711.7)	(368.6)	(344.0)
Purchases of gas and heavy fuel oil	(28.2)	(26.5)	(23.0)	(12.0)	(16.7)
Depreciation and amortisation	(87.4)	(87.7)	(109.9)	(54.4)	(54.5)
Salaries and related expenses	(81.3)	(79.7)	(87.0)	(41.9)	(49.7)
Repair and maintenance expenses	(21.3)	(21.2)	(29.8)	(15.3)	(11.2)
Revaluation of property, plant and equipment (Impairment)/reversal of impairment of amounts receivable and loans	(7.1)	(67.7)	(0.8)	-	-
Impairment of property, plant and equipment	1.0	(9.9)	0.2	1.1	(0.8)
Other expenses	(33.4)	(3.2)	(8.7)	(2.3)	(0.7)
	(33.7)	(26.1)	(37.2)	(18.4)	(19.8)
Total operating expenses	(1,003.7)	(1,090.5)	(1,007.8)	(511.8)	(497.5)
Finance income	2.2	1.6	2.2	1.3	1.0
Finance expenses	(9.1)	(14.9)	(18.8)	(9.9)	(10.2)
Results of the revaluation and closing of derivative financial instruments	-	(0.6)	-	-	-
Profit/(loss) before tax	90.2	(34.2)	66.2	37.5	84.2
Current year income tax (expenses) / benefit	(2.7)	(4.6)	(6.7)	(4.6)	(5.5)
Deferred income tax (expenses) / benefit	6.0	16.9	(0.4)	(4.0)	(6.8)
Net profit/(loss)	93.5	(22.0)	59.0	28.8	71.9
Attributable to:					
Equity holders of the parent	89.1	(22.4)	56.7	27.2	72.4
Non-controlling interests	4.4	0.5	2.3	1.6	(0.4)
Adjusted EBITDA	238.2	221.3	259.6	129.9	129.1

* Reclassified upon enactment of IFRS 15 as at 1 January 2018 (See Note 2.1 to the 2018 and 2017 Restated Financial Statements).

Comparison of results of operations for the six-month periods ended 30 June 2019 and 2020

Revenue

Group

Group revenue was EUR 590.9 million for the six-month period ended 30 June 2020, an increase of EUR 33.0 million, or 5.9 per cent., from EUR 557.9 million for the six-month period ended 30 June 2019. This was primarily due to higher revenue in the Networks, Customers and Solutions and Green Generation segments, which was partially offset by a decrease in revenue in the Flexible Generation segment.

The following table sets forth details of the Group's sales revenue from external customers by operating segment for the periods indicated:

	Six months ended 30 June (unaudited)		% Change
	2019 (restated)	2020	
	<i>(EUR million)</i>		
Networks	208.5	236.1	13.2%
Green Generation	36.0	39.5	9.7%
Flexible Generation	47.4	38.5	(18.8)%
Customers and Solutions	261.5	272.7	4.3%
Other segments/eliminations*	4.5	4.1	(8.9)%
Total	557.9	590.9	5.9%

* For the definition of "other segments/eliminations", please see paragraph 3 of this Part 5 ("Operating and Financial Review").

Networks

Revenue for the Networks segment was EUR 236.1 million for the six-month period ended 30 June 2020, an increase of EUR 27.6 million, or 13.2 per cent., from EUR 208.5 million for the six-month period ended 30 June 2019. This increase was primarily due to higher electricity distribution revenue and transmission revenue due to tariffs for the power distribution service (comprising power transmission, distribution and PSO components), being 11 per cent. higher on average. The increase was partly offset by a decrease in revenue from supply of last resort of electricity revenue due to a decrease in the electricity market price.

Green Generation

Revenue for the Green Generation segment was EUR 39.5 million for the six-month period ended 30 June 2020, an increase of EUR 3.5 million, or 9.7 per cent., from EUR 36.0 million for the six-month period ended 30 June 2019. This increase was primarily due to increased sales revenue from Kruonis PSHP and the Group's wind farms, partially offset by lower revenue from Kaunas HPP.

Flexible Generation

Revenue for the Flexible Generation segment was EUR 38.5 million for the six-month period ended 30 June 2020, a decrease of EUR 8.9 million, or 18.8 per cent., from EUR 47.4 million for the six-month period ended 30 June 2019. Revenue during the six months ended 30 June 2019 included a non-recurring EUR 9.3 million compensation payment received from the Ministry of Finance for the indemnification of potentially inflicted damage by Alstom Power Ltd during the implementation of the project of Lietuvos Elektrinė between 2005 to 2009. Revenues for the six-month period ended 30 June 2019 also included sales of fuel oil stocks that were no longer in use. The decrease between the periods was partially offset by higher revenue from the CCGT in 2020 due to the CCGT's increased commercial activities.

Customers and Solutions

Revenue for the Customers and Solutions segment was EUR 272.7 million for the six-month period ended 30 June 2020, an increase of EUR 11.2 million, or 4.3 per cent., from EUR 261.5 million for the six-month period ended 30 June 2019. This was primarily due to an increase in revenue from public electricity supply activities due to a 14.6 per cent. higher electricity tariff set by the regulator and the 5.3 per cent. higher volumes sold, as well as an increase of retail B2B electricity supply revenue mainly due to growth in the volume sold; the increase was partially offset by lower gas sales to B2B customers due to lower gas market prices and lower gas sales to residential customers due to a lower tariff set by the regulator.

Operating expenses

Group

Group operating expenses decreased by EUR 14.3 million, or 2.8 per cent., to EUR 497.5 million for the six-month period ended 30 June 2020 from EUR 511.8 million for the six-month period ended 30 June 2019. The decrease in operating expenses was primarily due to lower purchases of gas for trade and lower sales to both B2B and B2C customers; the decrease was partially offset by an increase of wages and related expenses mainly due to the Group's average salary growth, increase of head count, increased vacation accrual and increased overtime resulted from repair of failures in the electricity distribution network after storm Laura struck Lithuania in March 2020.

The following table sets forth details of the Group's operating expenses by operating segment for the periods indicated:

	Six months ended 30 June (unaudited)		% Change
	2019 (restated)	2020	
	<i>(EUR million)</i>		
Networks	183.3	191.0	4.2%
Green Generation	20.4	22.1	8.3%
Flexible Generation	27.8	35.5	27.7%
Customers and Solutions	284.0	240.9	(15.2)%
Other segments/eliminations*	(3.7)	8.1	(318.9)%
Total	511.8	497.5	(2.8)%

* For the definition of "other segments/eliminations", please see paragraph 3 of this Part 5 ("Operating and Financial Review").

Networks

Operating expenses for the Networks segment increased by EUR 7.7 million, or 4.2 per cent., to EUR 191.0 million for the six-month period ended 30 June 2020 from EUR 183.3 million for the six-month period ended 30 June 2019. The increase in operating expenses was primarily due to an increase in wages and related expenses as a result of growth in average salary and increased overtime resulted from repair of failures in the electricity distribution network after storm Laura struck Lithuania in March 2020.

Green Generation

Operating expenses for the Green Generation segment increased by EUR 1.7 million, or 8.3 per cent., to EUR 22.1 million for the six-month period ended 30 June 2020 from EUR 20.4 million for the six-month period ended 30 June 2019. The increase in operating expenses was primarily due to an increase in wages and related expenses mainly due to the average salary growth and increase of head count in the segment as a result of cogeneration plants approaching their launch.

Flexible Generation

Operating expenses for the Flexible Generation segment increased by EUR 7.7 million, or 27.7 per cent., to EUR 35.5 million for the six-month period ended 30 June 2020 from EUR 27.8 million for the six-month period ended 30 June 2019. The increase in operating expenses was primarily due to the increased purchases of gas for the CCGT unit due to regulatory change allowing CCGT to sell electricity generated at market prices while continuing to provide the Isolated Regime Service.

Customers and Solutions

Operating expenses for the Customers and Solutions segment decreased by EUR 43.1 million, or 15.2 per cent., to EUR 240.9 million for the six-month period ended 30 June 2020 from EUR 284.0 million for the six-month period ended 30 June 2019. The decrease in operating expenses was primarily due to less purchases of gas for trade as a result of lower sales volume to B2B and B2C customers.

Finance income

The following table sets forth details of the Group's finance income for the six-month periods ended 30 June 2019 and 30 June 2020.

	Six months ended 30 June (unaudited)		% Change
	2019 (restated)	2020	
	<i>(EUR million)</i>		
Interest income at the effective interest rate	1.2	0.6	(50.0)%
Other income from financing activities	0.1	0.4	300.0%
Total	1.3	1.0	(23.1)%

Group finance income decreased by EUR 0.3 million, or 23.1 per cent., to EUR 1.0 million for the six-month period ended 30 June 2020 from EUR 1.3 million for the six-month period ended 30 June 2019.

Finance expenses

The following table sets forth details of the Group's finance expenses for the six-month periods ended 30 June 2019 and 30 June 2020.

	Six months ended 30 June (unaudited)		% Change
	2019 (restated)	2020	
	(EUR million)		
Interest expenses	7.5	8.2	9.3%
Interest and discount expense on lease liabilities	0.2	0.3	50.0%
Negative effect of change in exchange rates	-	0.4	100.0%
Other expenses of financing activities	2.2	1.4	(36.4)%
Total	9.9	10.2	3.0%

Group finance expenses increased by EUR 0.3 million, or 3.0 per cent., to EUR 10.2 million for the six-month period ended 30 June 2020 from EUR 9.9 million for the six-month period ended 30 June 2019. This increase was primarily caused by the increased level of debt incurred by the Group due to continued investments made.

Revaluation and closing of derivative financial instruments

The Group did not record any income or expenses derived from revaluation and closing of derivative financial instruments for the six-month periods ended 30 June 2019 and 2020.

Profit/(loss) before tax

As a result of the factors described above, the Group had a profit before tax for the six-month period ended 30 June 2020 of EUR 84.2 million, representing an increase of EUR 46.7 million, or 124.5 per cent., from a profit before tax of EUR 37.5 million for the six-month period ended 30 June 2019.

Current year income tax expenses

The Group's income tax expenses increased by EUR 0.9 million, or 19.6 per cent., to EUR 5.5 million for the six-month period ended 30 June 2020 from EUR 4.6 million for the six-month period ended 30 June 2019. This was a result of the higher profit before tax recorded.

Deferred income tax expenses

The Group's deferred income tax expenses increased by EUR 2.8 million, or 70.0 per cent., to deferred income tax expenses of EUR 6.8 million for the six-month period ended 30 June 2020 from deferred income tax expenses of EUR 4.0 million for the six-month period ended 30 June 2019. This was primarily a result of used investment tax relief by ESO during the six-month period ended 30 June 2020.

Net profit/(loss)

As a result of the factors described above, the Group had a net profit for the six-month period ended 30 June 2020 of EUR 71.9 million, representing an increase of EUR 43.1 million, or 149.7 per cent., from a net profit of EUR 28.8 million for the six-month period ended 30 June 2019.

Adjusted EBITDA

The following table sets for the adjusted EBITDA of the Group by operating segment for the six-month periods ended 30 June 2019 and 30 June 2020.

	Six months ended 30 June (unaudited)		% Change
	2019 (restated)	2020	
	(EUR million)		
Networks	88.2	96.7	9.6%
Green Generation	24.0	23.8	(0.8)%
Flexible Generation	11.9	11.7	(1.7)%
Customers and Solutions	2.9	(1.8)	(162.1)%
Other segments/eliminations*	2.9	(1.3)	(144.8)%
Total adjusted EBITDA	129.9	129.1	(0.6)%

* For the definition of "other segments/eliminations", please see paragraph 3 of this Part 5 ("Operating and Financial Review").

Group

The Group's adjusted EBITDA decreased by EUR 0.8 million, or 0.6 per cent., from EUR 129.9 million for the six-month period ended 30 June 2019 to EUR 129.1 million for the six-month period ended 30 June 2020.

Networks

Networks segment adjusted EBITDA increased by 9.6 per cent., primarily due to the growing RAB, increase of compensated depreciation expenses of electricity distribution and increase of investments covered by customers.

Green Generation

Green Generation segment adjusted EBITDA decreased by 0.8 per cent., primarily due to a decrease in revenue from Kaunas HPP due to lower water level in Nemunas river, as well as by the increased operating expenses relating to the Vilnius CHP Plant (launch is approaching) and Kaunas CHP plant (launch commenced in August 2020); the decrease was partly offset by better result of Kruonis PSHP due to effective utilisation of fluctuations in electricity prices.

Flexible Generation

Flexible Generation segment adjusted EBITDA decreased by 1.7 per cent., primarily due to the presence in the six months ended 30 June 2019 of a one-off gain on the sale of fuel oil stocks, which was not present in the six months ended 30 June 2020. This was partially offset by better results from CCGT Units No. 7 and 8 of the Elektrėnai Complex in the six months ended 30 June 2020.

Customers and Solutions

Customers and Solutions segment adjusted EBITDA decreased by 162.1 per cent., primarily due to the negative impact of proxy hedge results (ineffective proxy hedge in relation to unfavourable movement in the derivative hedging products) and reduced electricity consumption of hedged volumes of B2B customer portfolio due to impacts of the COVID-19 outbreak, which was not fully compensated by the positive effect from increased B2B customers portfolio and higher total B2B electricity sales volumes.

Comparison of results of operations for the years ended 31 December 2017, 31 December 2018 and 31 December 2019

Revenue from contracts with customers

Group

Group revenue was EUR 1,090.6 million for the year ended 31 December 2019, an increase of EUR 20.5 million, or 1.9 per cent., from EUR 1,070.1 million for the year ended 31 December 2018. This was due to higher revenues across the Group's operating segments.

Group revenue was EUR 1,070.1 million for the year ended 31 December 2018, a decrease of EUR 30.7 million, or 2.8 per cent., from EUR 1,100.8 million for the year ended 31 December 2017. This was primarily due to a lower revenue in Networks segment as well as a decrease in revenue from the Flexible Generation segment, partially offset by an increase in revenue of Green Generation segment.

The following table sets forth details of the Group's revenue by operating segment for the years indicated:

	Year ended 31 December (audited)			% Change	
	2017	2018 (restated)	2019	2017 - 2018	2018 - 2019
	<i>(EUR million)</i>				
Networks	459.1	381.2	413.8	(17.0)%	8.6%
Green Generation	62.3	78.3	83.3	25.7%	6.4%
Flexible Generation	49.5	68.0	79.7	37.4%	17.2%
Customers and Solutions	501.8	525.3	502.9	4.7%	(4.3)%
Other segments/eliminations*	28.2	17.1	10.9	(39.4)%	(36.3)%
Total	1,100.8	1,070.1	1,090.6	(2.8)%	1.9%

* For the definition of "other segments/eliminations", please see paragraph 3 of this Part 5 ("Operating and Financial Review).

Networks

Revenue for the Networks segment was EUR 413.8 million for the year ended 31 December 2019, an increase of EUR 32.6 million, or 8.6 per cent., from EUR 381.2 million for the year ended 31 December 2018. This was primarily due to a 10.3 per cent. increase in revenue from electricity distribution due to an increase in tariffs, which was, in turn, primarily due to an 18.3 per cent. increase in RAB due to the LRAIC calculation, as well as compensation in the tariff mechanism for increased operating expenses (such as new legal obligations for payments of servitudes), resulting in an 18.1 per cent. increase in reimbursed operating expenses between 2018 and 2019. The increase was partially offset by a 16.1 per cent. decrease in revenue from gas distribution due to a 4.8 per cent. decrease in gas distribution volumes and a 3.6 per cent. decrease in tariffs.

Revenue for the Networks segment decreased by EUR 77.9 million, or 17.0 per cent., from EUR 459.1 million for the year ended 31 December 2017 to EUR 381.2 million for the year ended 31 December 2018. This was primarily due to significant decrease in revenue from electricity distribution due to a changed method of accounting for the PSO fee from 1 January 2018 by treating the Group as an agent in relation to the PSO fee and therefore netting PSO fee income and expenses, as well as decrease in revenue from gas distribution due to a 23.9 per cent. decrease in tariffs.

Green Generation

Revenue for the Green Generation segment was EUR 83.3 million for the year ended 31 December 2019, an increase of EUR 5.0 million, or 6.4 per cent., from EUR 78.3 million for the year ended 31 December 2018. This was primarily due to increased electricity production from the two additional wind farms acquired by the Group at the end of 2018 and more favourable wind conditions in 2019 (which, combined, contributed to a 76.9 per cent. increase in electricity production from the Group's wind portfolio) and a higher sales margin of Kruonis PSHP in 2019. This increase was partially offset by production volumes in Kaunas HPP being 21.8 per cent. lower in 2019 as a result of the water flow in the Nemunas river being 23 per cent. lower.

Revenue for the Green Generation segment increased by EUR 16.0 million, or 25.7 per cent., from EUR 62.3 million for the year ended 31 December 2017 to EUR 78.3 million for the year ended 31 December 2018. This was primarily driven by higher market prices achieved in respect of market sales from the Group's hydro plants and, in particular, higher revenue from Kruonis PSHP due to effective utilisation of fluctuations between "peak" and "off peak" energy prices.

Flexible Generation

Revenue for the Flexible Generation segment was EUR 79.7 million for the year ended 31 December 2019, an increase of EUR 11.7 million, or 17.2 per cent., from EUR 68.0 million for the year ended 31 December 2018. This was primarily due to a one-off compensation of EUR 9.3 million from the Ministry of Finance for the indemnification of potentially inflicted damage by Alstom Power Ltd. during the implementation of the project of Lietuvos Elektrinė during 2005 to 2009, as well as higher revenue from

Unit 7 of the Elektrėnai Complex due to testing of isolated network services in the year ended 31 December 2019 (the unit was in preservation mode and did not provide any services in the year ended 31 December 2018).

Revenue for the Flexible Generation segment increased by EUR 18.5 million, or 37.4 per cent., from EUR 49.5 million for the year ended 31 December 2017 to EUR 68.0 million for the year ended 31 December 2018. This increase was principally caused by a higher level of regulated services being provided by the Group in 2018 compared to 2017 and a corresponding increase in revenue from these services.

Customers and Solutions

Revenue for the Customers and Solutions segment was EUR 502.9 million for the year ended 31 December 2019, a decrease of EUR 22.4 million, or 4.3 per cent., from EUR 525.3 million for the year ended 31 December 2018. This was primarily due to a significant decrease in revenue from derivative instruments due to a change in the MtM (mark-to-market) value of the electricity hedge portfolio as well as lower gas sales to B2B customers as a result of changes in the regulation of the designated supply model from 1 January 2019, which resulted in the abolishment of a requirement for regulated energy producers to purchase natural gas through the LNG Terminal from the designated supplier (being the Group). This resulted in a decline of EUR 54.3 million in the Group's B2B gas sales compared to the year ended 31 December 2018; the decrease was partially offset by a EUR 42.1 million increase in revenue from public electricity supply activities due to higher tariffs, an increase of gas sales to B2C customers and higher sales of other electricity, gas and related services.

Revenue for the Customers and Solutions segment increased by EUR 23.5 million, or 4.7 per cent., from EUR 501.8 million for the year ended 31 December 2017 to EUR 525.3 million for the year ended 31 December 2018. This was primarily due to a significant increase in income from derivative instruments due an increase in the MtM (mark-to-market) value of the electricity hedge portfolio as well as higher revenue from trade of electricity as a result of an increase in market prices, partially offset by decrease in revenue from public electricity supply due to a reduced tariff for this service.

Operating expenses

	Year ended 31 December (audited)			% Change	
	2017	2018 (restated)	2019	2017 and 2018	2018 and 2019
	(EUR million)				
Purchase of electricity and gas for trade and related services	(712.3)	(768.5)	(711.7)	7.9%	(7.4)%
Purchases of gas and heavy fuel oil	(28.2)	(26.5)	(23.0)	(6.0)%	(13.2)%
Depreciation and amortisation	(87.4)	(87.7)	(109.9)	0.3%	25.3%
Salaries and related expenses	(81.3)	(79.7)	(87.0)	(2.0)%	9.2%
Repair and maintenance expenses	(21.3)	(21.2)	(29.8)	(0.5)%	40.6%
Revaluation of property, plant and equipment	(7.1)	(67.7)	(0.8)	853.5%	(98.8)%
(Impairment)/reversal of impairment of amounts receivable and loans	1.0	(9.9)	0.2	N/A	(102.0)%
(Impairment)/reversal of impairment of property, plant and equipment	(33.4)	(3.2)	(8.7)	(90.4)%	171.9%
Other expenses	(33.7)	(26.1)	(37.2)	(22.6)%	42.5%
Total operating expenses	(1,003.7)	(1,090.5)	(1,007.8)	8.6%	(7.6)%

Group

Group operating expenses decreased by EUR 82.7 million, or 7.6 per cent., to EUR 1,007.8 million for the year ended 31 December 2019 from EUR 1,090.5 million in the year ended 31 December 2018. This was primarily due to decreases in operating expenses for the Networks segment and Customers and Solutions segment, partially offset by increases in operating expenses for the Green Generation segment and the Flexible Generation segment.

Group operating expenses increased by EUR 86.8 million, or 8.6 per cent., to EUR 1,090.5 million in the year ended 31 December 2018 from EUR 1,003.7 million in the year ended 31 December 2017. This was primarily due to increases in operating expenses for the Green Generation segment and Customers

and Solutions segment, partially offset by decreases in operating expenses for the Networks segment and the Flexible Generation segment.

The following table sets forth details of the Group's operating expenses by operating segment for the years indicated:

	Year ended 31 December (audited)			% Change	
	2017	2018 (restated)	2019	2017 - 2018	2018 - 2019
	<i>(EUR million)</i>				
Networks	415.0	383.0	374.6	(7.7)%	(2.2)%
Green Generation	42.0	49.3	52.8	17.4%	7.1%
Flexible Generation	96.4	53.2	54.5	(44.8)%	2.4%
Customers and Solutions	549.1	625.0	529.7	13.8%	(15.2)%
Other segments/eliminations*	(98.9)	(20.1)	(3.8)	79.7%	(81.1)%
Total	1,003.7	1,090.5	1,007.8	8.6%	(7.6)%

* For the definition of "other segments/eliminations", please see paragraph 3 of this Part 5 ("Operating and Financial Review").

Networks

Operating expenses for the Networks segment decreased by EUR 8.4 million, or 2.2 per cent., to EUR 374.6 million for the year ended 31 December 2019 from EUR 383.0 million for the year ended 31 December 2018. The decrease in operating expenses was primarily due to the recognition in 2018 of impairment expenses arising from the effect of the revaluation of distribution network assets. While the independent valuation resulted in increases in the asset value, for accounting reasons the increase in value of certain assets was recognised in equity under revaluation reserve and loss related to revaluation of certain assets was recognised in the statement of profit or loss and other comprehensive income in 2018. The overall decrease was partially offset by increased costs relating to repair and maintenance works required for the electricity distribution network in 2019.

Operating expenses for the Networks segment decreased by EUR 32.0 million, or 7.7 per cent., to EUR 383.0 million for the year ended 31 December 2018 from EUR 415.0 million for the year ended 31 December 2017. The decrease in operating expenses was primarily due to the netting of PSO fee income and expenses after a change in the method of accounting for the PSO fee from 1 January 2018 as described above and decreases in maintenance expenses and technical support expenses. The decrease was partially offset by an increase in impairment expenses caused by the effect of the revaluation of distribution network assets which was recognised in 2018, as described above.

Green Generation

Operating expenses for the Green Generation segment increased by EUR 3.5 million, or 7.1 per cent., to EUR 52.8 million for the year ended 31 December 2019 from EUR 49.3 million for the year ended 31 December 2018. The increase in operating expenses was primarily due to the Group's larger wind portfolio in 2019 following the acquisition of two wind farms at the end of 2018, as well as increased operating expenses in connection with the waste-to-energy/biomass CHP plants as they drew closer to launch.

Operating expenses for the Green Generation segment increased by EUR 7.3 million, or 17.4 per cent., to EUR 49.3 million for the year ended 31 December 2018 from EUR 42.0 million for the year ended 31 December 2017. The increase in operating expenses was primarily due to an increase in variable expenses of approximately EUR 5.7 million for Kruonis PSHP primarily driven by higher average electricity purchase prices for loading of Kruonis PSHP, which increased from EUR 26.25 per MWh in 2017 to EUR 36.41 per MWh in 2018, as the Group sought to make efficient use of energy price fluctuations.

Flexible Generation

Operating expenses for the Flexible Generation segment increased by EUR 1.3 million, or 2.4 per cent., to EUR 54.5 million for the year ended 31 December 2019 from EUR 53.2 million for the year ended 31 December 2018. The increase in operating expenses was primarily due to a negative change of the revaluation of emission allowance, which was partially offset by lower purchase price and amount of gas.

Operating expenses for the Flexible Generation segment decreased by EUR 43.2 million, or 44.8 per cent., to EUR 53.2 million for the year ended 31 December 2018 from EUR 96.4 million for the year ended 31 December 2017. The decrease in operating expenses was primarily due to the recognition in 2017 of a EUR 31.4 million impairment in respect of the net book value of Units 7 and 8 of the Elektrénai Complex due to the Company's then current assessment of the cash flow generation capacity of these units in view of the position taken by the Ministry of Energy that Units 7 and 8 should be kept in preservation mode until the testing of operating mode to be carried out in 2019 and in view of the lack of an actively operating long-term strategic power reserve mechanism.

Customers and Solutions

Operating expenses for the Customers and Solutions segment decreased by EUR 95.3 million, or 15.2 per cent., to EUR 529.7 million for the year ended 31 December 2019 from EUR 625.0 million for the year ended 31 December 2018. The decrease in operating expenses was primarily due to lower gas purchases for trade, due primarily to the 46.1 per cent. decline in the Group's B2B gas sales following changes in the regulation of the designated supply model from 1 January 2019, as described above.

Operating expenses for the Customers and Solutions segment increased by EUR 75.9 million, or 13.8 per cent., to EUR 625.0 million for the year ended 31 December 2018 from EUR 549.1 million for the year ended 31 December 2017. The increase in operating expenses was primarily due to increased purchase expenses of electricity for trade and related services in the year ended 31 December 2018, influenced by both increased electricity purchase prices and higher sale volumes, and increased purchase expenses of gas for trade and related services, as a result of the higher purchase price of gas.

Finance income

The following table sets forth details of the Group's finance income for the years ended 31 December 2017, 31 December 2018 and 31 December 2019.

	Year ended 31 December (audited)			% Change	
	2017	2018 (restated)	2019	2017 and 2018	2018 and 2019
	(EUR million)				
Interest income at the effective interest rate	1.5	1.4	1.5	(6.7)%	7.1%
Other income from financing activities	0.6	0.2	0.6	(66.7)%	200.0%
Total	2.2	1.6	2.2	(27.3)%	37.5%

Group finance income increased by EUR 0.6 million, or 37.5 per cent., to EUR 2.2 million for the year ended 31 December 2019 from EUR 1.6 million for the year ended 31 December 2018. This increase was caused primarily by gains from favourable fluctuations exchange rates relating to interest income, as well as other financial income from financial activities, primarily relating to a change in the MtM (mark-to-market) value of the Group's trading portfolio in Poland.

Group finance income decreased by EUR 0.6 million, or 27.3 per cent., to EUR 1.6 million for the year ended 31 December 2018 from EUR 2.2 million for the year ended 31 December 2017. This decrease was primarily caused by the reversal in 2018 of a deferred payment for subsidiary NT Valdos UAB which was included in other income from financing activities in 2017.

Finance expenses

The following table sets forth details of the Group's finance expenses for the years ended 31 December 2017, 31 December 2018 and 31 December 2019.

	Year ended 31 December (audited)			% Change	
	2017	2018 (restated)	2019	2017 and 2018	2018 and 2019
	(EUR million)				
Interest expenses	7.9	12.4	14.7	57.0%	18.5%
Interest and discount expense on lease liabilities	-	-	0.6	N/A	N/A
Negative effect of change in exchange rates	-	0.0	0.1	N/A	N/A
Other expenses of financing activities	1.2	2.4	3.4	100.0%	41.7%
Total	9.1	14.9	18.8	63.7%	26.2%

Group finance expenses increased by EUR 3.9 million, or 26.2 per cent., to EUR 18.8 million for the year ended 31 December 2019 from EUR 14.9 million for the year ended 31 December 2018. This increase was caused by increases in interest expense and other expenses of financing activities as a result of the full year effect of the EUR 300 million bonds issued in July 2018, which have an annual interest rate of 1.875 per cent., and increased bank borrowings in the year ended 31 December 2019.

Group finance expenses increased by EUR 5.8 million, or 63.7 per cent., to EUR 14.9 million for the year ended 31 December 2018 from EUR 9.1 million for the year ended 31 December 2017. This increase was mainly caused by the issue in July 2018 of the EUR 300 million bonds, partially offset by lower bank borrowings in the year ended 31 December 2018 compared with the year ended 31 December 2017.

Revaluation and closing of derivative financial instruments

The Group recorded an expense derived from revaluation and closing of derivative financial instruments of 0.6 EUR million for the year ended 31 December 2018 and did not record any income or expenses for the years ended 31 December 2019 or 31 December 2017.

Profit/(loss) before tax

As a result of the factors described above, the Group had a profit before tax of EUR 66.2 million for the year ended 31 December 2019, representing a change of EUR 100.4 million, from a loss before tax of EUR 34.2 million for the year ended 31 December 2018.

As a result of the factors described above, the Group had a loss before tax of EUR 34.2 million for the year ended 31 December 2018, representing a change of EUR 124.4 million from a profit before tax of EUR 90.2 million for the year ended 31 December 2017.

Current year income tax expenses

The Group's current year income tax expenses increased by EUR 2.1 million, or 45.7 per cent., to EUR 6.7 million for the year ended 31 December 2019 from EUR 4.6 million for the year ended 31 December 2018. This was primarily a result of the Group having higher taxable profits for the year ended 31 December 2019 compared to the year ended 31 December 2018 as a result of the factors described above.

The Group's current year income tax expenses increased by EUR 1.9 million, or 70.4 per cent., to EUR 4.6 million for the year ended 31 December 2018 from EUR 2.7 million for the year ended 31 December 2017. This was primarily a result of more non-tax deductible expenses in the year ended 31 December 2018 and the previous year's income tax adjustment made during 2017.

Deferred income tax (expenses)/benefit

The Group's deferred income tax expenses increased by EUR 17.3 million, or 102.4 per cent., to a deferred income tax expense of EUR 0.4 million for the year ended 31 December 2019 from a deferred income tax benefit of EUR 16.9 million for the year ended 31 December 2018. This was primarily a result of the effect of the revaluation of distribution network assets which was recognised in 2018.

The Group's deferred income tax benefits increased significantly by EUR 10.9 million, or 181.7 per cent., to EUR 16.9 million for the year ended 31 December 2018 from EUR 6.0 million for the year ended 31 December 2017. This was primarily a result of the effect of the revaluation of property, plant and equipment for distribution network assets which was recognised in 2018.

Net profit/(loss)

As a result of the factors described above, the Group had a net profit of EUR 59.0 million for the year ended 31 December 2019, representing a change of EUR 80.9 million from a net loss of EUR 22.0 million for the year ended 31 December 2018.

As a result of the factors described above, the Group had a net loss of EUR 22.0 million for the year ended 31 December 2018, representing a decrease of EUR 115.5 million from a net profit of EUR 93.5 million for the year ended 31 December 2017.

Adjusted EBITDA

The following table sets forth the adjusted EBITDA of the Group by operating segment for the years ended 31 December 2017, 31 December 2018 and 31 December 2019.

	Year ended 31 December			% Change	
	2017	2018	2019	2017 and 2018	2018 and 2019
	(EUR million)				
Networks	150.9	168.8	180.5	11.9%	6.9%
Green Generation	36.1	38.1	43.4	5.5%	13.9%
Flexible Generation	24.5	13.3	22.0	(45.7)%	65.4%
Customers and Solutions	21.2	6.7	10.7	(68.4)%	59.7%
Other segments/eliminations*	5.5	(5.6)	3.0	(201.8)%	153.6%
Total adjusted EBITDA	238.2	221.3	259.6	(7.1)%	17.3%

* For the definition of "other segments/eliminations", please see paragraph 3 of this Part 5 ("Operating and Financial Review").

Group

The Group's adjusted EBITDA increased by EUR 38.3 million, or 17.3 per cent., from EUR 221.3 million for the year ended 31 December 2018 to EUR 259.6 million for the year ended 31 December 2019. Adjusted EBITDA increased across all segments, but the increase was driven primarily by the Networks segment.

The Group's adjusted EBITDA decreased by EUR 16.9 million, or 7.1 per cent., from EUR 238.2 million for the year ended 31 December 2017 to EUR 221.3 million for the year ended 31 December 2018, primarily as a result in declines in adjusted EBITDA for the Customers and Solutions segment and the Flexible Generation Segment, partially offset by increases in adjusted EBITDA for the Networks segment and Green Generation segment.

Networks

Networks segment adjusted EBITDA increased by EUR 11.7 million, or 6.9 per cent., from EUR 168.8 million for the year ended 31 December 2018 to EUR 180.5 million for the year ended 31 December 2019, primarily as a result of growth in the RAB for the electricity and gas distribution businesses, as well as the growing number of new connection points and upgrades in the distribution network, and continued distribution network renewal investments.

Networks segment adjusted EBITDA increased by EUR 17.9 million, or 11.9 per cent., from EUR 150.9 million for the year ended 31 December 2017 to EUR 168.8 million for the year ended 31 December 2018, primarily due to higher RAB for the electricity and gas distribution businesses.

Green Generation

Green Generation segment adjusted EBITDA increased by EUR 5.3 million, or 13.9 per cent., from EUR 38.1 million for the year ended 31 December 2018 to EUR 43.4 million for the year ended 31 December 2019, which was primarily driven by the increased portfolio of wind farms following the acquisition of two additional wind farms at the end of 2018, and better results from Kruonis PSHP as a result of the effective utilisation of fluctuations in "peak" and "off-peak" electricity prices. This growth was partially offset by a deterioration in the results of Kaunas HPP, primarily due to lower water levels, and by increased operating expenses in connection with the Vilnius CHP and Kaunas CHP projects as these projects drew closer to launch.

Green Generation segment adjusted EBITDA increased by EUR 2.1 million, or 5.8 per cent., from EUR 36.1 million for the year ended 31 December 2017 to EUR 38.1 million for the year ended 31 December 2018 due to better results of Kruonis PSHP due to effective utilisation of fluctuations in "peak" and "off-peak" electricity prices and higher market prices for electricity produced by Kaunas HPP.

Flexible Generation

Flexible Generation segment adjusted EBITDA increased by EUR 8.7 million, or 65.4 per cent., from EUR 13.3 million for the year ended 31 December 2018 to EUR 22.0 million for the year ended 31 December 2019, primarily due to better results from Unit 7 of the Elektrėnai Complex due to testing of

isolated network service provided in the year ended 31 December 2019 (the unit was preserved and did not provide any services in the year ended 31 December 2018) and gains from sale of fuel oil stocks.

Flexible Generation segment adjusted EBITDA decreased by EUR 11.2 million, or 45.7 per cent., from EUR 24.5 million for the year ended 31 December 2017 to EUR 13.3 million for the year ended 31 December 2018, primarily due to a decreased scope and volume of regulated services being provided by the Elektrėnai Complex leading to a lower income from these services. The Group provided 484 MW of Tertiary Power Reserve Services and 455 MW of strategic power reserve services in the year ended 31 December 2017, compared to 260 MW and 212 MW, respectively, in the year ended 31 December 2018.

Customer and Solutions

Customers and Solutions segment adjusted EBITDA increased by EUR 4.0 million, or 59.7 per cent., from EUR 6.7 million for the year ended 31 December 2018 to EUR 10.7 million for the year ended 31 December 2019, and was driven primarily by better results of sales activities in the Latvian market and in the trading activity in the Polish market.

Customers and Solutions segment adjusted EBITDA decreased by EUR 14.5 million, or 68.4 per cent., from EUR 21.2 million for the year ended 31 December 2017 to EUR 6.7 million for the year ended 31 December 2018, and was driven by unfavourable price moves in derivative hedging products of electricity.

8. PROPERTY, PLANT AND EQUIPMENT

Net Book Value	As at 31 December (audited)			As at 30 June (unaudited)	% Change	
	2017	2018	2019	2020	2018 and 2019	2019 and H1 2020
		(restated)				
	(EUR million)					
Property, plant and equipment	1,761.1	2,091.4	2,347.8	2,485.6	12.3%	5.9%

As at 31 December 2019, the Group owned property, plant and equipment with a net book value of EUR 2,347.8 million (compared to EUR 2,091.4 million as at 31 December 2018 and EUR 1,761.1 million as at 31 December 2017).

The Group owns all of its significant generation facilities and other properties. The Group's property, plant and equipment mainly comprise power plants and electricity and gas distribution networks and other assets.

As at 31 December 2019, the Group owned buildings, structures and machinery, gas distribution pipelines, gas technological equipment and installations, assets of hydro power plant and pumped storage plant, wind power plants and their installations and structures and machinery of waste-to-energy/biomass power plants, which are classified as property, plant and equipment, amounted to a total net book value of EUR 1,946.1 million and represented 82.9 per cent. of Group's property, plant and equipment (compared to EUR 1,897.6 million as at 31 December 2018, represented 90.7 per cent. of Group's property, plant and equipment and compared to EUR 1,660.2 million as at 31 December 2017, represented 94.3 per cent of the Group's property, plant and equipment). Other assets, such as land, vehicles, IT and telecommunication equipment, construction-in-progress and other property, plant and equipment, classified as property, plant and equipment, amounted to a total net book value of EUR 401.7 million (compared to EUR 193.8 million as at 31 December 2018 and compared to EUR 100.9 million as at 31 December 2017) and items classified as non-current assets held for sale amounted to a total net book value of EUR 40.6 million (compared to EUR 65.7 million as at 31 December 2018 and compared to EUR 79.3 million as at 31 December 2017). Non-current assets held for sale as at 31 December 2019 includes the assets of subsidiaries TPV (which is no longer the case due to a decision made after 31 December 2019) and UAB Duomenų logistikos centras (which was sold in the beginning of July 2020).

As at 31 December 2019, the Group owned property, plant and equipment pledged as a security for liabilities in the amount of EUR 21.0 million, representing 0.9 per cent. of total net book value of plant, property and equipment, compared to the amount of EUR 58.6 million as at 31 December 2018 and compared to the amount of EUR 316.1 million as at 31 December 2017.

The Group is operating in leased administrative buildings, previously owned and sold (during 2018 to 2019) with lease back agreements. The current lease is due to expire in 2022, after which the Group

intends to move to new headquarters while focusing on its core activities and using its balance sheet more effectively.

9. INVESTMENTS

	For the year ended 31 December (unaudited)			For the six months ended 30 June (unaudited)	
	2017	2018 (restated)	2019	2019	2020
	<i>(EUR million)</i>				
Group	260.1	418.3	453.2	207.9	187.1
Networks	226.6	270.4	179.0	95.6	49.3
Green Generation	11.2	138.2	253.9	107.5	130.4
Flexible Generation	0.8	2.2	0.5	0.2	0.3
Customers and Solutions	1.2	0.8	3.2	1.3	0.9
Other segments/eliminations	20.3	6.7	16.7	3.3	6.2

In the year ended 31 December 2019, the Group's investments amounted to EUR 453.2 million, representing an increase of 8.3 per cent. compared to EUR 418.3 million for the year ended 31 December 2018. The majority of the investments was allocated to the expansion of the Green Generation segment (56.0 per cent.) and the maintenance and expansion of the distribution network in the Networks segment (39.5 per cent.).

In the year ended 31 December 2019, the Green Generation segment investments increased by EUR 115.7 million to EUR 253.9 million, representing an increase of 83.7 per cent., compared to the year ended 31 December 2018 (EUR 138.2 million). The majority of the segment investments was allocated to the construction of Vilnius and Kaunas CHPs: investments increased by EUR 111.7 million to EUR 203.9 million, representing an increase of 121.1 per cent. compared to the year ended 31 December 2018 (EUR 92.2 million). In addition to that, investments in wind farms in the year ended 31 December 2019 increased by EUR 12.5 million to EUR 49.6 million mainly due to the acquisition and commencement of construction of the Pomerania Wind Farm in Poland, representing an increase of 33.7 per cent. compared to the year ended 31 December 2018 (EUR 37.1 million).

In the year ended 31 December 2019, Networks segment investments decreased by EUR 91.4 million to EUR 179.0 million, representing a decrease of 33.8 per cent., compared to the year ended 31 December 2018 (EUR 270.4 million). The majority of the Networks segment investments were allocated to the maintenance and expansion of the electricity distribution network as well as the maintenance and expansion of the gas distribution system. Other investments mainly consisted of vehicles, IT and telecommunication equipment.

The below table sets forth the Group's expected commitments for investments for the period 30 June 2020 to 31 December 2023. Commitments include signed investments contracts as well as Networks Smart metering programme and legal obligation for expected new customers connections and upgrades (ESO is obliged to connect new customers upon their formal request):

Investment Commitments

	2020 H2 - 2023
	<i>(EUR billion)</i>
Networks	~480
Green generation	~150
Total	~630

Total committed investments and investments spent in H1 2020 amount to approximately EUR 0.8 billion; therefore, the flexible investments amount is approximately EUR 0.9 to 1.2, that can be spread between all the segments upon demand/opportunity.

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 Company 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 investments (in respect of its gas distribution activities) and GEN requires the approval of regulators for any investment related to its regulated activities. As at the Latest Practicable Date, 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.

10. LIQUIDITY AND CAPITAL RESOURCES

The Group's liquidity requirements arise principally from its capital investment and working capital requirements. During the period under review, the Group met its capital investment and working capital requirements primarily from revenues derived from operations, as well as bank financing and the net proceeds received from the issuance of bonds by the Company. The Group has a disciplined approach to leverage, with a target net debt to EBITDA ratio of <5x. For the year ended 31 December 2019, the Group's net debt to EBITDA ratio and net debt to adjusted EBITDA ratio were 4.7x and 3.7x, respectively. Excluding the construction debt of approximately EUR 168 million incurred for projects that are not currently contributing to the Group's EBITDA, including the Vilnius CHP and the Pomerania wind farm which are still under construction, as well as the Kaunas CHP which has just commenced commercial operation in August 2020, the Group's net debt to EBITDA ratio and net debt to adjusted EBITDA ratio were 3.9x and 3.1x, respectively, for the year ended 31 December 2019.

The Group held cash and cash equivalents of EUR 171.8 million, EUR 127.8 million and EUR 131.8 million as at 31 December 2017, 2018 and 2019, respectively, and held cash and cash equivalents of EUR 283.3 million as at 30 June 2020.

As at 30 June 2020, gross debt amounted to EUR 1,302.5 million.

The Company 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 development of Vilnius CHP Plant and Kaunas CHP Plant.

In addition, as at 30 June 2020, the Company had three bond issues outstanding, all listed on the Luxembourg and NASDAQ Vilnius stock exchanges. The total nominal value of these bonds was EUR 900 million:

- On 14 July 2017, the Company issued EUR 300 million green bonds, maturing on 14 July 2027, with an interest rate of 2.000 per cent. per annum.
- On 10 July 2018, the Company issued a further EUR 300 million green bonds, maturing on 10 July 2028, with an interest rate of 1.875 per cent. per annum and issued with a yield of 2.066 per cent.
- On 14 May 2020, the Company issued a further EUR 300 million bonds, maturing on 14 May 2030, with an interest rate of 2.000 per cent. per annum and issued with a yield of 2.148 per cent.

Total non-current borrowings as at 30 June 2020 were EUR 1,228.2 million, representing 94.3 per cent. of the total amount of the Group's gross debt from financial institutions and bonds issued as at 30 June 2020. Non-current borrowings from financial institutions and bonds issued comprised most of the non-current borrowings as at 30 June 2020.

As at 30 June 2020, 7 per cent. of the Group's total borrowings had floating rates of interest which can expose the Group to interest rate risk. The floating rates are based mainly on EURIBOR. For information regarding the repayment schedule of the Company and its subsidiaries' long-term debt and interest rates for short and long-term debt, please see Note 23 from the 2019 Financial Statements and Note 22 from the 2018 and 2017 Restated Financial Statements.

Throughout the year ending and as at 31 December 2019, the Group was in compliance with all covenants under its debt facilities and instruments, including applicable financial covenant ratios.

The Group manages liquidity risk by entering into the credit line agreements with banks. On 30 June 2020, credit line facilities amounted to EUR 270 million, of which all are undrawn.

The following table sets forth certain key indicators with respect to the Group's borrowings as at 31 December 2017, 31 December 2018 and 31 December 2019, as well as 30 June 2020:

		As at 31 December (unaudited)			As at 30 June (unaudited)	% Change		
		2017	2018	2019	2020	2017 and 2018	2018 and 2019	2019 and H1 2020
		Gross debt	EURm	614.1	864.5	1,098.3	1,302.4	40.8%
Gross debt/Equity	%	45.7%	66.4%	81.4%	97.4%	N/A	N/A	N/A
Net debt	EURm	442.3	736.0	966.5	1,019.2	66.4%	31.3%	5.5%
FFO of last 12 months/Net debt	%	48.5%	17.6%	19.6%	22.5%	N/A	N/A	N/A
Net debt/EBITDA of last 12 months	Times	1.95	5.07	4.67	4.05	N/A	N/A	N/A
Net debt/adjusted EBITDA of last 12 months	Times	1.86	3.33	3.72	3.94	N/A	N/A	N/A

Indebtedness at subsidiary level

As at 30 June 2020, the current and non-current borrowings of the Company's subsidiaries amounted to EUR 341.8 million, or 10.1 per cent. of the Group's total assets. This accounted for 26.2 per cent. of the Group's total borrowings, and related mainly to the financing of Vilnius and Kaunas CHP Plants, the financing of the Pomerania wind farm and GEN's heat and electricity generation capacity projects.

Cash flows

The following table sets forth consolidated cash flow information for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the six-month periods ended 30 June 2019 and 30 June 2020.

	Year ended 31 December (audited)			Six months ended 30 June (unaudited)	
	2017 (restated)	2018 (restated)	2019	2019 (restated)	2020
	(EUR million)				
Cash flows from / (to) operating activities	134.6	178.5	177.2	100.6	158.0
Cash flows from / (to) investing activities	(182.9)	(366.5)	(347.3)	(167.3)	(141.3)
Cash flows from / (to) financing activities	30.9	112.4	25.1	14.5	326.0
Increase / (decrease) in cash and cash equivalents (including overdraft)	(17.5)	(75.5)	(145.0)	(52.2)	342.7
Cash and cash equivalents (including overdraft) at the end of period	161.1	85.6	(59.5)	33.3	283.3

Cash flows generated from operating activities

Cash flows from operating activities were EUR 158.0 million for the six-month period ended 30 June 2020 compared to EUR 100.6 million generated for the six-month period ended 30 June 2019. The change was primarily due to higher EBITDA results in the Networks and Customers and Solutions segments.

Cash flows from operating activities were EUR 177.2 million for the year ended 31 December 2019, compared to EUR 178.5 million for the year ended 31 December 2018. The level of cash flows from operating activities was steady between the year ended 31 December 2018 and the year ended 31 December 2019. Although adjusted EBITDA was higher in the year ended 31 December 2019 (driven primarily by an increase in revenue and a decrease in operating expenses), this was offset by negative changes in working capital (with an increase in inventories, prepayments and other current assets but a decrease in amounts payable, deferred income and advance amounts received in the year ended 31 December 2019).

Cash flows from operating activities were EUR 134.6 million for the year ended 31 December 2017. The increase between the year ended 31 December 2017 and the year ended 31 December 2018 was primarily due to positive changes in working capital for 2018 (with a decrease in inventories, prepayments and other current assets but an increase in amounts payable, deferred income and advance amounts received in the year ended 31 December 2018), partially offset by lower adjusted EBITDA in the year ended 31 December 2018 as compared with the year ended 31 December 2017 (due principally to higher electricity purchase costs in relation to the Customers and Solutions segment and a reduced scope of services performed by the Flexible Generation segment).

Cash flows used in investing activities

Cash flows used in investing activities were EUR 141.3 million for the six-month period ended 30 June 2020 compared to EUR 167.3 million used for the six-month period ended 30 June 2019. The decrease was primarily related to a lower amount of purchases of property, plant and equipment and was driven by lower investments in the Networks segment due to the decrease in new customers connection and upgrades contract work fees and postponement of some of the reconstruction works of electricity network infrastructure.

Net cash flows used in investing activities were EUR 347.3 million for the year ended 31 December 2019 compared to EUR 366.5 million used for the year ended 31 December 2018. The decrease was primarily related to a higher amount of asset-related grants received during the year ended 31 December 2019 (EUR 64.0 million) as compared with the year ended 31 December 2018 (EUR 25.5 million), as these are accounted for as cash flows for investing activities. The increased grants were partially offset by a 2.9 per cent. increase in spending on the purchase of property, plant and equipment in the year ended 31 December 2019 (which was related principally to the Group's ongoing development of its two new wind farms and two CHP Plants).

Cash flows used in investing activities were EUR 182.9 million used for the year ended 31 December 2017. The significant increase between the year ended 31 December 2017 and the year ended 31 December 2018 was primarily driven by increased investment in the year ended 31 December 2018 in line with the Group's strategy, including the acquisition of two wind farms at the end of 2018 and increased investments in the CHP Plants as those projects progressed, resulting in a 79.0 per cent. increase in spending on the purchase of property, plant and equipment and intangible assets (EUR 416.2 million in the year ended 31 December 2018 compared to EUR 232.5 million in the year ended 31 December 2017). The Group also used EUR 23.5 million for the acquisition of investments in subsidiaries in the year ended 31 December 2018 (compared to EUR 0.1 million related to disposal of the investment in the year ended 31 December 2017).

For a more detailed description of the Group's recent investments and spending on development projects, please see paragraph 9 of this Part 5 ("*Operating and Financial Review*") below.

Cash flows generated from financing activities

Cash flows generated from financing activities were EUR 326.0 million for the six-month period ended 30 June 2020 compared to EUR 14.5 million generated for the six-month period ended 30 June 2019. The change was primarily related to an additional bond issuance in the first half of 2020, which resulted in a cash inflow of EUR 295.7 million.

Cash flows generated from financing activities were EUR 25.1 million for the year ended 31 December 2019 compared to EUR 112.4 million generated for the year ended 31 December 2018. The significant decrease between the years was primarily related to the issuance of additional bonds in 2018 (which resulted in a cash inflow of EUR 294.3 million in 2018). This was partially offset by a higher amount of funds received from loans in 2019 (EUR 130.9 million in 2019 compared to EUR 57.8 million in 2018), and a higher amount of repayment of borrowings in 2018 (EUR 155.4 million in 2018 compared to EUR 70.4 million in 2019) and higher dividends paid in 2018 (EUR 80.6 million in 2018 compared to EUR 13.9 million in 2019).

Cash flows generated from financing activities were EUR 112.4 million for the year ended 31 December 2018 compared to EUR 30.9 million used for the year ended 31 December 2017. The significant increase between the years was primarily due to higher repayments of borrowings in 2017 (EUR 284.9 million in 2017 compared to EUR 155.4 million in 2018).

Both years included a similar amount of proceeds received from the issue of bonds (EUR 293.8 million in 2017 and EUR 294.3 million in 2018). The increase was partially offset by an increased outflow for dividends paid in 2018 (with EUR 80.6 million in dividends paid in 2018 compared to EUR 65.4 million in 2017).

For further information with respect to the Group's financing activities, please see paragraph 10 of this Part 5 ("*Operating and Financial Review*").

11. CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

The following table sets forth the Group's remaining contractual maturity for its non-derivative financial liabilities with contractual repayment periods as at 30 June 2020.

The table reflects the undiscounted cash flows of financial liabilities under the contracts based on the earliest date on which the Group could be required to pay.

Contractual obligations (in EUR million)	Total	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Borrowings and lease liabilities	1,509.9	16.5	46.6	277.7	1,169.0
Trade payables and non-current amounts payable to suppliers	55.3	13.6	40.9	0.8	-
Other payables	79.0	19.8	59.3	-	-
Derivative financial instruments	3.0	3.0	-	-	-
Total	1,647.2	52.9	146.8	278.5	1,169.0

As is common within the Group's industry, the Group has entered into various commitments related to the development projects relating to the production and distribution of electricity, gas and renewable energy. As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the Group had future capital commitments of EUR 294.2 million, EUR 490.4 million, EUR 128.5 million and EUR 134.4 million, respectively. These amounts represent the Group's obligations during the course of the following years to fulfil its contractual commitments. The Company believes that such commitments will be met from cash from operations and other available liquidity without a material adverse effect on the Group's financial position, results of operations or cash flows.

The decrease in capital commitments from EUR 490.4 million as at 31 December 2018 to EUR 128.5 million as at 31 December 2019 is primarily due to finalising the construction of Vilnius and Kaunas waste-to-energy and biomass CHP Plants.

As at 31 December 2019, potential future capital commitments, which is contingent on future events, relate primarily to the construction of Vilnius and Kaunas waste-to-energy and biomass CHP Plants. The Group believes that if such liabilities arise they will be met without a material adverse effect on the Group's financial position, results of operations or cash flows.

These provisions have been created based on internal and third party estimates. Assumptions based on the current economic environment have been made which the Company believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. The Company cannot assure you, however, that actual financial obligations or liabilities will not be materially greater than its estimates.

In accordance with the recommendations of the Government of the Republic of Lithuania, the Group provided special payment deferrals to customers who have encountered financial difficulties due to the quarantine in connection with COVID-19. Approved requests for payment deferrals in relation to the COVID-19 outbreak were less than EUR 5 million, with a corresponding increase in overdue debts (including approved payment deferrals) of less than EUR 10 million in total during the 3 months of quarantine from April to June 2020.

Off-balance sheet arrangements

The Group has certain off-balance sheet liabilities, including liabilities to pay compensation to third parties, guarantees, litigations and other arrangements under which the Group has or may have continuing obligations. For further information, please see Note 40 to the 2019 Financial Statements.

12. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Credit risk management

Credit risk refers to the risk that a counterparty will fail to perform or fail to pay amounts due, resulting in financial loss to the Group. 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 and loans granted).

The Group has a Treasury management policy, the principal objective of which is to ensure security of funds and maximise return on investments in pursuance of this objective. The Group's Treasury management policy states that credit risk is managed by concluding transactions only with reliable financial institutions (or their subsidiaries) with a credit rating of long-term borrowing in foreign currency of at least A- according to Fitch Ratings agency (or equivalent of other international rating agencies), except transactions during which securities of the Government of the Republic of Lithuania are acquired.

The Group is generally not exposed to significant credit risk concentration related to trade receivables and other amounts receivable, except for as at 31 December 2018 and 2019 when the Group recorded other receivables that were principally consisted of the EPSO-G outstanding receivables for the sale of the LitGrid AB shares in 2012.

The Group's cash balances can be invested in the low-risk, short-term money market instruments and debt securities, i.e., time deposits, bonds of the financial institutions with a credit rating of long-term borrowing in foreign currency of at least A- according to Fitch Ratings agency (or equivalent of other international rating agencies).

Liquidity risk management

Liquidity and refinancing risks refer to the risk that the Group will not be able to obtain sufficient financing from lenders and the capital markets to meet the Group's working capital and project financing and refinancing requirements. The Group monitors its liquidity risk by reviewing the Group's cash flow requirements on a regular basis. Specifically, the Group ensures that it has sufficient liquidity or committed facilities to meet the Group's operational funding requirements and service the Group's debt and adhere to its financial covenants. On 30 June 2020, credit line facilities amounted to EUR 270 million of which are all undrawn. The Group closely monitors and manage the Group's liquidity requirements through the use of both short-term and long-term cash flow projections, supplemented by maintaining debt financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's portfolio of energy plants and potential delays in development projects. In addition to the Group's operating cash flows, portfolio management opportunities are reviewed to potentially enhance the Group's financial capacity and flexibility. Ultimate responsibility for liquidity risk management rests with the Company's Board, which has built a liquidity risk management framework which it believes to be appropriate for the management of all the Group's funding and liquidity management requirements.

Foreign currency risk management

The Group is exposed to foreign currency risk arising from movements in currency exchange rates. The Group's functional currency is euro, primarily because it trades and prices its products and services in euro and substantially all of the Group's revenues are denominated in the euro. However, the Group has operations in jurisdictions where the local currencies are other than the euro; therefore, the Group also generates a portion of its revenues and incur certain costs that are denominated in currencies other than the euro. Additionally, a portion of the Group's debt is denominated in currencies other than the euro. As a result, the Group is exposed to both transactional and translational foreign exchange risk.

In general, foreign currency risk is managed by entering into foreign exchange forward swaptions, foreign exchange swaps, foreign exchange options and foreign exchange collars.

Transaction and balance recalculation risk is assessed and, when assessed, is managed by financial derivatives if, under the worst scenario, additional costs account for between 5 per cent. and 10 per cent.

of the non-current assets, EBITDA or revenue of the Company or the Group. Exchange rate hedging between 50 to 100 per cent. of the amount of the known transaction is acceptable to the Group.

The decision regarding the use of the best instrument is made individually in respect of each transaction.

The Group will continue to consider opportunities to enter into foreign exchange hedging contracts.

The Group's historical revenue and costs incurred in currencies other than euro have been insignificant.

The Group cannot assure you that its financial condition and results of operations will not be negatively affected by risks related to foreign currency movements. Please see paragraph 3.2 of the section titled "*Risk Factors*".

Commodity price risk management

The Group is exposed to the impact of changes in electricity prices on its revenue and profits. The Group's policy is to hedge 100 per cent. of its supply portfolio through either perfect hedges or proxy hedges. As the generation portfolio of the Group continues to grow, the amount of internal offtake contracts is expected to increase correspondingly and the amount of proxy hedges is expected to decrease.

The following table sets forth the impact on the Group's pre-tax profit of the variations in electricity prices covered below, with all other variables held constant.

(in EUR thousands)	Pre-tax profit	
	+10% increase	-10% increase
31 December 2019	875.0	875.0
31 December 2018	472.2	472.2
31 December 2017	79.8	79.8

Interest rate risk management

Interest rate risk is substantially related to the risk that the interest rate of the credits held by the Company and the Group might be subjected to adverse changes. The Group's income and cash flows are affected by fluctuations in market interest rates because the Group's loans and borrowings have fixed and variable interest rates. The Company has financial assets measured at amortised costs with fixed interest rates, therefore, it is exposed to interest rate risk.

In assuming debt obligations, it is aimed that non-current liabilities would bear a fixed interest rate. If the fixing of the interest rate is not possible due to objective reasons and the liability assumed comprises a significant amount (in the context of the Company or the Group), interest rate derivatives are used for the purpose of interest management, including interest rate swaps, interest rate options, interest rate collars, and interest rate swaptions. The aim must be that non-current borrowings with fixed interest rates comprised no less than 50% of the Group's consolidated long-term loan portfolio. The usage of any of the interest rate derivatives requires the expiry date of the derivative to correspond to the maturity date of the debt obligation.

The risk of adverse changes in the interest rate of the investment is not actively insured. Risk management measures are applied only when the market has obvious indications that the interest rate might significantly decrease, resulting in negative investment returns.

Please see paragraph 3.2 of the section titled "*Risk Factors*".

13. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

This "Operating and Financial Review" section discusses the Group's consolidated financial statements, which have been prepared in accordance with IFRS and IAS 34 Interim Financial Reporting, as applicable. Accounting estimates are an integral part of the preparation of the financial statements and the financial reporting process and are based upon current judgments. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Certain accounting estimates are particularly sensitive because of their complexity and the possibility

that future events affecting them may differ materially from the Group's current judgments and estimates. Please see paragraph 4.3 of the section titled "*Risk Factors*".

This listing of critical accounting estimates and judgments is not intended to be a comprehensive list of all the Group's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by IFRS, with no need for management's judgment regarding accounting policy. The Company believes that of its significant accounting policies, the following policies may involve a higher degree of judgment and complexity.

Revaluation of property, plant and equipment

The Group accounts for Land, Buildings, Structures and machinery, Vehicles, Other property, plant and equipment and Construction-in-progress at revalued amount in accordance with IAS 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.

Impairment of property, plant and equipment

At least once a year the Group assesses whether there is any indication that the carrying amount of property, plant and equipment recorded at acquisition cost could be impaired and whether the carrying amount of property, plant and equipment recorded at the revalued amount does not differ materially from their fair value (according to IAS 16, when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required). The Group performs the impairment test and revaluation of assets, if such indications are found.

The Group reviewed the carrying amount of its property, plant and equipment which are recognized at acquisition cost less depreciation and impairment to determine whether there are any indications that those assets have suffered an impairment loss. Assets with carrying amount of EUR 251,372 thousand (attributable to gas distribution CGU) showed some indications (see first bullet point below) and impairment test was performed. The impairment test showed that there is no need for impairment loss as at 30 June 2020. The following key assumptions were used by the Group in making impairment test:

- Depreciation expenses from the share of new customers for the assets, which were entered into operation before 2020, will be included into the income (regulated tariffs) of gas distribution; Depreciation expenses from the share of new customers for the assets, which were entered into operation after 2020, will not be included into the income of gas distribution;
- Discount rate was not changed compared to test performed as at 31 December 2019 – 5.07% (after tax) (5.96% pre-tax);
- Updated long-term investment forecast of gas segment and its financing in accordance with the Group's updated 10-year investment plan: 1) based on cost-benefit analysis, the decision was made not to install smart meters (recommendation to update cost-benefit analysis every 4 years); 2) increase investments into new customers, increase financing of new customers.

The Group reviewed the carrying amount of its property, plant and equipment which are recognized at revalued amount (attributable to electricity CGU with carrying amount of EUR 1,245,921 thousand) to determine whether there are any indications that those assets have suffered an impairment loss or its fair value significantly changed. Analysis did not show any indication of impairment or significant change of fair value compared to 31 December 2019.

The Group did not identify any other assets which could have indications of impairment.

Revaluation of property, plant and equipment, used in electricity business segment and Impairment of property, plant and equipment, used in gas distribution

As at the reporting date of 31 December 2019, the Group performed a test of "Gas distribution pipelines, gas technological equipment and installations" attributable to gas distribution Cash Generating Unit and "Structures and machinery" attributable to electricity Cash Generating Unit respectively for impairment

and potential need of revaluation using the discounted cash flow method. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the activities of natural gas, electricity distribution and warranty supply activity, effective as at 31 December 2019.

Given that no significant changes have taken place in the regulatory environment for electricity and having assessed all significant assumptions and having performed the test on fair value assessment, the Group has identified that the carrying amount of property, plant and equipment attributed to the electricity business segment as at the reporting date of 31 December 2019 would increase immaterially (less than 5 per cent.), hence the management of the Group decided to withhold from making full revaluation to reflect the mentioned assets at new fair value.

Having assessed all significant assumptions and having performed an impairment test, the Group has identified that the carrying amount of property, plant and equipment attributed to the gas business segment as at the reporting date of 31 December 2019 would decrease immaterially (less than 5 per cent.), hence the management of the Group decided to withhold from making adjustments to the value of gas assets.

Judgements and accounting estimates pertaining to control over Kauno kogeneracinė jėgainė UAB

As at 31 December 2019, the Company held 51 per cent. shareholding in KKJ, and the remaining 49 per cent. of shares was held by 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 consists of equal number of representatives 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 and thus, whereas Fortum has an option to sell (put option) to the Company its shareholding in KKJ, for the price, the calculation of which is defined in the Shareholders' Agreement. As a result the management believe the Group exercise control over KKJ, as this can be exercised when decisions need to be made.

In the Group's management view, the call option's exercise price that the Company will have to pay to Fortum for buyout of KKJ shares owned by Fortum, in case the Company accepts option executed by Fortum, approximates the fair value of the shares less 15 per cent. within the limits of the materiality (materiality threshold is based on the best estimate practice, such as +/- 15 per cent. of the market value).

At 31 December 2019, the Group accounted for EUR 16.7 million (31 December 2018: EUR 16.7 million) put option exercise liability (Note 31 of the 2019 Financial Statements) measured as net present value of the single future cash outflow, which would be paid to Fortum for KKJ shares in a deadlock situation in case the put option is exercised.

Deferred payment on disposal of shares of LitGrid AB

In 2012, the 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 the shares established by independent valuers. The purchase-sale agreement of shares of LitGrid AB provides for a price premium, the amount of which, under the relevant purchase-sale agreement, depends on the return on regulated assets of the electricity transmission activity during the years 2014 to 2018.

At the initial assessment of the price premium the Company concluded that the price premium is negative and amounts to EUR 4.7 million at 31 December 2019 (31 December 2018: EUR 4.7 million). According to EPSO-G UAB calculations the price premium at 31 December 2019 is negative and amounts to EUR 27.1 million (31 December 2018: EUR 27.1 million).

The Company disagrees with EPSO-G UAB prepared calculations. The parties are currently in discussions as to how to resolve the situation. For the purposes of the statement of financial position, the Company's management has assessed and recognised the negative premium price for amount EUR 15.9 million (as at 31 December 2018: EUR 15.9 million) on the basis of a scenario, that the possible agreement between the parties would be the average value of the Company's and EPSO-G UAB calculations. After this assumption the gross receivable on disposal of the shares of LitGrid AB amounted to EUR 174.5 million was reduced by EUR 15.9 million as the sales price will be adjusted by the price premium.

Provision for statutory servitudes

On 1 November 2017, amendments to the Law on Electricity came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Law on Electricity provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensations for damages related with the establishment of statutory servitudes (which came into effect on 10 July 2004). The methodology on the payment of servitudes came into force as at 31 July 2018. Under this methodology, an estimated gross amount of payments for servitudes was assessed and accounted for in 2018. This estimate included a significant assumption on the number of land owners who will approach the Group for compensation, since the law prescribed the Group obligation to compensate those land owners which approached the Group for it. At the date of initial recognition, the Group recognised EUR 28.6 million of intangible assets (assets with indefinite useful life carried at cost less impairment) and EUR 28.7 million (at discounted value) of non-current liability provision under IAS 37. The amount of compensations paid in the period from year 2018 until 2019 was EUR 1.7 million. Provision for compensation for servitude was reduced accordingly. On 8 July 2020, the Constitutional Court of the Republic of Lithuania declared certain parts of the methodology on the payment for statutory servitudes unconstitutional, in particular in relation to the applied 0.1 coefficient and the principles used to estimate the value of land plot for statutory servitudes. Therefore, the Company is not able to examine requests received from land owners regarding compensations and apply the part of the methodology declared unconstitutional until the provisions of the new methodology are approved. Prior to the Constitutional Court's resolution, the Group applied a 0.1 coefficient for all statutory servitudes. Taking into account the Constitutional Court's resolution, the Group recalculated the provision for statutory servitudes by applying a 0.5 coefficient to the area of land on which the electricity installations were installed from 11 March 1990 to 10 July 2004. The Group also reviewed other assumptions for calculating the provision, including the number of applicants, the period over which all benefits will be paid and the discount rate. As at 30 June 2020, the amount of the provision for compensations of servitudes was equal to EUR 14.6 million, compared to EUR 27.0 million as at 31 December 2019.

Determining whether statutory and contractual servitudes are a lease

Management of the Group analysed whether statutory and contractual servitudes are in scope of IFRS 16 Lease and concluded that statutory and contractual servitudes are not in scope since both statutory and contractual servitudes are not limited in time and can be used by the Group for an indefinite period of time.

Determining whether the Group acts as a principal or an agent in relation to electricity transfer, which includes both transmission and distribution, and gas distribution services

Electricity transfer services

In providing electricity transfer service (includes both transmission and distribution) to end users, the Group in Lithuania and Latvia acquires electricity transmission services from transmission grid operator (not a part of the Group), and in Latvia acquires electricity distribution services from distribution grid operator which is not a part of the Group. Management of the Group analysed related contracts with electricity transmission and distribution grid operators and contracts with customers, also evaluated applicable regulatory environment for the conclusion whether the Group is acting as a principal or as an agent in relation of electricity transmission services in Lithuania and electricity transfer (includes both transmission and distribution) services in Latvia on which basis the management has applied a significant judgment concluded that the Group acts:

- (a) as an agent in relation to electricity transmission and distribution services acquired from the Latvian operator of electricity transfer system,
- (b) as a principal in relation to electricity transmission services acquired from the Lithuanian operator of transmission system.

Gas distribution services

In providing gas distribution services to customers in Lithuania the Group uses its own distribution network. In Latvia, the Group acquires these services from a company which is not a part of the Group.

Management of the Group analysed related contracts with the Latvian gas distribution grid operator and contracts with customers, and also evaluated the applicable regulatory environment in order to assess whether the Group is acting as a principal or as an agent in relation to gas distribution services in Latvia. On the basis of this assessment, management has applied a significant judgment and concluded that the Group acts as an agent in relation to gas distribution services acquired from the Latvian operator of gas distribution system.

Determining whether the Group acts as a principal or an agent in relation to PSO fees and LNG Terminal security component

Management has applied a significant judgment and concluded that the Group acts as an agent in relation to collection of PSO fees and LNG Terminal security components from customers due to the following argumentation:

- (a) the Group is not responsible for PSO and LNG Terminal projects / initiatives, accordingly it is not responsible that collected PSO fees and LNG Terminal security component are used for their intended purpose;
- (b) the Group is not exposed to any inventory risk; and
- (c) the Group has no legal power to establish pricing of these components.

Provision for special conditions on land use (protection zones)

On 6 June 2019 the Lithuanian Republic Law on Special Conditions on Land Use introducing obligation for the Group to register special protection conditions (protection zones) of a land owned or near the Group infrastructure in the state real estate registry and pay compensations to land owners for the land covered by the protection zones. This Law defines the procedure and principles for registration of these special land areas and requires to pay compensations for the use of special land areas under the procedure approved by the Government of the Republic of Lithuania.

When providing information to NERC on the price caps for electricity and gas for the year 2020, the Group assessed that the Lithuanian Republic Law on Special Conditions on Land Use will come into force on 1 January 2020 and that all special conditions on land use must be registered within 3 years period and compensation paid accordingly. Accordingly, NERC has included the cost of the registration of protection zones in the revenue cap for electricity and gas distribution effective for the year 2020. Costs of compensation to land owners for protection zones were excluded from the price cap for distribution for the year 2020. Electricity distribution price for the year 2020 includes EUR 8,059 thousand of protection zone registration costs, while gas distribution price – EUR 269 thousand. The provision of EUR 8.3 million was therefore recognised as the best management estimate.

No provision is accounted for protection zone registration costs expected to be incurred in year 2021 and 2022, as the new wording of the regulation on Real Property Register is not yet approved by the relevant authorities and there is an uncertainty over the exact scope of work needed to register the protection zones. The management estimates that the compensation costs for the registration of protection zones in year 2021 and 2022 could be similar to those of year 2020 and amount to EUR 8.3 million annually, and EUR 24.9 million in the period from year 2020 to 2022, taking into account that the registration process will require the assistance of surveyors and/or other qualified professionals to develop plans/maps for special land use conditions. In case the Government of the Republic of Lithuania approves the new wording of the Regulations of the Real Estate Register and services of surveyors and/or other qualified professionals are not needed to develop plans/maps for special land use conditions, additional service costs for the registration of protection zones (registration, customer information, communication and other costs) associated with this obligation would amount to EUR 3.6 million.

No provision is accounted for compensation of land owners for the protection zones since the Government has not yet passed a methodology for payment of compensations for special protection zones that would describe the compensation mechanism and terms and therefore the Group is not able to determine reliably the amount of expenditures expected to be incurred for it.

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate expected credit losses for trade receivables. The Group accounts for expected credit losses (ECLs) assessing amounts receivable on an individual basis or on a collective basis applying provision matrixes adopted by the Group companies in respect of their clients / borrowers.

Estimation of over declaration of electricity usage by private customers and accounting for deferred revenue

In the circumstances when the tariff in subsequent period is higher than in current period according to the historical evidence of the Group it has been identified that private customers tend to over-declare the consumption of electricity in the last months of the year. Since Group electricity distribution revenue depends on declarations of electricity consumed by the customers, over declaration increase Group revenue and therefore the Group needs to estimate the amount of the overdeclared (Note 17 of the 2019 Financial Statements) consumption to evaluate the amount of deferred revenue. Estimation is based on historical consumption by the customers as well as Group assessment of technological losses in the electricity grid. All assumptions are reviewed at each reporting date. For more information refer to Note 31 of the 2019 Financial Statements.

Tax audits

If the Group determines that the tax treatment involves uncertainty that affects the application of IAS 12, the Group applies IFRIC Interpretation 23. This Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

Useful lives of property, plant and equipment and intangible assets

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.

Provisions related to Emission allowances and dismantling of units in the Elektrėnai Complex

Emission allowances

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability falls within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The liability is estimated at the market price multiplied by the number of allowances required to cover emissions made up to the reporting date. The Group estimates the provisions for emission allowances based on actual quantity of emission during the reporting period multiplied by the market price of one emission allowance. The quantity of actual emissions is approved by a responsible state authority during four months after the end of the year. The provision accounted for as at 31 December 2018 was consistent with actual quantities of emissions that were confirmed in year 2019. The Group's management, based on its own experience, does not expect any significant differences to arise between the estimated provision at 31 December 2019 (Note 28) and the quantity of emissions which will be approved in year 2020.

Dismantling of units in the Elektrėnai Complex

At each reporting date, the Group estimates the provision for the dismantling of Units No. 5 and 6 (i.e. blocks that consist of assets related to electricity generation) and chimneys at the Elektrėnai Complex taking into account the expected economic outflows, which will be incurred in the future, when dismantling works will be actually performed. The dismantling of units 5, 6 and chimneys was initiated mainly due to health and safety reasons. The Group publicly announced its intention to carry out the

works, currently a public call for tender was launched. For such reasons, the Company has an irrevocable obligation, therefore, provision was recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Accrued revenue from PSO funds

The Group rendered PSO services until 31 December 2018. PSO funds were allocated to the maintenance of the infrastructure of the Elektrėnai Complex (the Elektrėnai Complex is predetermined power plants ensuring power system reserves of the state), to cover expenses related to the testing of the necessary electricity generation facilities and relatively fixed costs of equipment used for provision of services. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes.

Allocated amount of PSO funds is determined for the next calendar year by NERC, in view of the projected costs of the Group. According to the assessment of the Group's management, the Group has an irrevocable obligation to receive or pay the resulting difference in accordance with applicable laws regarding the PSO funds.

Regulated activity: Accrual of income and regulatory provisions from capacity reserve and system services

Profitability of the Group is regulated by NERC 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 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, the actual earnings of the Group may be at variance with the regulated level, and the resulting difference will affect the future tariffs of services.

On 14 November 2019, NERC adopted a resolution No O3E-715 'On Approval of the Methodology for Establishing the Prices for Electricity, Capacity Reserve Services and Services Ensuring Isolated Operation of the Power System'. This Resolution stipulates that companies that discontinue capacity reserve services shall reimburse any discrepancies between the projected and actual costs of providing these services to the transmission system operator if the costs actually incurred by the Group were less than the revenues received from the transmission system operator. If the actual costs incurred by the Group were higher than the income of the transmission system operator, the transmission system operator shall reimburse this amount to the Group.

With regard to the resolution above, the Group recognises assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level regardless the difference under the provision of services in the future. Due to the change in legislation, the management of the Group accounted for EUR 7.6 million to be refunded to the Transmission system operator for tertiary capacity reserve and system services in the non-current liabilities under the caption 'Provisions', while EUR 475 thousand of receivables related to secondary active capacity reserve were accounted for in the Non-current receivables (Note 10 of the 2019 Financial Statements) as at 31 December 2019. As at 31 December 2019, EUR 5.1 million of funds receivable for system services were accounted for in the Other receivables (Note 17 of the 2019 Financial Statements). As at 31 December 2018, and before adoption of resolution No O3E-715, such regulatory assets and liabilities did not qualify for recognition under IFRS, as disclosed in Note 4.26 of the 2019 Financial Statements.

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

In year 2014, NERC adopted a resolution, by which the Group was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Group hydroelectric plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Group. On 17 October 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of NERC was repealed. As at 31 December 2019, the amount of the Group contingent assets

(these contingent assets are not recognised in the financial statements) related to the legal dispute concerning the NERC's decision, by which the Group was declared as an undertaking with significant power in the electricity generation market and thus the amount of the payable PSO funds was additionally reduced by EUR 2.51 million, amounted to EUR 2.51 million and remains unchanged from 31 December 2018.

PART 6 – MANAGEMENT AND CORPORATE GOVERNANCE

1. GENERAL OVERVIEW

The Company employs a system of corporate governance designed to manage and control the Group as a whole, with a view to achieving objectives that are common to the Group as well as the Company. The corporate governance of the Group is exercised by the Company through the exercise of its parent functions.

The Company's management and supervisory bodies are designed, and are to be operated, in such a way as to ensure proper representation of the Republic of Lithuania as a shareholder, alongside other interested parties, and the separation of the management and supervisory functions.

The Company has a Chief Executive Officer and a two-tier board system consisting of a Management Board and a Supervisory Board. The Chief Executive Officer represents the Company in all matters and, together with the Management Board, is responsible for its management, while the Supervisory Board is the body that oversees the Management Board and the Chief Executive Officer. The Chief Executive Officer manages the Company's day-to-day operations and is entitled to solely represent the Company.

The Supervisory Board is a collegial supervisory body provided for in the Articles of Association. The Supervisory Board functions at the Group level by addressing, where appropriate, issues relating not only to the activities of the Company, but also to those of its subsidiaries or their respective management and supervisory bodies. For the purposes of effective fulfilment of its functions and obligations, the Supervisory Board forms three committees: the Risk Management Supervision and Operational Ethics Committee, the Audit Committee, and the Nomination and Remuneration Committee. If necessary, other committees may be formed according to the ad hoc principle (e.g., to solve special issues, to prepare, supervise or coordinate strategic projects, etc.).

The Management Board is a collegial management body provided for in the Articles of Association. The powers and responsibilities of the Management Board are set forth in detail in the Articles of Association. For information on the availability of the Articles of Association, please see paragraph 1 of Part 11 ("*General Information*").

2. SUPERVISORY BOARD

2.1 Overview of the Supervisory Board

On 7 June 2017, by the Order No. 1K-205 of the Ministry of Finance (with subsequent amendments made to it on 16 September 2019 and 26 March 2020), the Principal Shareholder approved the Guidelines for Corporate Governance of State-owned Group of Energy Companies (the "**Corporate Governance Guidelines**"), which changed the procedure of formation of the Supervisory Board. On 8 April the Articles of Association were amended and registered in the Register of Legal Entities. As a result the number of members of the Supervisory Board was changed, with an increase in number of independent members. Following this change, the Supervisory Board consists of seven members, two members being nominated by the Principal Shareholder and five members being independent members.

Pursuant to the Corporate Governance Guidelines, it is recommended that one of the independent members of the Supervisory Board should be elected to the position of chairperson of the Supervisory Board. The chairperson is elected by the other members of the Supervisory Board and, in the event of a deadlock of votes, has the casting vote. Accordingly, the Principal Shareholder cannot make unilateral decisions through its members nominated to the Supervisory Board. All members of the Supervisory Board are elected for a term of four years by the General Meeting. The Supervisory Board's purpose includes approving the Group's strategy, evaluating its results of operations and management structure and ensuring the Group's transparency. The Supervisory Board functions at the Group level and, where appropriate, addresses issues related not only to the activities of the Company but also to the activities of its subsidiaries or the activities of their management and supervisory bodies.

The Supervisory Board's powers include, among others, the power to:

- consider and approve the strategy of the Company's activities, analyse and evaluate the information on the implementation of the Company's activities strategy and provide this information to the annual General Meeting;

- elect the members of the Management Board and remove them from office;
- supervise activities of the Management Board and the Chief Executive Officer;
- submit comments and proposals to the General Meeting on the Company's and its group companies' business strategy, set of annual financial statements, annual consolidated financial statements of the group of companies, draft of profit/loss distribution and the annual report of the Company, including the consolidated annual report, as well as on the activities of the Management Board and the Chief Executive Officer;
- submit comments and proposals to the General Meeting on the Company's proposal on the allocation of dividends for a period shorter than a financial year and on the set of interim financial statements and the interim report drawn up for the purpose of adoption of the same;
- determine terms and conditions of agreements to be concluded with the members and chairperson of the Management Board, as well as authorising an individual to sign the mentioned agreements;
- submit comments and proposals to the Management Board on the Company's business plan and budget;
- upon receiving application from the Management Board, appoint, revoke, promote and impose disciplinary measures, as well as approve job descriptions of heads of division responsible for internal audit;
- submit opinions to the Management Board on candidates being appointed to the position of the Chief Executive Officer, as well as candidates to the supervisory and management bodies of subsidiaries and representative offices; and
- submit opinions and proposals on the decisions adopted, or planned to be adopted, by the Management Board and/or the Chief Executive Officer when such decisions are submitted to the Supervisory Board by the Management Board and/or the Chief Executive Officer.

Generally, the Supervisory Board makes decisions by a simple majority of its members, who attend the meeting. However, pursuant to the Articles of Association, in certain circumstances the Supervisory Board makes decisions by a majority of two-thirds of its members. One such example of where this heightened majority would be required is where a decision is taken to dismiss a member of the Management Board. The quorum for a meeting of the Supervisory Board is more than half of its members. Each Supervisory Board member has one vote. When necessary and provided that all members of the Supervisory Board agree, a decision may be made by the Supervisory Board without holding a meeting. In such case, members of the Supervisory Board fill in voting ballots or, if the meeting is held via telecommunication or videoconference means, voting occurs using such technical means. The same quorum and majority requirements apply in these situations. At its discretion, the Supervisory Board may invite members of the other governing bodies, employees, or other persons to its meetings.

In accordance with the Articles of Association, the Supervisory Board meets at least once every quarter. In 2019, there were twelve regular meetings and one extraordinary meeting. The Management Board, including its chairperson, regularly attend the meetings.

2.2 **Members of the Supervisory Board**

Set out below are the members of the Supervisory Board and their position as at the date of this Document, together with a brief description of their business experience and principal business activities outside the Group.

Darius Daubaras - *Chairperson and Independent Member of the Supervisory Board*

Mr. Daubaras is the chairperson of the Supervisory Board and an independent member. He is a member of the Risk Management Supervision and Operational Ethics Committee. He is one of the founders of the Lithuanian City of London Club and an adviser in the Global Lithuanian Leaders organisation. Currently he is working as a senior executive in the financial advisory division of Saudi Aramco (treasury

department) and is a project manager for strategic and mergers and acquisition projects. Mr. Daubaras obtained his Master's degree in international relations from the University of Cambridge, his business administration Master's degree in the field of finance and business management from the Wharton School of Business, University of Pennsylvania, USA, and his business administration Bachelor's degree in the field of finance and management from the University of Denver, USA.

Daiva Lubinskaitė-Trainauskienė - Independent Member of the Supervisory Board

Ms. Lubinskaitė-Trainauskienė is an independent member of the Supervisory Board. She is also the chairperson of the Nomination and Remuneration Committee. She is a director of personnel at UAB "Thermo Fisher Scientific Baltics" and a member of the management board of the Personnel Management Professional Association. Ms. Lubinskaitė-Trainauskienė obtained her diploma and Master's degree from ISM University of Management and Economics, and has completed philology and public relations professional studies at Vilnius University.

Andrius Pranckevičius - Independent Member of the Supervisory Board

Mr. Pranckevičius is an independent member of the Supervisory Board. He is also the chairperson of the Risk Management Supervision and Operational Ethics Committee. He is a deputy chief executive officer and a member of the management board at AB "Linas Agro Group". He is a chief executive officer and a chairman of the management board at PF "Kekava" and a shareholder at ŽŪB "Žilvita". He is also a chairman of the management board at SIA "Lielzeltini", SIA "Broileks" and SIA "Cerova" and a member of the Presidium at Lithuanian Association of Agricultural Companies. Mr. Pranckevičius obtained a Bachelor's degree of business administration and management and a Master's degree in marketing management from Kaunas University of Technology. He has also completed the leadership development programme at Harvard Business School.

Aušra Vičkačkienė - Member of the Supervisory Board

Ms. Vičkačkienė is a member of the Supervisory Board, having been appointed by the Ministry of Finance. She is a member of the Audit Committee and a member of the Nomination and Remuneration Committee. She is also a director of the assets management department of the Ministry of Finance. She is a member of the management board at UAB "Būsto paskolų draudimas". She graduated from Vilnius University with a Bachelor's and Master's degrees in management and business administration.

Daiva Kamarauskienė - Member of the Supervisory Board

Ms. Kamarauskienė is a member of the Supervisory Board, having been appointed by the Ministry of Finance. She is a member of the Nomination and Remuneration Committee. She is also a director of the budget department of the Ministry of Finance. She graduated from Vilnius University with a Bachelor's and Master's degrees in economics.

2.3 Additional Members of the Supervisory Board

On 30 July 2020, the Company and the Principal Shareholder announced the start of the process of the selection of two independent members to the Supervisory Board. Candidates were invited to apply for the position by 18 August 2020. Requirements for candidates were also announced and include, among other criteria, at least 5 years of experience in an international company with revenues and/or assets of EUR 1 billion. The selection process is being managed by Friisberg and Partners International, a recruitment agency specialising in executive search. As at the Latest Practicable Date, the selection process is ongoing and no decision has been made regarding the identity of the additional members of the Supervisory Board. It is expected that the selection process will be completed later this year, and the selected members would be appointed by 30 August 2021, being the end of the current term of office of the Supervisory Board. An announcement will be made by the Company following completion of the selection process.

3. COMMITTEES OF THE SUPERVISORY BOARD

The Supervisory Board has formed three committees:

- (a) the Risk Management Supervision and Operational Ethics Committee;

- (b) the Audit Committee; and
- (c) the Nomination and Remuneration Committee.

Where appropriate, the Company may also form other ad hoc committees (for example, to address specific issues or to prepare, supervise or coordinate strategic projects). The committees of the Supervisory Board provide their conclusions, opinions and proposals to the Supervisory Board. The committees of the Supervisory Board consist of at least three members, of whom at least one member is a member of the Supervisory Board and at least two members are independent members. Three out of the five members of the Audit Committee are independent. All of the members of the Risk Management Supervision and Operational Ethics Committee are independent. None of the members of any of the committees of the Supervisory Board have any shares in the Company or any company in the Group.

3.1 Risk Management Supervision and Operational Ethics Committee

The Risk Management Supervision and Operational Ethics Committee is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of management and control system in the Group and 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 Company 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 processes;
- (e) to assess the risks and risk management plan of the Company and the Group companies;
- (f) to assess the regular risk identification and assessment cycle;
- (g) to control the establishment of risk registers, analyse their data and provide proposals;
- (h) to monitor the drafting of risk management related internal documents; and
- (i) to perform other functions attributed to the competence of the Risk Management Supervision and Operational Ethics Committee by the Supervisory Board.

Set out below are the members of the Risk Management Supervision and Operational Ethics Committee as at the date of this Document:

Name	Position
Andrius Pranckevičius	Chairperson and Independent member of the Committee
Darius Daubaras	Independent member of the Committee
Šarūnas Rameikis	Independent member of the Committee

3.2 Audit Committee

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

- (a) to monitor the process of preparation of financial statements of the Company and the Group companies, with a special focus on the relevance and consistency of accounting methods used and to make recommendations for ensuring its reliability;

- (b) to monitor the effectiveness of internal quality control and risk management systems of the Company and the Group companies, affecting the financial statements and, where applicable, effectiveness of the internal audit, without prejudice to the independence of the internal audit;
- (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 audits of annual financial statements and separate financial statements;
- (e) to review and to monitor the independence and objectivity of auditors or audit firms;
- (f) to inform the Chief Executive Officer of the Company or the Supervisory Board of the results of the audit of the financial statements and to explain how the audit contributed to the reliability of the financial statements and the role of the Audit Committee in doing so;
- (g) to make recommendations to the Supervisory Board regarding the selection, appointment, reappointment and dismissal of the head of the Company's Internal Audit Service;
- (h) to approve the regulations of the Company's Internal Audit Service, the internal audit plan for the current year, the list of persons to whom the Internal Audit Service's annual report or summary thereof is submitted and the procedure for submission of the annual report;
- (i) to oversee that the Company's Internal Audit Service is provided with sufficient financial resources to carry out its tasks, as well as to maintain the necessary qualifications of the Internal Audit Service staff to perform their functions;
- (j) to coordinate and periodically evaluate the work of the Company's Internal Audit Service, discuss the results of inspections, evaluate remedies found, implement internal audit plans, and, if necessary, to take appropriate action resulting therefrom;
- (k) to monitor the compliance of activities of the Company and the Group companies with laws and other legal provisions of the Republic of Lithuania, the Articles of Association and operational strategy;
- (l) to provide opinions to the Company and the Group companies whose shares are admitted to trading on a regulated market regarding transactions with a related party;
- (m) to assess and analyse other issues attributed to the competence of the Audit Committee by the decision of the Supervisory Board; and
- (n) to perform other roles related to the functions of the Audit Committee.

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

<u>Name</u>	<u>Position</u>
Irena Petruškevičienė	Chairperson and Independent member of the Committee
Danielius Merkinas	Independent member of the Committee
Šarūnas Radavičius	Independent member of the Committee
Ingrida Muckutė	Member of the Committee
Aušra Vičkačkienė	Member of the Committee

3.3 Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for the submission of conclusions or proposals to the Supervisory Board on the matters of appointment, removal or promotion of the Management Board members and members of the supervisory and management bodies of the Company's subsidiaries, as well as the assessment of the structure, size, composition and activities of the Management Board and supervisory and management boards of the Company's subsidiaries and their

respective members and 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 and principles of promotion. Its main functions are:

- (a) to assess and provide proposals on the long-term remuneration policy of the Company and Group companies (the main fixed part of the remuneration, performance based remuneration, pension insurance, other guarantees and forms of remuneration, compensation, termination benefits and other parts of the remuneration package) and principles of compensation for costs related to the individual's performance;
- (b) to assess the terms and conditions of agreements of the Company and the Group companies with members of the management and supervisory bodies of the Company and the Group companies;
- (c) to monitor the compliance of the policy of remuneration and bonuses to employees of the Company and the Group companies with the international practice and good governance practice recommendations, and to provide respective proposals for the improvement of the policy of remunerations and bonuses;
- (d) to assess the procedures of recruitment and selection of candidates to members of the Management and Supervisory boards and senior management of the Company and the Group companies and establishment of the qualification requirements, to submit proposals and conclusions to the Supervisory Board;
- (e) to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Company and the Group companies;
- (f) to supervise and assess the implementation of measures ensuring the continuity of operations of the management and supervisory bodies of the Company and the Group companies; and
- (g) to perform other functions attributed to the competence of the Nomination and Remuneration Committee by the Supervisory Board.

Set out below are the members of the Nomination and Remuneration Committee as at the date of this Document:

Name	Position
Daiva Lubinskaitė-Trainauskienė	Chairperson and Independent member of the Committee
Lėda Turai-Petrauskienė	Independent member of the Committee
Aušra Vičkačkienė	Member of the Committee
Daiva Kamarauskienė	Member of the Committee

4. MANAGEMENT BOARD

4.1 Overview of the Management Board

The members of the Management Board are elected and removed by the Supervisory Board on the proposal of the Nomination and Remuneration Committee. Each member of the Management Board is elected for a term of four years. The Management Board consists of five members and elects the chairperson of the Management Board, who is also the Chief Executive Officer of the Company, from among its members. Each member of the Management Board is responsible for a certain area of the Company's activities (including strategy and governance, organisational development, finance and budget, infrastructure and development, commercial matters and provision of services). The members of the Management Board, acting within their competence, must ensure the proper performance of the Company's activities and supervise their respective areas at the Group level.

The Management Board shall take the following decisions:

- (a) decisions for the Company to become an incorporator or a member of other legal entities and decisions relating to (i) the approval of subsidiaries' articles of association, (ii) the opening

branches and representative offices and (iii) the regulations of branches and representative offices;

- (b) decisions relating to the approval of candidates to the supervisory and management bodies of subsidiaries, branches and representative offices and decisions on participation and voting in the subsidiaries' general meetings of shareholders;
- (c) decisions on (i) the investment, disposal or lease, pledge or mortgage of the fixed assets the book value of which exceeds EUR 3,000,000 (calculated individually for each transaction), (ii) the acquisition of the fixed assets the price of which exceeds EUR 3,000,000, (iii) the offering of suretyship or guarantee for the discharge of obligations of third parties the amount of which exceeds EUR 3,000,000, and (iii) conclusion of other transactions the value of which exceeds EUR 3,000,000;
- (d) decisions on lending (except for investments done in accordance with rules on Company's investments approved by the Management Board) or borrowing, including, but not limited to decisions on concluding new loan, credit agreements or amending conditions of existing agreements;
- (e) decisions in relation to the approval of (i) the transfer, disposal, pledge of, or other incumbencies over, shares, (ii) the increase, reduction or other actions changing the structure of the share capital, and (iii) the reorganisation, spin-off, restructuring, liquidation, conversion or other actions changing the status of the group companies of importance to national security, engaged in activities of supply, distribution, manufacturing in energy sector, as well as direct subsidiaries of the Company engaged in activities in energy sector;
- (f) decisions on the approval of activity guidelines and rules, group policies, annual financial plans, annual capital return rate, maximum borrowing amounts, as well as the determination of other parameters of activities of group companies;
- (g) to issue bonds (except for convertible bonds); and
- (h) other decisions assigned to the Management Board by the Law on Companies, the Articles of Association or the decisions of the General Meeting.

The Management Board shall consider and approve:

- (a) the business plan, budget, annual and interim (including consolidated) reports of the Company, draft of business strategy and information on the implementation of the Company's and the group of companies' business strategy, financial status of the Company and group companies, results of economic activities, income and expenditure estimates, the stock-taking and other accounting data of changes in the assets;
- (b) decisions relating to the organisation of the activities of the Company and group companies;
- (c) decisions relating to the management structure of the Company and the positions of the employees, as well as maximum number of certain positions; and
- (d) decisions relating to the Company's confidential information and commercial (industrial) secrets.

The Management Board shall analyse and assess:

- (a) a set of the Company's and group companies' annual financial statements and a draft of profit/loss distribution and shall submit them to the Supervisory Board and to the General Meeting together with feedback and related proposals and the annual report of the Company; and
- (b) a draft decision on the allocation of dividends for a period shorter than the financial year and a set of interim financial statements drawn up for the purpose of taking this decision, which it shall submit to the Supervisory Board and to the General Meeting together with feedback and related proposals and the Company's interim report.

The following decisions of the Management Board require prior approval of the General Meeting:

- (a) decisions for the Company to become an incorporator or a member of other legal entities; and
- (b) approval of (i) the transfer, disposal, pledge of, or other incumbencies over, shares, (ii) the increase, reduction or other actions changing the structure of the share capital, and (iii) the reorganisation, spin-off, restructuring, liquidation, conversion or other actions changing the status of the group companies of importance to national security, engaged in activities of supply, distribution, manufacturing in energy sector, as well as direct subsidiaries of the Company engaged in activities in energy sector.

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

The Articles of Association provide that the Management Board shall comprise five members. The Management Board is obliged to meet at least once a fortnight. In practice, however, meetings are held weekly and a total of 66 meetings took place in 2019.

4.2 **Members of the Management Board**

Set out below are the members of the Management Board and their position as at the date of this Document, together with a brief description of their business experience and principal business activities outside the Group.

Darius Maikštėnas - Chairperson of the Management Board and Chief Executive Officer

Mr. Maikštėnas is the chairperson of the Management Board and the Chief Executive Officer. He is also a chairman of the supervisory board of AB "Energijos skirstymo operatorius" and is a member of the board of Eurelectric. He received his Bachelor's degree in business management at the Kaunas University of Technology before attending the general management program at Harvard Business School. He also obtained an executive Master's degree in business administration from the Baltic Management Institute.

Dr. Živilė Skibarkienė - Member of the Management Board and Organisational Development Director

Dr. Skibarkienė is a member of the Management Board and the Organisational Development Director. She is also a member of the management board of UAB Elektroninių mokėjimų agentūra and a member of the supervisory board of AB "Ignitis gamyba". She is also a chairperson of the management board of UAB "Ignitis grupės paslaugų centras". She holds a Master's degree in law from Vilnius University and a Doctoral degree in social sciences field of law from Mykolas Romeris University. She has also completed the Oxford Executive Leadership Programme at Saïd Business School, University of Oxford.

Darius Kašauskas - Member of the Management Board and Finance and Treasury Director

Mr. Kašauskas is a member of the Management Board and the Finance and Treasury Director. He is a member of the management board of the Support Fund and also a member of the supervisory board of AB "Energijos skirstymo operatorius". 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.

Vidmantas Saliėtis - Member of the Management Board and Director of Commerce and Services

Mr. Saliėtis is a member of the Management Board and the Commerce and Services Director. He is the chairman of the management boards of NT Valdos, UAB and UAB Elektroninių mokėjimų agentūra, and the chairman of the supervisory board of UAB "Ignitis". He is also a member of the management board of UAB "Gamybos optimizavimas". Mr. Saliėtis obtained his Bachelor's degree in economics and business administration from the Stockholm School of Economics in Riga (SSE Riga).

Dominykas Tučkus - *Member of the Management Board and Director of Infrastructure and Development*

Mr. Tučkus is a member of the Management Board and the Director of Infrastructure and Development. He is also the chairman of the supervisory board of AB "Ignitis gamyba" and a member of the supervisory board of UAB "Ignitis". He is a member of the management board of UAB "Ignitis renewables" and the chairman of the management board of UAB Vilniaus kogeneracinė jėgainė. He is also a member of the advisory committee at KŪB "Smart Energy Fund powered by Ignitis Group". He obtained his Bachelor's degree in business management and administration and his Master's degree in finance at L. Bocconi University in Italy. He also obtained an Executive MBA degree from ESADE Business & Law School.

5. CHIEF EXECUTIVE OFFICER AND DIVISION HEADS

5.1 General Overview

At the executive employees' level, the Group is managed by the Chief Executive Officer and the Division Heads. The Chief Executive Officer is a single-person management body responsible for:

- (a) ensuring implementation of Company's strategy and implementation of decisions of the Management Board;
- (b) employment and dismissal of employees, promotions and imposing disciplinary measures;
- (c) opening and closing bank accounts of the Company and disposing of funds held in the bank accounts;
- (d) ensuring the security of Company's assets, appropriate working conditions, security of Company's commercial secrets and confidential information;
- (e) submitting proposals to the Management Board on budget of the Company, drawing up of a set of annual financial statements and drafting of an annual report (including consolidated set of annual financial statements and consolidated annual report) of the Company;
- (f) drafting of a decision on the allocation of dividends for a period shorter than the financial year and drawing up of a set of interim financial statements and an interim report for adoption of the decision on the allocation of dividends for a period shorter than the financial year;
- (g) submission of information and documents to the General Meeting, the Supervisory Board and the Management Board in the cases laid down in the Law on Companies or at their request; and
- (h) performance of other duties laid down in the Law on Companies and other laws and legal acts as well as in the Articles of Association and the job description of the Chief Executive Officer, as well as resolving other issues which are not attributed to the competence of other bodies of the Company under the laws or the Articles of Association.

The Chief Executive Officer is entitled to solely represent the Company and execute documents on the Company's behalf. The Chief Executive Officer is appointed for a term of five years, and can only be appointed for two consecutive five-year terms.

5.2 Chief Executive Officer and Divisional Heads

Set out below are the Division Heads (each of whom is also a member of the Management Board) as at the date of this Document:

<u>Name</u>	<u>Position</u>
Darius Maikštėnas	Chief Executive Officer
Dr. Živilė Skibarkienė	Director of Organisational Development
Darius Kašauskas	Director of Finance and Treasury
Vidmantas Saliėtis	Director of Commerce and Services
Dominykas Tučkus	Director of Infrastructure and Development

6. **ADDITIONAL INFORMATION IN RELATION TO THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS**

6.1 **Positions held by the members of the Supervisory and Management Boards**

In addition to their positions in the Company and its subsidiaries, the members of the Supervisory Board and the Management Board hold, or have held in the five years prior to the date of this Document, positions in the administration, management or supervision of entities or partnerships outside of the Group as set out in the table below:

<u>Name</u>	<u>Outside role (Current)</u>	<u>Outside role (Previous)</u>
<u>Supervisory Board</u>		
Daiva Kamarauskienė	Director of the Budget Department of the Ministry of Finance (since 2007).	None
Andrius Pranckevičius	Deputy of Chief Executive Officer (since 2009), member of the Management Board (since 2008) and deputy of Chairman of the Management Board (since 2018) at AB "Linus Agro Group"; Chairman of the Management Board at PF "Kekava" (since 2015); Chairman of the Management Board at SIA "Lielzeltini"(since 2015); Chairman of the Management Board at SIA "Broileks" (since 2015); Chairman of the Management Board at SIA "Cerova" (since 2015); Member of Presidium at Lithuanian Association Agricultural Companies (since 2008); and Shareholder at ŽŪB "Žilvista" (since 2009).	Member of the Management Board (2006 to 2019), deputy of Chairman of the Management Board (2018 to 2019), deputy of Chief Executive Officer (2005 to 2019) at AB "Linus Agro".
Aušra Vičkačkienė	Director of the Asset Management Department of Ministry of Finance (since 2007); and Member of the Management Board of UAB "Būsto paskolų draudimas" (since 2019).	Member of the Management Board at VĮ Turto bankas (2008 to 2016); and Chairwoman of the Management Board at UAB Viešųjų investicijų plėtros agentūra (2013 to 2016).
Daiva Lubinskaitė-Trainauskienė	Director of personnel at UAB "Thermo Fisher Scientific Baltics" (since 2007); and Member of the Management Board of the Personnel Management	None

<u>Name</u>	<u>Outside role (Current)</u>	<u>Outside role (Previous)</u>
	Professional Association (since 2014).	
Darius Daubaras	Senior Executive in financial advisory division of Saudi Aramco (treasury department), project manager of strategic and mergers and acquisitions projects (since 2015). Supervisory Board member (independent) at Valstybės investicijų valdymo agentūra (since 23 July 2020)	Member of Supervisory Committee at KŪB Smart Energy Fund powered by Ignitis Group (2018 to 2019).

Management Board

Darius Maikštėnas	None	Member of the Board and shareholder (2016 to 2019) and Chief Executive Officer (2016 to 2018) at Wider Communications Incorporated, a Delaware Corporation); Member of the Board (2015 to 2019) and Chief Executive Officer (2015 to 2018) at Wider Communications Limited; and Fund Adviser at Nextury Ventures (2014 to 2015).
Darius Kašauskas	None	None
Vidmantas Saliotis	None	None
Dr. Živilė Skibarkienė	None	Head of Legal and Administration Division at AB Šiaulių bankas (2011 to 2018); Member of the Board and Deputy CEO at AB Finasta (2015); and Member of the Board at financial brokerage company Finasta (2015).
Dominykas Tučkus	None	None

The business address of each member of the Supervisory Board and each member of the Management Board is AB "Ignitis grupė", Žvejų str. 14, LT-09310 Vilnius, the Republic of Lithuania.

6.2 Remuneration of the members of the Supervisory and Management Boards

During the year ended 31 December 2019, the aggregate amount of remuneration paid (including any contingent or deferred compensation), and benefits in kind granted to the members of the Supervisory Board and Management Board by the Group for services in all capacities to the Company and its subsidiaries was EUR 691,182.41.

The principles of remuneration of members of collegial bodies of the Company are established under the Guidelines for Corporate Governance of State-Owned Energy Group. Pursuant to these Guidelines, the maximum monthly amount of the remuneration paid for the activities in the Supervisory Board, its

committees or to the members of the managing and supervisory bodies of other companies in the Group of Companies, who are subject to remuneration, cannot exceed one-quarter of the amount of the monthly salary paid to the CEO of the Company (basic pre-tax remuneration). The maximum monthly amount of the remuneration paid to the Chairman of the Supervisory Board for the work in the Supervisory Board or its committees cannot exceed one-third of the amount of the monthly salary paid to the CEO of the Company (basic pre-tax remuneration).

Information about payments made to the members of the Supervisory and Management Boards during the year ended 31 December 2019 are set out below.

<u>Name (Position)</u>	<u>Fixed monthly remuneration</u>	<u>1/12 share of annual variable remuneration for the results of previous year</u>	<u>Calculated amounts for the activities (January-December 2019) in the Supervisory Board⁽¹⁾</u>	<u>Average monthly remuneration for the activities as the member of the Management Board</u>
Supervisory Board				
Darius Daubaras <i>(Chairman of the Supervisory Board, member of the Risk Management and Business Ethics Supervision Committee (independent member))</i>	-	-	16,650	-
Andrius Pranckevičius <i>(Member of the Supervisory Board, chairman of the Risk Management and Business Ethics Supervision Committee (independent member))</i>	-	-	5,288	-
Daiva Lubinskaitė-Trainauskienė <i>(Member of the Supervisory Board, chairwoman of the Nomination and Remuneration Committee (independent member))</i>	-	-	5,070	-
Aušra Vičkačkienė⁽²⁾ <i>(Member of the Supervisory Board, member of the Audit Committee)</i>	-	-	-	-
Daiva Kamarauskienė⁽²⁾ <i>(Member of the Supervisory Board, member of the Nomination and Remuneration Committee)</i>	-	-	-	-
Šarūnas Rameikis <i>(Member of the Risk Management and Business Ethics Supervision Committee (independent member))</i>	-	-	3,375	-
Irena Petruškevičienė <i>(Chairwoman of the Audit Committee (independent member))</i>	-	-	11,738	-
Danielius Merkinas <i>(Member of the Audit committee (independent member))</i>	-	-	10,590	-
Šarūnas Radavičius <i>(Member of the Audit Committee (independent member))</i>	-	-	8,258	-
Lėda Turai-Petrauskienė <i>(Member of the Nomination and Remuneration Committee (independent member))</i>	-	-	-	-

<u>Name (Position)</u>	<u>Fixed monthly remuneration</u>	<u>1/12 share of annual variable remuneration for the results of previous year</u>	<u>Calculated amounts for the activities (January-December 2019) in the Supervisory Board⁽¹⁾</u>	<u>Average monthly remuneration for the activities as the member of the Management Board</u>
Management Board				
Darius Maikštėnas (Chairperson of the Management Board and Chief Executive Officer)	8,170	2,508	-	2,550
Dr. Živilė Skibarkienė (Member of the Management Board, Director of Organisational Development)	6,800	1,832	-	1,815
Darius Kašauskas (Member of the Management Board, Director of Finance and Treasury)	6,800	2,694	-	1,815
Dominykas Tučkus (Member of the Management Board, Director of Infrastructure and Development)	6,800	2,675	-	1,815
Vidmantas Saliėtis (Member of the Management Board, Director of Commerce and Services)	6,800	2,097	-	1,815

All amounts shown in the table above are shown in euro, before taxes.

Notes:

- (1) Members of the supervisory bodies can only be paid if they are independent members of the Supervisory Board and/or independent members of the committees of the Supervisory Board. Data on actual payments made in accordance with deeds submitted by independent members during the reporting period is provided.
- (2) Members of the Supervisory Board who are delegated by the Principal Shareholder did not receive any remuneration from the Company.

In relation to the year ended 31 December 2019, the Group made provisions of €2.9 million for employee benefits including a statutory retirement benefit payable to the Group's employees. Save as set out in this paragraph, in relation to the year ended 31 December 2019, no other amounts were set aside or accrued by the Company or its subsidiaries to provide for pension, retirement or similar benefits of the members of the Supervisory Board and the Management Board.

6.3 Term of Office

The term of office of the members of the Supervisory Board, the members of the Management Board and the Chief Executive Officer, as well as the period during which respective persons hold positions, are set out in the table below.

<u>Name</u>	<u>Position in the Company</u>	<u>In the position since</u>	<u>In the position until</u>
Supervisory Board			
Darius Daubaras	Chairperson and member of the Supervisory Board	30 August 2017	29 August 2021
	Member of the Risk Management Supervision and Operational Ethics Committee	20 April 2018	19 April 2022
Daiva Lubinskaitė-Trainauskienė	Member of the Supervisory Board	30 August 2017	29 August 2021
	Chairperson and member of the Nomination and Remuneration Committee	13 September 2017	12 September 2021
Andrius Pranckevičius	Member of the Supervisory Board	22 November 2017	29 August 2021
	Chairperson and member of the Risk Management Supervision and Operational Ethics Committee	20 April 2018	19 April 2022

Name	Position in the Company	In the position since	In the position until
Aušra Vičkačkienė	Member of the Supervisory Board	30 August 2017	29 August 2021
	Member of the Audit Committee	13 October 2017	12 October 2021
Daiva Kamarauskienė	Member of the Supervisory Board	1 February 2019	29 August 2021
	Member of the Nomination and Remuneration Committee	22 March 2019	12 September 2021

Management Board

Darius Maikštėnas	Chairperson of the Management Board	01 February 2018	31 January 2022
	Chief Executive Officer	12 February 2018	11 February 2023
Dr. Živilė Skibarkienė	Member of the Management Board	01 February 2018	31 January 2022
	Director of Organisational Development	22 March 2018	N/A ⁽¹⁾
Darius Kašauskas	Member of the Management Board	01 February 2018	31 January 2022
	Director of Finance and Treasury	23 July 2013	N/A ⁽¹⁾
Vidmantas Saliėtis	Member of the Management Board	01 February 2018	31 January 2022
	Director of Commerce and Services	3 April 2018	N/A ⁽¹⁾
Dominykas Tučkus	Member of the Management Board	01 February 2018	31 January 2022
	Director of Infrastructure and Development	3 April 2018	N/A ⁽¹⁾

Note:

- (1) The Division Heads have employment relations with the Company which are of an unlimited duration.

In accordance with the Law on Companies and the Articles of Association, members of the Supervisory Board and Management Board are appointed for a tenure of four years. The tenure of each member of the Supervisory Board and Management Board may not last longer than until the annual General Meeting convened in the fourth year of that member's tenure. There is no limitation on the number of terms of office a member of the Management Board may serve.

Article 37¹ of the Law on Companies stipulates that the Chief Executive Officer of the state-owned company can be appointed only for a term of five years. The Chief Executive Officer can only be appointed for two consecutive five-year terms. Under the Law on Companies and the Labour Code, the Chief Executive Officer may be dismissed from the position by the Management Board of the Company without any advance notice for cause. Division Heads may be dismissed from the Company only on the grounds and following the procedure indicated in the Labour Code.

6.4 Severance Payments

Neither the Company nor any respective Group company has employment agreements with the members of the Supervisory Board and Management Board. As a result, members of the Supervisory Board and Management Board are not entitled to severance payments upon termination of their contractual relationship. Nevertheless, employment agreements are executed between the Company and each of the Chief Executive Officer and Division Heads.

In accordance with the Labour Code, those who are employed in any Group company under an employment agreement are entitled to severance payments upon termination of their employment (except for certain termination grounds, such as on one's own will, due to the reasons attributable to the employee's fault, etc.). Apart from such statutory payments, the employment agreements entered into between, on the one part, the Company or any Group company and, on the second part, each of (a) the Chief Executive Officer, and (b) each of the Division Heads do not provide for any other severance payments or benefits upon termination of such agreements. Severance pay, however, shall be paid in accordance with the Guidelines for Executives Remuneration of the Group Companies of the Company, according to which the Chief Executive Officer and each of the Division Heads are paid severance payment equal to four times their average monthly salary if employment is terminated on initiative of the Company and for no fault of the employee.

6.5 Employee Stock Ownership Plans

The Company intends to shortly submit to the Ministry of Finance, the Principal Shareholder, for approval "Rules for Granting Shares of the Company", which set out main principles for the long-term

promotion of the Group's interests through granting shares in the Company to its management and employees. It is currently expected that the Principal Shareholder will consider and approve the "Rules for Granting Shares of the Company" in September 2020.

(a) ***Management Long-Term Incentive Plan***

In order to align management and shareholder interests, the Nomination and Remuneration Committee and Supervisory Board on 14 August 2020 approved the guidelines for a management long-term incentive plan (the "**LTIP**"), to be implemented as a policy pursuant to the "Rules for Granting Shares of the Company" later this year. According to the guidelines, the LTIP would be equity based (in a form of stock options with a strike price at EUR 0), and tied to a four-year period, in line with the Group's four-year strategic plan. The LTIP will be a continuous programme with new four-year period targets put in place annually (for example, in 2020, the targets for 2023 will be set based on 2020-2023 Strategic Plan; in 2021, the targets for 2024 will be set based on 2021-2024 Strategic Plan; etc.). The key performance indicators which the management will be required to meet for the year 2023 will be: total share return ("**TSR**") (in comparison to Eurostoxx 600 Utilities index), adjusted EBITDA target for 2023, installed Green Generation capacity (in line with the Group's "Strategic plan 2020-2023" targets), ESG target (preparation of a CO₂ plan and sticking to targets defined in the plan). The LTIP participants are intended to be nine of the Group's executives, including the members of the Management Board and the CEOs of the business segments, with the possibility to extend to other executives with ownership of strategic targets as determined on a case-by-case basis. In addition, management annual bonuses will include the TSR component as well. The LTIP for the management will not exceed 100 per cent. of the base salary.

(b) ***Employee Share Option Programme***

In addition, in order to attract and retain competent, fast-learning, technologically advanced, globally thinking and innovative, motivated, loyal employees of the Group, the Company intends to adopt an employee share option programme (the "**ESOP**") pursuant to the "Rules for Granting Shares of the Company", which is currently expected to be approved by the Principal Shareholder in September 2020.

6.6 **Confirmations of members of the Supervisory and Management Boards**

At the date of this Document, none of the members of the Supervisory Board or Management Board has, for the previous five years:

- (a) had any convictions in relation to fraudulent offences; or
- (b) been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of senior manager of any company; or
- (c) been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or
- (d) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

6.7 **Conflicts of interest**

As at the date of this Document, there are no actual or potential conflict of interests between any duties to the Company of the members of the Supervisory Board or Management Board and their private interests or other duties they may also have. As at the date of this Document, none of the members of the Supervisory Board or the Management Board has any ownership interest in the capital of the Company or any member of the Group.

Furthermore, there are no family relationships between any of the members of the Supervisory Board and/or Management Board.

6.8 Directors' and Officers' Insurance Policies

Currently, the Company has in place liability insurance policies and contracts for members of the Management Board and members of the Supervisory Board, among other senior members of management.

7. CORPORATE GOVERNANCE

7.1 Nasdaq Vilnius Corporate Governance Code

The Company acknowledges the importance of good corporate governance and currently applies the Nasdaq Vilnius Corporate Governance Code to the extent possible. The Nasdaq Vilnius Corporate Governance Code is based on the principle of "comply or explain" and can be found on the website of Nasdaq Vilnius. In accordance with Article 12(3) of the Law on Securities and paragraph 24.5 of the Nasdaq Vilnius Listing Rules, the Company discloses annually how it complies with, or reasons for non-compliance with, the Nasdaq Vilnius Corporate Governance Code (including its specific provisions or recommendations) in its annual report. The Company will continue to apply the Nasdaq Vilnius Corporate Governance Code.

7.2 Corporate Governance Structure of the Group

More generally, the aim of the Group, with the Republic of Lithuania as its Principal Shareholder, is to ensure effective and transparent operations. The current governance structure and model of the Group was developed following advanced international and national practices and the recommendations published by the Organisation for Economic Cooperation and Development, having regard to the Nasdaq Vilnius Corporate Governance Code and to the Guidelines on the Governance for State-owned Enterprises recommended by the Baltic Institute of Corporate Governance. In addition, the Group's governance is based on the Corporate Governance Guidelines approved by the Ministry of Finance (a copy of the Corporate Governance Guidelines are available at www.ignitisgrupe.lt/).

The Group's governance principles and model aim at the assessment and harmonisation of stakeholders' interests and their translation into measurable targets and indicators. Key principles include:

1. **Making preconditions for effective corporate governance:** an environment in which the Group or individual companies operate promotes transparency in the market, ensures separation of management, oversight and state regulatory functions.
2. **The exercise of the rights conferred by shareholders' shares:** the corporate governance system shall ensure the possibilities of exercising property and non-property rights arising from share management while safeguarding the interests of minority shareholders. The shareholders of the Company shall seek to ensure that the Group operates on an equal footing with other market participants without creating exclusive business conditions for the Group.
3. **The role of stakeholders:** the corporate governance system shall recognise the expectations and rights of stakeholders arising from agreements or legal regulation, as well as encourage active cooperation to create sustainable added value.
4. **Openness and transparency:** the corporate governance system must ensure timely and accurate disclosure of information about the Group by providing financial, operational, managerial, as well as other information to be communicated to the stakeholders. The Group strives for transparency in all areas of its activities and observes the principals of zero tolerance to corruption and the unbundling of activities of the Group from political influence.
5. **Responsibility and accountability of the managing and supervisory bodies:** the corporate governance system shall ensure that the managing and supervisory bodies of the Group or of individual companies properly perform their functions and are accountable to the shareholders.

7.3 Recognition

The Company has been, for the past 8 years, recognised as the best or one of the best managed state-owned company. Since 2012, the Governance Coordination Centre annually compiles a governance index for Lithuanian state-owned entities, which aims to measure the implementation of key good

governance practices by each state-owned enterprise. Currently, this index is the best measure of corporate governance for state-owned enterprises. Since 2016, the Company earned the highest possible A+ rating in the Governance index and was declared the leader in corporate governance in the corporate category.

8. SECURITIES DEALING CODE

The Company has adopted a policy on dealings in relation to the Company's securities which requires full compliance with the requirements of MAR. The Company shall require the members of the Supervisory Board, the members of the Management Board and other persons discharging managerial responsibilities within the Company, including all persons who have access to inside information, to comply with the Company's securities dealing policy, and shall take all proper and reasonable steps to secure their compliance.

PART 7 – REGULATION

Below is a brief summary of the rules and regulations (i) relevant to the Company and its Group due to the Company being a state-owned entity and important in relation to the national security interest of the Republic of Lithuania; and (ii) governing the Company's and its Group business in the Republic of Lithuania and its activities as the Group's principal market. Nonetheless, the following summary does not purport to be complete and is also subject to the regulations of the jurisdictions referred to below.

1. REGULATION APPLICABLE TO THE COMPANY AND ITS GROUP DUE TO THE COMPANY BEING A STATE-OWNED ENTITY AND IMPORTANT IN RELATION TO THE NATIONAL SECURITY INTEREST OF THE REPUBLIC OF LITHUANIA

1.1 Regulation related to state-owned entities in the Republic of Lithuania

The key legislation for the state owned companies are:

- Law on the Management, Use and Disposal of Assets owned by the State and Municipality of the Republic of Lithuania No VIII-729 dated 12 May 1998 (as from time to time amended or restated);
- Regulation of the Government of the Republic of Lithuania on approval of the procedure for the exercise of proprietary and non-proprietary rights in the state owned companies No 665 dated 6 June 2012 (as from time to time amended or restated);
- Regulation of the Government of the Republic of Lithuania on dividends of state owned companies and profit contributions of state companies No 20 dated 14 January 1997 (as from time to time amended or restated);
- Regulation of the Government of the Republic of Lithuania on transparency requirements for state owned companies No 1052 dated 14 July 2010 (as from time to time amended or restated);
- Regulation of the Government of the Republic of Lithuania on selection of candidates for the supervisory or management body of a state company or state owned company or its subsidiary No 631 dated 17 June 2015 (as from time to time amended or restated);
- Regulation of the Government of the Republic of Lithuania on the remuneration of managers in the state owned companies No 1341 dated 23 August 2002 (as from time to time amended or restated);
- Law on Public Procurements of the Republic of Lithuania No I-1491, dated 13 August 1996 (as from time to time amended or restated);
- Regulation of the Government of the Republic of Lithuania on Procurements by Entities Operating in the Water, Energy, Transport and Postal Services Sectors No 92 dated 30 January 2006 (as from time to time amended or restated);
- Law on the Protection of the Objects of National Security Importance of the Republic of Lithuania No IX-1132, dated 10 October 2002 (as from time to time amended or restated); and
- Guidelines for Corporate Governance of State-owned Group of Energy Companies approved by Order No. 1K-205 of the Ministry of Finance (as from time to time amended).

(a) *Payment of Dividends*

Rules on payment of dividends, as well as other dividends related regulations and requirements are described in Part 1 ("*Dividend Policy*").

(b) *Fulfilment of objectives set by the state*

At least every 4 years, the state issues a letter of expectations on the objectives to be pursued by the state-owned company and the expectations placed on a state-owned company, where main activities, priorities of activities, key performance evaluation indicators (such as net profit, profitability, etc.), accountability

needs, as well as economic projects important to the state are identified. In case the set objectives are not reached, the valuation whether members of management bodies are fit for their positions is held.

(c) *Requirements for candidates to bodies of state-owned company and their remuneration*

It is required to aim that not less than $\frac{1}{2}$ of members collegial supervisory bodies in state-owned companies and not less than $\frac{1}{3}$ of members of collegial supervisory bodies of their subsidiaries directly controlled by state-owned companies were independent members. Members of collegial bodies shall not have conflict of interests or be politically exposed persons. Members of collegial body shall collectively have competencies in strategic planning and management, finance management, consultancy, financial services, auditing, as well as competencies in the field where company operates. Members to collegial bodies are subject to certain education and reputation requirements.

It is recommended that only the fixed salary is paid to members of the supervisory board or management board and that it should not exceed $\frac{1}{4}$ of the total salary set for the chief operating officer of the state owned company and the remuneration paid to the chair of the supervisory board and of the management board should not exceed $\frac{1}{3}$ of the total salary set for the chief operating officer of the state-owned company.

(d) *Transparency requirements applicable to state-owned companies*

State-owned companies are required to make publicly available their articles of association, remuneration policy, annual and interim reports, annual and interim financial statements as well as auditors reports for period not shorter than 5 years, information on objectives set by the state, companies' group scheme, data of members of bodies of the company, etc. Certain actions of the Group requires approval of the Ministry of Finance as the Company's sole shareholder at the Company's General Meeting. Additionally, certain actions of the Company (for example, an increase of share capital or a corporate reorganisation) would require the approval of the Government in addition to the Ministry of Finance, in accordance with the decision of the Government No. 665 dated 6 June 2012. For further information, see paragraph 1.5 of the section entitled "*Risk Factors*".

1.2 **Regulation of the Company and certain of its subsidiaries being important in relation to the national security interest of the Republic of Lithuania**

Additional regulation relevant to the Company and its activities is under the Law on the Protection of the Objects of National Security Importance. The main objective of this law is to ensure that the objects of importance to ensuring the national security of the Republic of Lithuania (enterprises, facilities, property and economic sectors) and the property and territory within the protection zones of the enterprises, facilities and property of importance to ensuring national security are protected against all risk factors that may pose a threat to national security interests and to eliminate the causes of and conditions for the emergence of such factors.

According to the Law on the Protection of the Objects of National Security Importance, the Company and its subsidiaries AB "Energijos skirstymo operatorius", AB "Ignitis gamyba" and UAB "Ignitis" are included in the List of Category II Enterprises of Importance to Ensuring National Security ("**Category II Undertaking**"). As a result, the respective law foresees certain restrictions to the Company, abovementioned subsidiaries and their investors:

- a person or a group of persons acting in concert who intend to acquire, directly or indirectly, equity interest which, together with the shareholding held by him or together with the shareholding held by other persons acting in concert, carry $\frac{1}{4}$ or more of votes at the general meeting of shareholders of Category II Undertaking, or, by concluding an agreement on the transfer of the voting right, to acquire the right to exercise non-property shareholder rights which, together with the shareholding held by him or together with the shareholding held by other persons acting in concert, carry $\frac{1}{4}$ or more of the votes at the general meeting of shareholders of Category II Undertaking (the "**Qualifying Holding**") shall receive prior approval of the National Security Commission, which shall determine if the investor meets all relevant requirements related to national security interests. National Security Commission's approval may be granted or denied on the basis of the Law on the Protection of the Objects of National Security Importance. In case the investor does not conform to national security interests and as a result fails to obtain the National Security Commission's approval, such

investor shall not have a right to attend and vote at the general meeting of shareholders of the company and shall not be entitled to exercise other non-property rights of the investor which would be attached to the portion of shares acquired in violation of this Law on the Protection of the Objects of National Security Importance.

- all Shareholders of the Category II Undertaking have to comply with national security interests. Therefore, all investors who intend to acquire equity interests in the Category II Undertaking representing less than that of a Qualifying Holding, their eligibility may be assessed by the National Security Commission and other relevant regulatory bodies at the initiative of the Government, minister, the BoL and other bodies and institutions specified in the Law on the Protection of the Objects of National Security Importance. Based on the National Security Commission's conclusions the final decision shall be taken by the Government. In case of a negative decision, a person or a group of persons would lose the ability to exercise non-property rights, including voting rights attributable to such Shares.
- reorganisation, restructuring or liquidation of Category II Undertaking may be carried out only with the approval of the National Security Commission. A decision on the liquidation of an enterprise of importance to ensuring national security may be adopted only after the State of Lithuania, represented by the Government, declines pre-emptive acquisition of the Category II Undertaking under a purchase and sale contract, shares of that enterprise carrying $\frac{2}{3}$ or more of votes at the general meeting of shareholders, its immovable property and/or facilities and property of importance to ensuring national security owned by it;
- where the reorganisation, transfer of shares or increase of share capital (by way of distributing a new issue of shares or issuing convertible debentures) of a Category II Undertaking would result in such a decrease in the portion of shares held by the State that the State would carry less than $\frac{2}{3}$ of votes at the general meeting of shareholders of the Category II Undertaking, such reorganisation, transfer of shares or increase of share capital (by way of distributing a new issue of shares or issuing convertible debentures) must be approved by the Parliament of the Republic of Lithuania;
- where the reorganisation, transfer of shares or increase of share capital (by way of distributing a new issue of shares or issuing convertible debentures) of a Category II Undertaking would result in such a decrease in the portion of shares held by a state-owned company in the Category II Undertaking that, after carrying out these actions, the shares held by the state-owned company would carry less than $\frac{2}{3}$ of votes at the general meeting of shareholders of the Category II Undertaking, such reorganisation, transfer of shares or increase of share capital (by way of distributing a new issue of shares or issuing convertible debentures) must be approved by the Government of the Republic of Lithuania;
- Category II Undertaking must notify the National Security Commission of the transactions intended to be concluded where:
 - (a) the value of the transaction exceeds 10 per cent. of the Category II Undertaking's annual income for the preceding financial year (the Category II Undertaking shall also notify the National Security Commission of the intended substantial changes in such transactions);
 - (b) on the basis of the transaction, the other party to the transaction or third parties are granted the right to service, access or otherwise familiarise themselves with the essential communication and information technologies, systems or infrastructure thereof as well as databases or data therein as provided for in the security plan of the enterprise;
 - (c) on the basis of the transaction, the other party is granted the right to participate in the implementation of a project of special state importance or a project of state importance; and
 - (d) on the basis of transaction the other party is granted the right to exploit or manage facilities or property of importance to ensuring national security or to perform other significant activities which may pose a risk or threat to national security and which may affect facilities and property of importance to ensuring national security.

Pursuant to the Law on the Protection of the Objects of National Security Importance, the manager of the critical information infrastructure according to the public procurement regulation shall notify the National Security Commission of its transactions regardless of the value of transaction if, during the tender process, requirements (for suppliers, subcontractors, goods, services and works) relating to compliance with the interests of national security were set. This rule applies to GEN and ESO.

The Government's decision confirming that a transaction intended to be concluded does not conform to national security interests shall imply that the transaction may not be concluded until the causes posing a threat to national security interests indicated in the Government's decision are removed, provided that such causes may be removed, and the Government adopts a new decision confirming the transaction's conformity to national security interests after having received the new conclusion and recommendations from the Commission. The Government's decision shall imply that the transaction is in conflict with national security interests and is unlawful and invalid from the moment of entry into effect of the Government's decision, and where the transaction was concluded while failing to discharge the notification obligation to the National Security Commission specified above or was concluded during its verification, from the moment of conclusion of the transaction.

Also, certain facilities and property owned by the Company's subsidiaries are included into the List of Facilities and Property of Importance to Ensuring National Security, therefore they are subject to supervision under the Law on the Protection of the Objects of National Security Importance. As a result, according to the said law, *inter alia*, (i) respective facilities and property may be transferred only to an investor conforming to national security interests, to secure the claims of such an investor, these facilities and property may be pledged or mortgaged, unless such rights are restricted by other laws, and (ii) respective facilities and property may be realised in the course of the bankruptcy, liquidation, enforcement or other similar proceedings only after submitting a proposal to the Republic of Lithuania regarding the pre-emptive acquisition and after the Republic of Lithuania declines the acquisition of respective facilities and property. In any such cases, the asset which is of importance for national security may not necessarily be sold for the highest possible price as the Republic of Lithuania may acquire such assets for a price determined in accordance with the Law on the Bases of Property and Business Valuation under a special procedure for acquisition of the relevant assets established pursuant to the Resolution of the Government of the Republic of Lithuania No. 554 of 12 June 2019.

Notably, the Company's subsidiaries UAB Elektroninių mokėjimų agentūra (as a payment institution), UAB Vėjo vatas, UAB Vėjo gūsis and UAB Eurakras (as undertakings of wholesale of electricity sector) also falls within the scope of the Law on the Protection of the Objects of National Security Importance as companies operating in the economic sector of strategic importance. As a result, where a person (or a group of persons acting in concert) intends to acquire a Qualifying Holding in a company operating in the economic sector of strategic importance, such person (or group of persons acting in concert) will be required to (i) receive prior approval by the National Security Commission and (ii) be determined to be in compliance with all relevant requirements related to national security interests. The National Security Commission's approval may be granted or denied on the basis of the Law on the Protection of the Objects of National Security Importance. Failure to obtain such approval will result the transaction being void or the loss of the non-property rights, including voting rights attributable to the shares in the payment institution.

As a result, any person (or a group of persons acting in concert) who decides to acquire a Qualifying Holding in the Shares will be required to seek prior approval by the National Security Commission to acquire a Qualifying Holding in the Company, which is on the list of Category II Undertakings, and also indirectly in certain of the Company's subsidiaries, including UAB Elektroninių mokėjimų agentūra, UAB Vėjo vatas, UAB Vėjo gūsis and UAB Eurakras which are undertakings operating in the economic sector of strategic importance.

1.3 Regulation of the Company as being sole shareholder of company holding payment institution licence

The Company directly holds 100 per cent. of shares and voting rights in UAB Elektroninių mokėjimų agentūra, a company holding a payment institution licence issued by the BoL. The Law on Payment Institutions provides certain prudential requirements and obligations to persons directly and indirectly holding qualifying capital and voting rights in the payment institution.

Besides other requirements, the law provides that a person or the persons acting in concert who have taken a decision to directly or indirectly acquire 10 per cent. in the payment institution's share capital and/or voting rights or to increase it so that the proportion of the payment institution's share capital and/or voting rights held by him would reach or exceed 20 per cent., 30 per cent. or 50 per cent. of the holding or so that the payment institution would become controlled by him ("**Licenced Qualifying Holding**") must give a written notice thereof to the BoL and request it not to oppose the proposed acquisition. A failure to comply with the requirement to obtain the decision of the BoL not to oppose the proposed acquisition of a Licenced Qualifying Holding shall not invalidate a transaction, however where a Licenced Qualifying Holding has been acquired or increased without giving a notice thereof to BoL or in the event of the opposition of the BoL to the proposed acquisition, the relevant acquirer shall lose its voting rights in the payment institution, and the fact that a person acquired Licenced Qualifying Holding in EMA without prior approval from the BoL may be taken into account when assessing such person's reputation or eligibility in the future. As a result, any person or persons acting in concert who have taken a decision to acquire 10 per cent. of the Shares or voting rights, or to increase his holding to reach the abovementioned thresholds would be obliged to obtain the decision of the BoL not to oppose the proposed indirect acquisition of shares in the payment institution.

1.4 **Regulations related to privatisation of state owned assets**

The 'Law on the Management, Use and Disposal of Assets owned by the State and Municipality of the Republic of Lithuania' provides that shares in companies owned by the Republic of Lithuania are privatised in accordance with the rules stipulated under the 'Law on Privatization of Shares owned by the State and Municipality of the Republic of Lithuania' or other legal acts. The 'Law on Privatization of Shares owned by the State and Municipality of the Republic of Lithuania' sets out the following methods of privatization:

- public sale of shares (when shares owned by the state/municipality are sold in securities markets);
- public auction (when shares owned by the state/municipality are sold to the buyer who offered the highest price);
- public tender (when shares owned by the state/municipality are sold to a winner of a tender whose price and investments offer was the most favourable);
- direct negotiations (when shares owned by the state/municipality are sold to a winner of negotiations); and
- sale of shares to other shareholders of a private limited company (when shares owned by the state/municipality are sold to other shareholders of the same company).

Privatisation rules are also applicable when the state loses 'control' (that is, the state holds less than $\frac{2}{3}$ of total number of shares) in the company as the result of new shares being issued (so called transfer of control method). Nonetheless, the law does not explicitly regulate situations where control is not transferred.

1.5 **Regulations related to public procurement**

The Company will remain a contracting authority and/or contracting entity as defined under the Law on Public Procurement and therefore will be required to follow the relevant public procurement rules to procure goods, services and/or works. Depending on the relevant goods, services and/or works being procured, the Company will be required to comply with the Law on Public Procurements or the Regulation on Procurements by Entities Operating in the Water, Energy, Transport and Postal Services Sectors in respect of its procurement process.

2. **REGULATION GOVERNING THE GROUP'S BUSINESSES IN THE REPUBLIC OF LITHUANIA**

Below is a brief summary of the rules and regulations applicable to the Group in Lithuania and its activities as the Group's principal market. Since the Republic of Lithuania's accession to the EU on 1 May 2004, certain rules and regulations of the EU have been adopted and, therefore, a description of the EU

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.

2.1 Current EU Energy Regulation

(a) *EU Energy and Climate Change Legislation*

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 EU designed to ensure a stable energy supply and combat climate change, such "EU 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 EU energy consumption by 2020; and
- 20 per cent. energy savings by 2020 compared to 2020 projections (1,853 million tonnes of oil equivalent) made in 2007.

Subsequently, in 2009 the EU adopted the Third Energy Package designed to complete liberalisation of the electricity and gas markets within the EU. In particular, such energy legislation contemplates 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 EU Third Electricity Directive and the EU 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: 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.

The Republic of 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, the Law on Natural Gas and the Law on LNG Terminal of the Republic of Lithuania in 2011 to 2012.

(b) *2030 to 2050 EU Framework for Climate and Energy Policy*

In October 2014, the EU Energy Council enacted new targets and the architecture for the EU framework for climate and energy in the period from 2020 to 2030. These targets were amended in 2018 as follows:

- 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);
- 32 per cent. share energy consumption to be from renewable energy sources by 2030 (resulting in renewable energy sources being used in the generation up to 47 per cent. of electricity consumed in the EU);
- to increase in EU wide energy efficiency by at least 32.5 per cent. by 2030; and
- to achieve 10 per cent. electricity interconnection by 2020.

In July 2015, the Commission proposed to revise the EU Emission Trading Scheme (the "**EU 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 and began operating in January 2019.

On 30 November 2016, the Commission submitted a set of proposals known as "Clean Energy for All Europeans" package ("**EU Clean Energy Package**") which updated the current "Third Energy Package", in order to provide for a stable legislative framework, necessary for the clean energy transition. The EU Clean Energy Package includes eight different legislative acts related to energy efficiency, renewable energy, energy performance in buildings, and modern design for the internal electricity market. It is worth to mention, that part of EU Clean Energy Package entered into force as of 24 December 2018⁷. On 26 March 2019, the European Parliament approved the remaining rules for internal market in electricity and its governance⁸. Regarding legal changes in electricity sector, it is foreseen that the new rules would be transposed into national legislations by 31 December 2020. In general, these new rules provide consumer centric approach to energy sector, aiming to place consumers at the centre of the energy transition – in terms of giving them more choice, strengthening their rights, and enabling everyone to participate in the transition themselves by producing their own renewable energy and feeding it into the grid. In addition, the EU Clean Energy Package sets the EU energy efficiency and renewable energy ambitions for the 2030 horizon. It also updates the rules that governs the functioning of the internal electricity market and the transmission and distribution grids. The EU Clean Energy Package implements major market changes through the increased use of renewable resources and the development of new technology within the EU. The new rules also reflect the EU's ambitions towards a climate-neutral economy by the end of 2050 while maintaining a framework for economic growth and competitiveness.

The legislative framework of the EU ETS for the 2021 to 2030 trading period was revised in 2018 to enable it to achieve the targets set out in the EU's 2030 energy efficiency targets and as part of the EU's contribution to the Paris Agreement (signed on 22 April 2016). The revision focuses on:

- strengthening the EU ETS as an investment driver by increasing the pace of annual reductions in allowances to 2.2 per cent. as of 2021 and reinforcing the market stability reserve;
- continuing the free allocation of allowances as a safeguard for the international competitiveness of industrial sectors at risk of carbon leakage, while ensuring that the rules for determining free allocation are focused and reflect technological progress; and
- helping industry and the power sector to meet the innovation and investment challenges of the low-carbon transition via several low-carbon funding mechanisms.

(c) *Cross-Border Trading of Electricity*

The EU Regulation on Cross-Border Exchanges established the rules designed to alleviate cross-border exchange difficulties, with a view to improving competition and harmonisation in the internal EU electricity market.

The EU 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 and the systems where those flows end. Charges for access to networks are applied by operators as well.

⁷ The revised Renewable Energy Directive (EU) 2018/2001, the revised Energy Efficiency Directive (EU) 2018/2002, the new Governance Regulation (EU) 2018/1999, Energy Performance of Building Directive.

⁸ Electricity Directive (EU) 2019/944; Electricity Regulation (EU) 2019/943; Risk-Preparedness Regulation (EU) 2019/941; Regulation for the Agency for the Cooperation of Energy Regulators (ACER) (EU) 2019/942.

2.2 Current EU Energy Infrastructure Legislation

(a) 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 EU 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 EU Natural Gas Transmission Regulation which was adopted as a part of the EU Energy and Climate Change Policy.

(b) Security of Electricity Supply and Gas Supply

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 now integrated with the redesign of the electricity market as was proposed by the Commission on 23 February 2017 in the proposal for a Regulation of the European Parliament and of the Council on the EU internal market for electricity. Following the proposal of the Commission Regulation (EU) 2019/943 was adopted as part of the EU Clean Energy Package.

The Regulation (EU) No. 2019/941 ensures that all Member States put in place appropriate tools to prevent, prepare for and manage electricity crisis situations. This regulation was also adopted as part of the EU Clean Energy Package.

On 25 October 2017, Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply was adopted.

(c) 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 EU 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.

(d) Renewable Energy Sources

The EU 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 EU. To this end, in 2009 the EU institutions adopted Directive 2009/28/EC on the Promotion of the Use of Energy from Renewable Sources (the "**EU Renewable Energy Directive**") as a part of the EU Energy and Climate Change Legislation.

The EU 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 EU as a whole.

On 30 November 2016, the Commission launched the EU Clean Energy Package, including a recast of the EU Renewable Energy Directive, in order to drive progress in meeting the goals of the Paris Agreement and the 2030 EU Climate and Energy Framework, which was amended in 2018, in particular the binding target across the EU of at least 32 per cent. share of renewable energy sources in final energy

consumption by 2030. Interinstitutional trilogue negotiations took place in 2019, the directive was adopted and will enter into force in 2021.

(e) *EU Emissions Trading Scheme*

The EU ETS is a cornerstone of the EU's policy to combat climate change and its key tool for reducing industrial greenhouse gas emissions in a cost efficient manner.

The first, and still by far the largest, international system for trading greenhouse gas emission allowances, the EU ETS covers more than 11,000 power stations and industrial plants in 31 countries, as well as airlines. In 2020, emissions from these sectors covered by the EU 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 EU 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 is 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 EU wide cap on emissions applies in place of the previous system of national caps. This cap decreases each year by a linear reduction factor of 1.74 per cent. of the average total quantity of allowances issued annually between 2008 to 2012. 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 EU-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.

In February 2018, the European Parliament and the Council revised the EU ETS Directive to adapt to the IV phase which will start in 2021. For phase IV, the overall number of emission allowances will decline at an annual rate of 2.2 per cent.

(f) *Energy Efficiency Directive*

On October 25 2012, the EU adopted the Energy Efficiency Directive amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC, building on the Energy Efficiency Plan 2011. This Directive establishes a common framework of measures for the promotion of energy efficiency within the EU in order to achieve the EU 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 Energy Efficiency Directive was transposed in the Republic of Lithuania's national legislation.

On 11 December 2018, the EU adopted Directive (EU) 2018/2002 amending Directive 2012/27/EU on Energy efficiency. This Directive establishes a common framework of measures to promote energy efficiency within the EU in order to ensure that the EU's 2030 headline targets on energy efficiency of at least 32.5 per cent. are met and paves the way for further energy efficiency improvements beyond those dates. Amendments to the Law on energy efficiency of the Republic of Lithuania (implementing the Directive) come into force on 26 June 2020.

(g) *Greenhouse Gas*

The EU Energy Strategy, which is in line with the Paris Agreement, establishes a number of headline targets for climate change and energy sustainability pertaining to the main targets of a 20 per cent. reduction in EU 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 (published in 2012) sets out the action plan for its implementation and defines measurable indicators for greenhouse gas reduction. As indicated above, it estimates the annual reduction of CO₂ equivalent emissions and the total reduction

for the year 2020 as short-term climate change mitigation goals and also establishes a target that CO₂ emissions would not exceed 8.53 million tons by 2020 within the sectors participating in the scheme for greenhouse gas emission allowance trading.

On 30 December 2019, the Government of the Republic of Lithuania approved the National Energy and Climate Plan for the period 2021 to 2030, laying down Lithuania's ambitions to combat climate change. According to the plan the planned measures will require approximately EUR 14 billion of investment, with approximately EUR 9.8 billion coming from public funds. Overall, it is foreseen that by 2030 the CO₂ equivalent emissions shall be reduced by 9 per cent. (compared to 2005), for non ECS sectors energy intensity shall be brought down by at least 1.5 times (compared to 2017), and the share of renewable energy sources in the energy mix shall be increased to 45 per cent.

Additionally, the Operational Programme for EU Structural Funds Investments for 2014 to 2020 for the Republic of Lithuania sets goals for the reduction of total annual greenhouse gas emissions.

(h) *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 REMIT and its implementing acts provided in Commission Implementing Regulation (EU) No 1348/2014, 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 EU also enacted the Market Abuse Regulation to detect and prevent market manipulation and insider dealing on markets with emissions allowances (including public markets and auctions of emission allowances). 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 were set by the Commission as follows:

- the minimum threshold of CO₂ equivalent shall be 6 million tonnes a year; and
- the minimum threshold of rated thermal input shall be 2,430 MW.

The above thresholds are applicable at group level and relate to all businesses owned or controlled by the group parent company.

2.3 **Current energy regulation of the Republic of Lithuania**

(a) *General Overview*

The Lithuanian energy sector is governed by a wide range of laws and regulations which also implement the European legislation described in this Part 7 ("*Regulation*"). The key legislation for the energy sector is the Law on Energy of the Republic of Lithuania (the "**Law on Energy**") which implements applicable EU 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: the Law on Energy from Renewable Sources; the Law on Electricity; the Law on Energy Market Resources; the Law on Heat Sector; the Law on Financial Instruments for Climate Change

Management; the Law on Natural Gas; the Law on Liquefied Natural Gas Terminal; and secondary legislation which provides a framework for procedural aspects of the implementation of the Law on Energy and other laws.

The main governing institutions in the Lithuanian energy market are: the Government, the Ministry of Energy, the NERC, and the Ministry of Environment.

(b) *Electricity Sector*

Licensing Regime

In the electricity sector the following activities are licensed (licences are issued by the NERC): transmission, distribution, and public supply. A public supply of electricity is carried out on the basis of legal obligation, in particular if a household consumer has not chosen the electricity supplier or such supplier does not provide services, the electricity supply is guaranteed by the public supplier. The function of public supplier is currently performed by IGN. A supply of last resort of electricity for the rest of consumers (after liberalisation including the household consumers) if they have not chosen the electricity supplier or such supplier does not provide such services, it is performed by the distribution system operator. Currently, this function of supply of last resort is performed by the state-owned company ESO which is also the DSO of electricity and natural gas. 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. Persons, wishing to get, change, specify, stop or cancel certain licences must submit an application to the NERC and follow other requirements defined in the licensing rules for activities in the electricity sector.

(c) *Electricity Generation*

Authorisation to develop Power Plants

If a company wishes to construct a power plant with an installed electricity generation capacity, it must obtain an authorisation to develop a power plant from the NERC. The developer of the power plant must obtain use rights with regards to the land where the power plant and the related infrastructure are planned to be located. Alongside the request submitted to the NERC, the company might be required to provide an environmental impact assessment report or conduct the screening of the environmental impact assessment, health impact assessment (depending on the planned capacities), and the grid connection conditions received from the TSO or DSO. The authorisation to develop a power plant is valid for 36 months with possible extensions for up to six months and up to two times in the following circumstances: (i) unlimited number of extensions in case the planned works are late due to the actions of the State or a third party or force majeure events; and (ii) one extension in case at least 50 per cent. of the works have been completed. The procedure is simplified depending on the capacity of the facility. An authorisation is not necessary if a person intends to construct or develop the power plant facility with a capacity not exceeding 30 kW to produce electricity for private use (i.e. without electricity supply to the electricity grid).

A construction permit for the construction of power plant might be required (deepening on the capacities). Such permits are issued by the director of municipal administration.

Authorisations to operate a power plant

The power plan can be operated for the production of electricity after receipt of the generation permit issued by the NERC. Generation permits are without a term.

A generation permit is issued in case: (i) the construction or re-construction works have been finished and comply with the applicable requirements (if necessary according legal requirements); (ii) the generation installations have been tested and deemed suitable for operation; and (iii) the owner has undertaken in writing to demolish or deconstruct the generation installations if the NERC revokes the generation permit.

In addition to that, development of Lithuania's capacity mechanism concept began in 2019. Currently, preparation of upcoming new version of the Law on Electricity, new capacity market rules and other

relevant legislation is ongoing and are expected to be finalised and adopted in 2020. The capacity mechanism will enable development of reliably available, flexible and fast-starting power generation. New capacities, which will be selected by the way of auction, will be developed in order to ensure smooth integration of renewable energy sources and contribute to further development of the ancillary services market. Pre-notification discussions with the Commission have already started in this regard and a formal CRM notification process with the Commission is expected to be completed in 2020.

(d) *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 to 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 EU 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 to 2050 and the Plan of Measures for its Implementation have been adopted by the Republic of Lithuania.

(e) *Emission Limits*

Pursuant to Decree No. D1-528 of the Minister of Environment dated 15 July 2013, which implemented EU Directive 2010/75/EC on industrial emissions (on Integrated Pollution Prevention and Control) (the "**Industrial Emissions Directive**") the Republic of Lithuania, as a Member State must impose more stringent NOX, sulphur dioxide and dust emission limits on large 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 EU. 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 the Industrial Emissions Directive on industrial emissions. The first proposal has been enacted as EU Directive 2016/2284 and had to be transposed by Member States into national legislation by 1 July 2018, and the second proposal has been enacted as EU Directive 2015/2193 and had to be implemented by Member States by 19 December 2017. EU Directive 2015/2193 was transposed in the Republic of Lithuania by Decree No. D1-778 of the Minister of Environment dated 18 September 2017 which foresees gradual increase in emission reduction requirements for medium combustion plants. EU Directive 2016/2284 was transposed in the Republic of Lithuania by Decision No. 371 of the Government dated 17 April 2019.

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. 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, Vilnius Combined Heat and Power Plant No. 2, Vilnius Combined Heat and Power Plant No. 3, Vilnius Ateities District Boiler House No. 8, Alytus District Boiler House and Marijampolė District Boiler House of Marijampolės Šiluma.

The Commission evaluated the Republic of 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.

(f) *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 to 2012 and (2) the 2020 targets for emissions not covered by the EU ETS.

Under the Kyoto Protocol, the emission reduction target for Lithuania for the period 2008 to 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

EU 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 EU ETS, which began on 1 January 2013. Phase III introduced significant changes of the EU 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, EU Member States no longer submit their national allocation plans for approval. In their place, the Commission set a single EU 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 EU ETS market. From 2013, more than 40 per cent. of the emissions allowances are to be sold through auctions and this proportion is progressively increasing.

There is an option for 10 EU Member States to provide electricity producers with transitional allocations of emissions allowances for free, if the conditions under Article 10(c) of the EU Directive 2003/87/EC, Establishing a Scheme for Greenhouse Gas Emission Allowance Trading within the Community and amending Council Directive 96/61/EC are satisfied. The EU 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 will continue further into the phase IV, after 2020, pursuant to EU Directive 2018/410 amendments.

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 EU ETS market, the Commission decided, in February 2014, to decrease the amount of the emissions allowance that were supposed to be auctioned in 2014, 2015 and 2016 by 400, 300 and 200 million of the emissions allowances, respectively. According to EU decision of the European Parliament and of the Council in October 2015, allowances which have not been auctioned in 2014, 2015 and 2016 were transferred to a market stability reserve that has operated since January 2019. The reserve addresses both the surplus of emission allowances and improves 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 European Parliament, the European Council and the Commission. Discussions are currently being held in the European Parliament and the Council on temporarily doubling the rate at which allowances will be placed in the reserve. On 15 May 2018, the Commission reduced emission allowances to be auctioned by 265 million for the first 8 months of 2019. On 15 May 2019, the Commission decided to reduce auction volume from September 2019 to August 2020 by 397 million allowances, corresponding to 24 per cent. of the total number of allowances in circulation.

(g) *Renewable Energy Sources*

On 10 January 2007, the Commission launched its Climate and Energy Package for the EU to achieve a 20 per cent. reduction in greenhouse gas emissions by 2020. Based on the EU Renewable Energy Directive, the Republic of Lithuania has undertaken to increase the share of 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 38 per cent. of national consumption by 2025, to increase the share of centrally supplied heat energy produced from RES by up to at least 70 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 by 2020.

Technology Neutral Auctions

In Lithuania, a new support scheme for renewable energy technologies was introduced in the end of 2018. According to the new Lithuanian Law on Energy from Renewable Sources, which became effective as of 1 May 2019, support for RES producers is allocated by way of auctions. Such auctions are based on neutral technology principle in combination with a price premium promotion model. The key criteria which determines new auction winners is the smallest premium offered to the electricity market price in the Nord Pool Exchange that will be paid for the period of 12 years.

According to the legislation, production of electricity from RES shall be promoted by paying the producer, in accordance with the procedure established by the Government:

- a price premium won at the auction, where the sum of the hourly trade price of electricity on the power exchange in the Lithuanian zone for the next day and the price premium won at the auction is lower than or equal to the highest price set by the NERC; and
- a portion of the price premium won at the auction, which is calculated as the difference between the highest price set by the NERC and the hourly trade price of electricity on the power exchange in the Lithuanian zone for the next day, which may not be higher than the price premium won at the auction, where the sum of the hourly trade price of electricity on the power exchange in the Lithuanian zone for the next day and the price premium won at the auction is higher than the highest price set by the NERC.

The new model includes ceilings for the premiums paid thus aiming that RES producers are not overpaid if electricity market prices change, i.e. "maximum price" is set by the NERC to avoid overpayment. The new support model aims to integrate electricity producers that use RES into the market and, therefore, such producers are obliged to sell electricity on the market. Such producers are also responsible and cover all the balancing (exemptions apply for smaller power plants less than 500kW and electricity grid connection costs.

On 2 September 2019 the NERC announced the first auction for distributing the quota of 0.3 TWh. In order to participate in the auction, the developers had to sign a Letter of Intent with the NERC, to, amongst other things, provide the security of obligations (the amount is calculated by multiplying the capacity of the planned power plant (kW) by EUR 15 per 1 kW) and correspond legal requirements applicable to developers. The foreign (EU) producers who want to participate in an auction and build power plant in their home states can participate in the auction provided that: (i) there is a direct electricity interconnection between Lithuania and home state of the foreign producer and (ii) there is an agreement concluded between Lithuania and home state of the foreign producer.

Three more auctions shall take place in 2020 to 2022; one each year. It is expected to distribute 0.7 TWh of electricity by each auction. One of the auctions was announced on 29 May 2020, other auctions are expected to take place on 6 April 2021 and 19 April 2022.

Producing Customers

Other measures promoting renewable resources are being actively implemented as well. On 1 October 2019, major amendments to the Law on Energy from Renewable Sources concerning producing customers entered into force. These amendments significantly expanded producing customers' operational capabilities by increasing the potential capacity of renewable installations, expanding the total power of the power plants of producing customers and, among others, introducing the concept of remote customer. The remote customer (natural or legal person) may have a power plant and produce electricity in one place and use it in another. The power plants of producing customers may be constructed, installed and operated by other persons authorised to develop electricity generating capacity and to produce electricity. The newly adopted (on 28 April 2020) amendments to the Law on Electricity improve the conditions for the power purchase agreements and development of renewable energy. The amendments provide for the concept of a purchase agreements of renewable electricity, as well as the possibility for the customer to purchase electricity directly from the producer of renewable electricity without a permit to independent electricity supply. The amendments also provide other measures to improve the position of producers of electricity, such as clear priority for the receipt and transmission of electricity through transmission and distribution grids, a comprehensive compensation mechanism in case of interruption or limitation of the transmission of generated electricity through no fault of the producer and more.

(h) *Transmission and Distribution of Electricity*

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 2.5 per cent. of shares owned by minority shareholders. EPSO-G, UAB is controlled by the Ministry of Energy.
- The distribution system operator ESO is a subsidiary of the Company, which owns 97.66 per cent. of the shares in ESO, with the remaining 2.34 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 2013, all customers (except household customers) have been free to choose (and change) electricity supplier and this market is fully liberalised.
- Public electricity supply, which is provided by IGN. Distribution system operator ESO, AB, ensures a supply of last resort 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: (i) electricity generators (producers); (ii) the transmission grid operator (Litgrid, AB); (iii) the distribution system operator (ESO); (iv) electricity traders; and (v) end-consumers.

Price of Electricity

The public electricity price and tariffs are set by the public supplier and approved by the NERC 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 price of the public supply service, the price of system services, VAT. The electricity purchase price is market based. By contrast, the transmission price is regulated by the NERC which sets upper price caps.

The PSO fee is paid for services which are in the public interest, as designed by the Government. According to the Law on Electricity 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 and balancing of electricity from RES produced by market participants operating power plant of less than 500 kW;
- the generation of electricity in a co-generation mode in combined power and heat generation plants when at least 10 per cent. of fuel (primary energy) is saved compared to separate comparable heat and electricity production, or fuel savings are achieved for a co-generation unit with an electrical capacity of less than 1 MW;
- 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 Lithuania;
- the development of electricity generation capacities that are strategically important for ensuring the security and reliability of the electricity system or energy independence of Lithuania;
- 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 Lithuania with the electricity systems of other Member States;
- operations to ensure the safe operation of technical instruments and the management of radioactive waste;
- optimisation, development and/or reconstruction of power networks implemented by the power network operators in order to ensure development of electricity production from RES.

The sale prices and reserve prices of the electricity producers and independent suppliers are not regulated except for cases when the NERC, 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 NERC could impose certain obligations. In 2019 the NERC has decided that GEN exercises a significant market in secondary active power reserve and tertiary active power reserve markets and imposed obligations on GEN to provide services at cost-based prices subject to reasonable returns on investments and obligations relating to cost accounting systems for provision of these services. Also, the NERC decided that prices for reserve power sold by GEN shall be determined by NERC.

Each year the transmission system operator determines the necessary amount of Isolated Regime Services and, taking into account the results of tertiary active power reserve auction, selects electricity

production units which shall provide this service for the next year based on the principle of the lowest total costs. In 2019, the transmission system operator announced that all electricity production units that meet the technical requirements established under the laws of the Republic of Lithuania will have to provide this service in 2020. The Law on Electricity stipulates that if all available electricity production units are selected for the provision of Isolated Regime Services, the price for the provision of these services becomes regulated by the NERC. Therefore, the NERC has determined price caps all electricity production units which shall provide Isolated Regime Services in 2020.

The NERC supervises the energy sector on behalf of the Republic of Lithuania, publishes the public electricity price and tariffs and lists of public and independent suppliers.

The NERC, in accordance with the Methodology on the Rate of Return on Investments, approved by the NERC, publishes data on the calculation of the rate of return on investments. 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 to 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.

On 7 May 2020, the Parliament of the Republic of Lithuania adopted amendments which will result in the gradual liberalisation and deregulation of the public supply of electricity to household customers, to be implemented in three phases (in 2021, 2022 and 2023, respectively). The law is in force from 1 June 2020. As a result, the state regulation of electricity prices for household consumers may be phased out in the near future. The Company believes the liberalisation of the electricity supply to household customers should not have a material long-term impact on the Group's financial results. For further information please see paragraph 2.6 of the section titled "*Risk Factors*".

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 AS, an operator of the Nordic and Baltic electricity exchanges. It should be noted that on 31 May 2018 the NERC approved the offer received from the Baltic States transmission operators for operation of more than one electricity exchange operator in the Baltic States. Therefore, it opened the way for Epex Spot (which previously expressed its interest) and other power exchanges to enter the Lithuanian market.

Heating Energy Sector

The main legal acts regulating the heating energy sector are the Law on Heat Sector and the National Heat Sector Development Programme for 2015 to 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. The Republic of 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 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. 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.

The activities of all heat suppliers are regulated by the energy market regulator, i.e. the NERC. The NERC 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 EU 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 NERC and may set heat prices at their own discretion.

The NERC 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 NERC with a justification for their prices, which are to be approved by the NERC.

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 to 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 NERC. In many cases, the NERC 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 NERC 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: (i) suppliers of district heating; (ii) non-regulated independent heat producers; (iii) regulated independent heat producers; and (iv) end-consumers.

Heat Auctions

From 1 December 2018 new rules on heat auctions came into effect. According to the new rules, the amount of heat purchased from independent heat producers and/or generated by heat facilities of the heat suppliers are determined under the heat auction organised by the energy exchange operator.

Heat suppliers and independent heat producers participate in the heat auction organised by the energy exchange operator and submit proposals for the heat production and/or purchase and, having won the auction, in accordance with the auction results produce and/or sell the amount of heat at the price indicated in the offer. The lack of heat that was not purchased through the heat auction, the heat supplier produces by available heat production facilities.

In all cases, heat is produced and/or purchased at a price not higher than the comparable heat production costs of the heat supplier calculated under the requirements set by the NERC.

(i) *Gas Sector*

The natural gas sector is governed by the EU Energy Regulation and, in particular, by the Third Energy Package which has been transposed into the Law on Natural Gas and the Law on the LNG Terminal of the Republic of Lithuania. The Republic of 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 regulated in the natural gas sector (licences are issued by the NERC) as follows: natural gas transmission; natural gas distribution; natural gas storage; LNG regasification; and natural gas market operation.

The licences are issued for an unlimited period of time. The NERC issues licences pursuant to the same security, reliability and non-discriminatory principles as applicable to the licensing regime for the electricity sector (see paragraph 2.3(b) of this Part 7 ("*Regulation*"). The activity of natural gas supply (except trading in natural gas exchange and gas stations) are considered to be regulated by permissions, instead of being a licensed activity. Trading in natural gas exchange and gas stations is not regulated by permissions or licences.

Transmission and Distribution of Gas

The Lithuanian natural gas market has interconnection with the Baltic States and Finland, but is not integrated with other EU Member States. Lithuania has the main connection with Belarus which is used for constant supplies. The connection with Latvia is used for trading with the rest of Baltic States and Finland and also is used for emergency cases, i.e. ensuring uninterrupted gas supply in the event of a supply failure in the sole gas connection with Belarus. The existing gas connection with Belarus has sufficient technical capacities to meet customer needs, but dependency on the single connection is not ideal, however the liquidity is compensated through the LNG terminal.

Lithuania does not have its own natural gas resources. Gas used to be imported to Lithuania by a single importer, OAO Gazprom. 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.

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 sets forth activities and operation of the LNG Terminal, and establishing the legal, financial and organisational conditions for the implementation of the LNG Terminal project. The designated supply obligations to provide mandatory baseload LNG deliveries to LNG Terminal ensured that the LNG Terminal is in operation at all times. 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 NERC 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, now IGN) 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 by a designated supplier in supplying the mandatory quantity of gas from the LNG Terminal are also included in the natural gas transmission price as a supplemental element of natural gas supply security.

After the construction of the LNG Terminal was finished, negotiations with Norwegian energy company Equinor ASA (previously Statoil ASA) were completed and a five-year LNG supply contract for the supply of the mandatory quantity of gas was signed by LITGAS, the designated supplier, in August 2014. In 2016, the LNG supply contract with Equinor ASA (previously Statoil ASA) was renegotiated and extended to 2024. Equinor 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. Until 2019, the designated supplier was obliged to sell the mandatory quantity of gas to regulated energy consumers in Lithuania for the regulated price set by NERC. In December 2018, the Parliament of the

Republic of Lithuania adopted the amendment of the Law on the LNG Terminal by which from 2024 Lithuania will secure LNG supply by acquiring an LNG storage vessel. In addition to that, such amendment enabled spreading the operating costs of LNG terminal evenly over the planned period of the LNG terminal operation, instead of over the LNG storage vessel lease period of 10 years. The amendment also allowed the designated supplier to be compensated for any price differences between the LNG supply contract and local gas market import prices, technical losses that exceed the losses of other terminal users and financial costs associated with the long-term LNG supply contract. The amendment removed the requirement to sell mandatory quantity of gas to regulated energy consumers and allowed designated suppliers to sell gas to all market participants at an unregulated price.

The Law on the LNG Terminal also sets out the volumes of annual mandatory baseload LNG deliveries approved by the Government that ensure uninterrupted operation of the LNG Terminal. The volumes for the period between 2021 to 2024 are expected, but not guaranteed, to be consistent with the volume for 2015 to 2020 (volume of four conventional LNG cargoes per year) and a decision confirming this is expected to be announced in 2020.

Current Structure

Following the implementation of the applicable EU 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 the Republic 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, UAB Lietuvos duju tiekimas, 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 Company which holds 97.66 per cent. of its shares, with minority shareholders holding the remaining 2.34 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;
- GET Baltic 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; and
- from the beginning of 2020, the regional Gas Exchange (GET Baltic) operating in the Lithuanian, Latvian and Estonian markets, has successfully launched new market in Finland and has become a single regional trading platform for a Baltic – Finnish gas market.

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 NERC. In the natural gas sector, prices are regulated by setting price caps for

transmission, liquefaction, storage, distribution, and supply of last resort. By setting the exact service prices in the natural gas sector, the NERC regulates natural gas system balancing prices as well as the prices for the connection of new customers to the gas system. The NERC sets the price caps for a five-year term. The prices may be adjusted by the NERC, but no more than once per year except in cases provided for by the Law on Natural Gas. The law stipulates that gas undertakings must set their specific gas tariffs for household customers for a period of six months. Gas supply prices for business consumers are unregulated.

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 NERC 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.

In 2018 and 2019, the NERC has changed the Methodology for Setting State-Regulated Prices in the Natural Gas Sector, by separating from it the Methodology for Setting the Revenues and Prices of the State-Regulated Natural Gas Transmission Activities. Both methodologies determine the price regulation by establishing a revenue cap and applying an incentive regulation mechanism.

The NERC 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.

(j) *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 Lithuania to ensure a healthy and clean environment, the rational use of natural resources in 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

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. 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.

The 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.

General Liability

Under the legislation of the Republic of Lithuania and the EU, liability can be administrative, criminal and civil depending on the damage to the environment. Liability for environmental damage can also be incurred under EU environmental law. In 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 EU 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 EU 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. This principle is fully and properly implemented in Lithuania. One of the main legal acts of the Republic of Lithuania implementing the "polluter pays" principle is the Law on Pollution Tax of the Republic of Lithuania. It stipulates that the taxes relating to environmental pollution from mobile and stationary polluting sources must be paid by natural and legal persons that pollute the environment as a result of their economic and/or commercial activities.

Criminal Liability towards the Republic of Lithuania

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 (e.g. illegal possession of ozone-depleting substances or marine pollution from ships). As previously mentioned, criminal liability applies to both natural and legal persons.

Civil Liability towards a Third Party

As mentioned above, EU 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 Republic of Lithuania

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 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 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 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 10 to EUR 6,000. 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 forfeit of assets as well as restriction or suspension of the licences required to pursue some economic activities which have an environmental impact in Lithuania.

(k) *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 2025. 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 (2025) and inland ports (2030), and LNG refuelling points should sustain heavy-vehicle road transport along the TEN-T core network (refuelling points approximately 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 (approximately every 150 km) to support CNG vehicles across the EU. 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. The provisions of the Directive are properly transposed into Lithuanian legislation.

2.4 **Waste Management**

EU 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 2035. The Government's target is to reduce landfill waste to a maximum of 5 per cent. of municipal waste by 2030. Scandinavian practice is even more ambitious than that – zero waste to landfill. In 2014, Lithuania landfilled approximately 60 per cent. of municipal waste. The average landfilling rate in the EU was only 27.5 per cent. in 2014.

In this context, the Republic of Lithuania needs to develop and manage the necessary infrastructure for the public interests in order to attain the EU waste management goals and avoid possible liability of the Republic of Lithuania for failure to achieve the predefined reduction targets. The Commission promotes energy recovery from proper waste management and contribution to the EU 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.

(a) *Waste Hierarchy Principle*

The Law on Waste Management provides the basic terms and definitions related to waste management, such as the definitions of waste, recycling and recovery. In addition, the State Waste Management Plan for 2014 – 2020 adopted by the Government, establishes strategic state and municipal waste management objectives, tasks and tools, as well as the principal direction of national and EU level subsidies.

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.

(b) *Requirements and Limitations for Waste-to – Energy 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 energy recovery 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, however on 18 February 2020, the Constitutional Court of the Republic of Lithuania recognised that provision of the Law on Waste Management of the Republic of Lithuania in so far as it provides that the extent to which the Government of the Republic of Lithuania is instructed to establish criteria for recognising as objects of national importance waste management facilities in which municipal waste with energy value unsuitable for energy may be used or planned to be used as fuel for energy production, contradicts with the Clauses 1 and 3 of Article 46 of Constitution of the Republic of Lithuania.

In May 2014, the Government acknowledged that Vilnius and Kaunas CHP waste-to-energy projects developed by Group companies have national economic significance to the Republic of Lithuania, so this decision is valid as it was adopted before the decision of the Constitutional Court of the Republic of Lithuania.

PART 8 – RELATIONSHIP WITH THE PRINCIPAL SHAREHOLDER AND RELATED PARTY TRANSACTIONS

1. THE PRINCIPAL SHAREHOLDER

As at the date of this Document, the Republic of Lithuania, through the Ministry of Finance of the Republic of Lithuania, is the sole shareholder of the Company, which is the parent company of the Group. The management of the shareholding is carried out in accordance with the Law on Companies and the Description of the Procedure for the Execution of the State's Property and Non-property Rights in State-Owned Enterprises, effective from 6 June 2012 by Resolution No. 665 of the Government of the Republic of Lithuania and the Articles of Association.

Pursuant to Resolution No. 631 of the Government of the Republic of Lithuania of 17 June 2015, at least half of the members of the Supervisory Board must be independent members. The independent members of the Supervisory Board are to be appointed by the shareholders of the Company in general meeting. For so long as the Principal Shareholder holds more than 50 per cent. of the Shares, it will have the right pursuant to the Law on Companies and the Law on the Management, Use and Disposal of Assets owned by the State and Municipality, to appoint the remaining members of the Supervisory Board. The Company's Supervisory Board comprises seven members, two of whom are nominated by the Ministry of Finance and represent the Principal Shareholder and five of whom are independent members. The Chairman of the Supervisory Board is independent and, in the case of a deadlock of votes, has the casting vote. Accordingly, the Principal Shareholder cannot make unilateral decisions through its members nominated to the Supervisory Board. All members of the Supervisory Board are elected for a term of four years by the General Meeting. Please see paragraph 2 of Part 6 ("*Management and Corporate Governance*").

The Principal Shareholder currently holds 100 per cent. of the issued share capital of the Company. The Principal Shareholder exercises its voting rights through the Ministry of Finance. It does not have different voting rights attached to the Shares it holds in the Company. Certain activities planned by the Group, including mergers and acquisitions, establishment of new legal entities by the Company (but not Group subsidiaries), reorganisations or equity injections into the Group's principal subsidiaries and dividends require the approval of the Principal Shareholder. Additional prior approval of the Government of the Republic of Lithuania is required for certain matters, including decisions to increase share capital of the Company by additional contributions of the shareholders (as long as the state owns at least 50 per cent. of voting rights in the Company), liquidate or cancel liquidation of the Company, reorganise the Company or change its legal form (as long as the State owns at least $\frac{2}{3}$ of votes).

Pursuant to Resolution No. 665 of the Government of the Republic of Lithuania of 6 June 2012, the Principal Shareholder shall, at least every four years, prepare and submit to the Company a "Letter of Expectations" regarding the objectives pursued by the Principal Shareholder in relation to the Company and the Principal Shareholder's expectations of, among other matters, the Group's performance and other financial matters.

The Company is a significant contributor to the Republic of Lithuania's budget among state-controlled companies in Lithuania. For information relating to dividend payments made by the Company in recent years, see paragraph 2 of Part 1 ("*Dividend Policy*").

The ability of the Government to support the Company and the Group through subsidies, loans, capital or other financial injection is restricted by, and subject to, the relevant EU rules regarding state-aid. In 2014 the Company 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 Principal Shareholder to do this. For further information regarding the risks associated with the Company's relationship with the Principal Shareholder, see paragraph 5.4 of the section titled "*Risk Factors*".

2. RELATED PARTY TRANSACTIONS

The relationships between the Group and its related parties, identified according to the principles of International Accounting Standard 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 21 of the Interim Financial Information for information

on the Group's related party transactions conducted in the six-month period ended 30 June 2020, Note 41 of the 2019 Financial Statements for information on the Group's related party transactions conducted in the year ended 31 December 2019, and Note 39 of the 2018 and 2017 Restated Financial Statements for information on the Group's related party transactions conducted in the year ended 31 December 2018 and 2017. During the period since 1 July 2020 and up to the Latest Practicable Date, the Company and other members of the Group entered into regular business transactions with other state-owned entities, which are considered as related parties of the Group as the sole shareholder of the Company is the Republic of Lithuania represented by the Ministry of Finance. Please see Note 21 of the Interim Financial Information for further information on the identity of the relevant entities.

The Group's transactions with its related parties are regulated by the 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 Management Board or Supervisory Board (and persons close to such members).

As the sole shareholder of the Company 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.

**PART 9 – DESCRIPTION OF THE SHARE CAPITAL OF THE COMPANY AND
APPLICABLE LITHUANIAN LEGISLATION**

1. INCORPORATION

- 1.1 The legal and commercial name of the Company is AB "Ignitis grupė".
- 1.2 The Company is organised in accordance with the Law on Companies in the form of a public limited liability company (in Lithuanian: akcinė bendrovė), and is registered with the State Register of Legal Entities under code 301844044. It was incorporated in the Republic of Lithuania on 28 August 2008. The Company's corporate seat is in Vilnius, its registered office at Žvejų str. 14, LT-09310 Vilnius, Republic of Lithuania. The Company's telephone number is +370 5 278 2998 and its Legal Entity Identifier is 5493005RZJHJT5PNHY10.
- 1.3 The Company's website is <https://ignitisgrupe.lt/>. The Company's website, the contents of any website accessible from hyperlinks on the Company's website or any other website referred to in this Document are not incorporated into, and do not form part of, this Document.
- 1.4 The principal laws and legislation under which the Company operates and the Shares have been created are the Civil Code of the Republic of Lithuania, the Law on Companies and the Law on Securities.
- 1.5 The principal activity of the Company is to act as the ultimate holding company of the Group.

2. SHARE CAPITAL

- 2.1 As at the date of this Document, the issued share capital of the Company is equal to EUR 1,212,156,293.81, divided into 54,283,757 ordinary registered Shares with a par value of EUR 22.33 each, all of which are fully paid-up. There have been no changes to the Company's share capital during the period covered by the Financial Statements. Since 30 June 2020, the following changes have been made to the Company's share capital:
- on 26 August 2020, the Principal Shareholder adopted a decision to change the nominal value of the Shares from EUR 0.29 to EUR 22.33. The change of the nominal value and the number of shares became effective on 31 August 2020, being the date of registration of the new version of the Articles of Association in the Register of Legal Entities. Following the change of the nominal value, the authorised capital is divided into 54,283,757 Shares (previously 4,179,849,289 Shares). No change was made to the amount of the Company's authorised capital (EUR 1,212,156,293.81).
- 2.2 The Shares are denominated in euro.
- 2.3 As at the Latest Practicable Date:
- (a) no share of the Company has, since the incorporation of the Company, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;
 - (b) the Company has no convertible securities, exchangeable securities or securities with warranties in issue;
 - (c) no share capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option; and
 - (d) the Company has no shares of its own, held by itself or which are held on its behalf or which are held by its subsidiaries.

3. MAJOR SHAREHOLDERS

As of the date of this Document, the Republic of Lithuania is the sole shareholder of the Company, holding 54,283,757 Shares.

4. SUMMARY OF RIGHTS ATTACHING TO SHARES

All the Shares form a single class of shares in the Company and rank *pari passu* with regard to the proprietary and non-proprietary rights they grant to shareholders.

The exercise of rights attaching to the Shares may be limited only on the grounds and under the procedure prescribed by laws. The Articles of Association do not provide for any exceptions to this rule.

There are no redemption or conversion provisions as, under Lithuanian law, the Shares are not redeemable other than upon winding-up after repayment of all obligations.

The proprietary rights (including the right to (a) receive a dividend, (b) receive the Company's funds when the capital of the Company is reduced, (c) receive shares without payment and (d) have the pre-emption right in acquiring the shares or convertible debentures issued by the Company), which are determined by a decision of the General Meeting, are held by the persons who were shareholders of the Company at the close of the tenth business day after the General Meeting at which the decision was taken to grant such rights.

For a list of the shareholders' rights set out in the Articles of Association, see paragraph 5 of this Part 9 ("*Description of the Share Capital of the Company and Applicable Lithuanian Legislation*"). Below is the brief description of certain material rights granted to the Company's shareholders.

4.1 Rights to dividend and other distributions

Pursuant to the Law on Companies, the Company may distribute its profits or assets to shareholders only (i) by paying dividend; (ii) in case of liquidation of the Company; or (iii) in case of reduction of the share capital of the Company. The persons, who were shareholders of the Company at the close of the tenth business day (the record date) after the General Meeting that took a relevant decision, shall have a right to receive the respective amounts.

(a) Dividend

A dividend is a share of profit allocated to a shareholder in proportion to the nominal value of shares owned by him/her/it. If a share is not fully paid-up and the time limit for the payment has not yet expired, a dividend will be reduced in proportion to the unpaid amount of the share price. If the share is not fully paid-up and the time limit for the payment has expired, no dividend is paid. According to the Law on Companies, dividends may be distributed only if the Company has distributable profit. For more information on dividends of the Company please also see paragraph 2 of Part 1 ("*Dividend Policy*").

(b) Distribution of the Company's assets in case of liquidation

In the event of liquidation of the Company, the Company's assets remaining after settlement of accounts with creditors are distributed to shareholders *pro rata* to the aggregate nominal value of shares held by them. In the case of voluntary liquidation of the Company, the Company's assets can be distributed among shareholders only after the Company settles accounts with its creditors and upon a lapse of two months after a public notice about liquidation made pursuant to requirements of the laws and notifying each creditor separately in writing or, alternatively, making three public announcements with intervals of not less than 30 days in between. In the case of disputes in court regarding fulfilment of the Company's debt obligations, the Company's assets are distributed among shareholders only upon final resolution of the disputes and settlement of accounts with creditors.

(c) Other cases of distribution of the Company's capital

The Company may distribute funds to its shareholders by reducing its share capital in accordance with the procedure set by the Law on Companies. The share capital may be reduced by way of annulment of shares or reduction of the nominal value of shares, but the reduced share capital of the Company may not be less than the minimum amount of the share capital provided for in the Law on Companies to public limited liability companies (i.e. EUR 25,000).

The decision to reduce the share capital with the purpose of paying funds to the shareholders may only be taken by the Annual General Meeting, provided that all of the following conditions are met: (i) the set of annual financial statements and the profit distribution account have been approved; (ii) following the

reduction of the share capital, the legal reserve of the Company will not be lower than one tenth of the Company's share capital; and (iii) no undistributed loss and long-term liabilities are recorded in the set of annual financial statements of the Company. The requirement regarding long-term liabilities shall not apply if all the creditors to which the Company has the long-term liabilities provide written consent to waive this condition.

The decision to reduce the share capital with the purpose of paying out the funds to its shareholders may not be taken if on the date of the decision the Company is insolvent or after the payment of funds would become insolvent. The funds must be paid within one month from the registration of the amended Articles of Association with the Register of Legal Entities. The funds are paid *pro rata* to the nominal value of shares held by each shareholder as at the close of the record date (tenth business day after the General Meeting that took a respective decision) and may only be paid in cash.

4.2 Pre-emptive right

Pursuant to the Law on Companies, the Company's share capital may be increased by a decision of shareholders at a general meeting and may be effected by (i) issuing additional shares; (ii) increasing the nominal value of existing shares; or (iii) issuing convertible bonds.

Increases in share capital by way of an issuance of additional shares may be implemented through the following: (i) in consideration for cash; (ii) in consideration for assets contributed in kind; (iii) by conversion of bonds previously issued; or (iv) from the Company's own funds (i.e. by capitalisation of profits or share premiums).

If the Company issues additional shares or convertible bonds other than from the Company's own funds, current shareholders will have a pre-emptive right to subscribe for such securities on a *pro rata* basis. The pre-emptive right requires that the Company offers the additional shares or convertible bonds to current shareholders in the first instance. The Company must announce the proposal to make a pre-emptive issue and announce the period in which current shareholders may exercise their pre-emption rights in the electronic publication for public notifications administered by the manager of the Register of Legal Entities. The time limit for a shareholder to acquire the securities on a pre-emptive basis may not be less than 14 days after the public announcement thereof by the Register of Legal Entities.

The requirement to comply with the pre-emptive rights of existing shareholders to subscribe for shares or convertible bonds of a certain issue may be disapplied by a decision of shareholders at a general meeting, who hold a 75 per cent. majority of the votes cast at the meeting. The pre-emptive rights can only be disapplied in respect of all the shareholders of the Company in connection with a particular issue. A written proposal to disapply the pre-emptive right to subscribe for securities must be given by the Management Board, indicating reasons and causes for such disapplication, substantiation of the issue price of the securities to be issued, as well as persons who would be offered to acquire the newly issued securities, including the number of the securities which may be acquired by each of the aforementioned persons. Shareholders, taking a decision on the disapplication of pre-emptive rights, must justify the decision to disapply such rights and specify the person or persons who are given the right to subscribe for the newly issued securities (including the number of the securities which may be acquired by each of the aforementioned persons), save for cases when the pre-emptive rights are disapplied because of the intention to make a public offering of securities of the Company under the procedure set by the Law on Securities, in which case it is not required to specify the person to whom the pre-emption right is granted.

The Company's share capital may be increased from the Company's own funds. In such case, the current shareholders are entitled to receive the new additional shares free of charge on a *pro rata* basis. Furthermore, the par value of all the Company's shares may be increased.

The pre-emptive right to acquire the shares or convertible bonds issued by the Company, as well as the right to receive shares free of charge in the case of the increase of the share capital from the Company's own funds, is granted to those shareholders of the Company at the end of the rights record date (i. e. the tenth business day following the day the respective decision was adopted by shareholders at a general meeting).

Furthermore, pursuant to applicable Lithuanian laws and a procedure established by the BoL, shareholders are entitled to transfer to other persons the pre-emptive right to acquire the Company's shares or convertible bonds that are to be newly issued.

4.3 Voting right and the right to participate at the General Meeting of Company's Shareholders

Pursuant to the Law on Companies and the Articles of Association, each Share of the Company confers one vote at the General Meeting. Only shareholders who have fully paid-up their shares are entitled to vote at the General Meeting. Persons, who were shareholders of the Company at the close of the relevant record date of the General Meeting, are entitled to attend and vote at the General Meeting or any adjournment thereof. The record date of the General Meeting of the Company is the fifth business day before the General Meeting or any adjournment thereof.

The shareholders may vote personally or through their proxies or persons with whom a voting rights transfer agreement is concluded. The shareholders may also vote in writing (by filling in the general ballot paper).

The shareholder does not have the right to vote on the decision regarding the disapplication of the pre-emptive rights to acquire securities newly issued by the Company, if according to the agenda of the General Meeting the right to acquire such securities, in the event of the disapplication of the pre-emptive rights, is to be granted to him or persons related to him.

4.4 Right to be informed

According to the legal provisions of the Republic of Lithuania, the Company must, at a shareholder's written request and within seven days from the receipt of the request, provide the shareholder with access to, or present to the shareholder, the Articles of Association, annual and interim financial statements, annual and interim reports, auditor's reports and audit reports of the financial statements, minutes of the General Meeting or other documents, which constitute the decisions of the General Meeting, comments and proposals of the Supervisory Board to the General Meetings, list of shareholders, lists of members of the Management Board and the Supervisory Board, other Company documents, which under the applicable laws must be public and copies of other documents as specified in the Articles of Association.

Only the shareholder of the Company, to whom the information and documents are necessary for the fulfilment of the statutory requirements, may review other information of the Company and receive copies of other documents, including commercially sensitive or confidential information and documents.

Commercially sensitive or confidential information and documents may be provided to the shareholder, only if the shareholder agrees to ensure the confidentiality of such information and documents.

The Company may refuse to provide information and documents to the shareholder if they are necessary for the fulfilment of statutory requirements, and there is a possibility to provide such information and documents directly to the institutions, to whom such information and documents would have to be provided in order to fulfil the statutory requirements. The Company shall refuse to provide copies of documents to the shareholder if the identity of the shareholder requesting the documents cannot be determined. The refusal to provide the shareholder with copies of documents or access to review such documents has to be provided in writing, if requested by the shareholder. Any disputes concerning the shareholder's right to information will be referred to a competent court of the Republic of Lithuania.

The Company's documents, copies thereof or other information shall be provided to shareholders free of charge, except if the Company incurs expenses for provision of documents or other information. In this case, the shareholder shall reimburse the costs incurred by the Company for the provision of documents and other information under the tariffs, approved by the Chief Executive Officer of the Company.

4.5 Challenging of Decisions

Decisions of the Company may be invalidated in court if they are in conflict with imperative rules of law, the incorporation documents of the Company or the principles of reasonability or fairness. A statement of claim may be filed by creditors of the Company, a member of the Management Board or Supervisory Board of the Company, the Chief Executive Officer, a shareholder or other persons specified in the law if the decision violates their rights or interests. Such claim may be filed in a competent court of the Republic of Lithuania within 30 days of the day on which a relevant person learnt or should have learnt about the challenged decision.

In addition, a shareholder may apply to the court for the compensation of damages caused by the members of the Management Board or the Chief Executive Officer by non-performance or improper performance of their duties prescribed by the laws of the Republic of Lithuania and the Articles of Association, as well as in other cases provided by laws.

4.6 **Description of certain obligations and restrictions attaching to the Shares**

(a) *Company's access to information on holders of Shares*

The Company has the right at any time to request the identification of the shareholders. This right may be exercised by making a request to an intermediary or the Nasdaq CSD. Information on shareholders identification shall include the following: (i) the name, surname, place of residence or address for correspondence of a natural person; the name, legal form, code and registered office of a legal person and the name, surname, residence or address for correspondence of the representative of the legal person; (ii) the number of Shares owned and, if the Company so requests, information on the Share classes or the date of acquisition; (iii) the e-mail address of the shareholder; (iv) the shareholder's unique identification code (if legal entity and has one); (v) the name (first name and surname) or unique identification code of the person authorised by the shareholder (i.e. proxy, if any).

(b) *Obligation to notify*

According to the Law on Securities, a person who acquires or disposes of the beneficial ownership in Shares as a result of which the proportion of its voting rights in the Company reaches or exceeds (in the case of acquisition) or no longer exceeds (in the case of each disposal) 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent., 50 per cent., 75 per cent. or 95 per cent. is required to, on each occasion that such threshold is passed, no later than four trading days after the acquisition or disposal, notify the Company and BoL of such acquisition or disposal. The Company is obliged to publish such information. A person who has not fulfilled the obligation established in this paragraph shall not have the right to vote at the General Meeting until the appropriate disclosure.

(c) *Restriction on acquisition of Shares*

The Company and some of the Group's subsidiaries are also subject to additional supervision under the Law on the Protection of the Objects of National Security Importance. As a result, investors who intend to acquire equity interests in the Company representing 25 per cent. or more of the voting interests in the Company may only do so upon (i) receiving prior approval by the National Security Commission and (ii) being determined to be in compliance with all relevant requirements relating to national security interests. For additional information see paragraph 1.2 of Part 7 ("*Regulation*").

In addition, the Company's subsidiary EMA is a company holding a payment institution licence. As a result, a person or the persons acting in concert who have taken a decision to directly or indirectly acquire a Licenced Qualifying Holding must give written notice thereof to the BoL. For additional information see paragraph 1.3 of Part 7 ("*Regulation*").

5. **ARTICLES OF ASSOCIATION**

5.1 **Company's object**

The purposes and the object of activities of the Company are provided for in Article 8 of the Articles of Association, pursuant to which the Company is established to meet private interests by operating profit-generating business activities. The object of the Company is to manage the Group of companies, ensure an increase of the value of group of companies is obtained while pursuing purposes specified in the National Energy Independence Strategy and ensuring socially responsible activities of the companies. The Company analyses and coordinates activities of the Group companies, sets guidelines and rules of activities of Group companies, exercises shareholder's rights in the Group companies, provides services to the Group companies, finances Group companies, and represents the Group.

The Company is entitled to engage in other activities not prohibited by the laws of the Republic of Lithuania and which are compliant with the objectives of the Company's activities. The Company may carry on licensed activities or activities subject to receipt of a permit only upon receipt of relevant licences or permits issued under the procedure set by the law.

5.2 Bodies of the Company

Pursuant to the Articles of Association, the bodies of the Company are:

- the General Meeting of Shareholders;
- the Supervisory Board;
- the Management Board; and
- the Chief Executive Officer of the Company.

5.3 General Meeting of Shareholders

The General Meeting of the Company is a supreme corporate body of the Company which makes decisions on major aspects of the Company's life. According to the Law on Companies and the Articles of Association, the competences of the General Meeting include the following decisions:

- to change the Articles of Association, to determine class, number, nominal value and minimum issue price of the shares of the Company, to decide to convert shares of one class to shares of different class and to determine conversion conditions;
- to increase or decrease the share capital of the Company, as well as for the Company to acquire its own shares;
- to issue convertible bonds;
- to withdraw pre-emption rights to all shareholders to acquire shares or convertible bonds of a specific issue;
- to approve annual and interim financial statements (including consolidated financial statements), to decide on allocation of profit/loss, to decide on payment of interim dividends, as well as to form, use or eliminate reserves in the Company;
- to elect and remove from office members of the Supervisory Board and to determine remuneration for the independent members of the Supervisory Board;
- to consent (or decline to consent) to decisions of the Management Board (i) for the Company to become participant in other entities, and (ii) decisions on the approval of (a) the transfer, disposal, pledge of, or other incumbencies over, shares, (b) the increase, reduction or other actions changing the structure of the share capital, and (c) the reorganisation, spin-off, restructuring, liquidation, conversion or other actions changing the status of the group companies of importance to national security, engaged in activities of supply, distribution, manufacturing in energy sector, as well as direct subsidiaries of the Company engaged in activities in energy sector;
- to reorganise, spin-off, restructure or liquidate the Company or to change Company's legal form; and
- other decisions assigned to the scope of powers of the General Meeting by the Law on Companies or the Articles of Association and which by their nature does not fall under competence of other corporate bodies.

An Annual General Meeting must be convened in accordance with the law and at least once a year and it is called by the Management Board of the Company. The Law on Companies provides that the General Meeting may also be called by the Chief Executive Officer, in cases where the Management Board does not call the General Meeting in a timely manner, or where convening a General Meeting is necessary to further the operations of the Company. An Extraordinary General Meeting must also be called (a) if a written request is made to the Management Board by Shareholders collectively holding at least one tenth of the share capital, (b) by the Supervisory Board or (c) by the Management Board. The request in writing shall be accompanied by an agenda with a proposed resolution for each suggested agenda item to be

decided upon at the General Meeting or, if the General Meeting is not adopting a resolution regarding an agenda item, an explanation of such agenda item.

General Meetings take place at the registered office of the Company or in a place specified in the notice of General Meeting. Only Shareholders who are registered in the share register kept by Nasdaq CSD as at the end of the fifth day prior to the General Meeting, or their legal representatives or authorised persons who present a written power of attorney, can attend the General Meeting and vote.

Resolutions may be passed at the General Meeting with an ordinary majority of the votes cast, unless a qualified majority ($\frac{2}{3}$ of the votes conferred by the shares of shareholders present at the General Meeting) is required by the Articles of Association or Law on Companies. Each accounting-par value share carries one voting right.

The decision on the disapplication for all the shareholders of the right of pre-emption in acquiring the shares or convertible bonds of the Company of a specific issue requires a qualified majority vote that must be not less than $\frac{3}{4}$ of all the votes conferred by the shares of the shareholders present at the General Meeting.

5.4 Supervisory Board

The Supervisory Board of the Company is a collegial body supervising the activities of the Company. The competences of the Supervisory Board generally coincide with the competence set out under the Law on Companies. Detailed information on the competences of the Supervisory Board, quorum requirements and voting in the meetings of the Supervisory Board is provided in Part 6 ("*Management and Corporate Governance*").

5.5 Management Board

The Management Board is a collegial management body of the Company. The Management Board is responsible for the analysis of the strategy of the Company's activities, its provision to the Supervisory Board and adopting certain decisions affecting the Company's financial and business condition. The competences of the Management Board generally coincide with the competences set out under the Law on Companies. Detailed information on the competences of the Management Board, quorum requirements and voting in the meetings of the Management Board is provided in Part 6 ("*Management and Corporate Governance*").

5.6 Chief Executive Officer

The Company's day-to-day business is organised by the Chief Executive Officer. The competences of the Chief Executive Officer generally coincide with the competences set out under the Law on Companies. Detailed information on the competences of the Chief Executive Officer is provided in Part 6 ("*Management and Corporate Governance*").

5.7 Rights conferred by the Shares of the Company

Pursuant to the Articles of Association and Law on Companies, rights conferred by the Shares of the Company are as follows:

- to receive a part of the profit of the Company (a dividend);
- to receive funds of the Company where the share capital of the Company is reduced for the purpose of paying the funds of the Company to shareholders;
- to receive a part of assets of the Company in liquidation;
- to receive shares without payment where the share capital of the Company is increased out of the funds of the Company, except in cases provided by the Law on Companies;
- to have the pre-emptive right in acquiring the shares or convertible bonds issued by the Company, except when the General Meeting resolves to disapply the pre-emptive right for all the shareholders following the procedure provided by the Law on Companies;

- to transfer all or any of the shares to other persons following the procedure established by the Articles of Association and the laws and regulations of the Republic of Lithuania. Shareholders shall have the right to transfer only fully paid up shares to other persons;
- to lend money to the Company following the procedure and as provided by the laws of the Republic of Lithuania. However, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the Company borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the lender has his place of residence or business, which was in effect on the day of completion of the loan agreement;
- to attend and vote at the General Meeting subject to the rights provided by the Shares;
- to submit questions to the Company in advance relating to agenda questions of the General Meeting;
- to receive information about the Company specified in the Law on Companies;
- to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the Chief Executive Officer of the Company and members of the Management Board of their obligations established by the laws of the Republic of Lithuania and the Articles of Association, as well as in other cases laid down by law of the Republic of Lithuania; and
- other proprietary and non-proprietary rights provided by the laws and the Articles of Association.

All Shares confer equal rights to all the shareholders.

5.8 Procedure to amend the Articles of Association

According to the Articles of Association and the Law on Companies, the decision of the General Meeting to amend the Articles of Association shall be adopted by a qualified majority of not less than two thirds of all the votes granted by the shares to the shareholders present at the General Meeting. The new wording of the Articles of Association shall become valid as from its registration with the State Register of Legal Entities.

5.9 Certain other provisions of the Articles of Association

The Articles of Association contain no provisions that would have an effect of delaying, deferring or preventing a change in control of the Company, nor do the Articles of Association contain any provisions governing the ownership threshold above which any shareholder ownership must be disclosed. The Articles of Association do not contain any provisions which are more stringent than is required by law.

PART 10 – INDEPENDENT AUDITORS

The separate financial statements of the Company and the consolidated financial statements of the Group as at and for the year ended 31 December 2019, prepared in the Lithuanian language and of which English translations are included in this Document, have been audited by UAB Ernst & Young Baltic, independent auditors, as stated in the English translation of their report appearing in such financial statements. UAB "Ernst & Young Baltic", whose registered address is at Aukštaičių St. 7, LT-11341, Vilnius, the Republic of Lithuania ("**Ernst & Young Baltic**"), are registered with the Lithuanian Chamber of Auditors. Ernst & Young Baltic is a limited liability company organised in the Republic of Lithuania registered with company number 110878442 and is registered on the list of authorised Lithuanian audit companies, administered by the Lithuanian Chamber of Auditors, under certificate number 001335.

Ernst & Young Baltic also reviewed, in accordance with International Standard on Review Engagements 2410, the Group's interim consolidated condensed financial statements as at and for the six-month period ended 30 June 2020.

UAB PricewaterhouseCoopers, whose registered address is J. Jasinskio g. 16B, LT-03163 Vilnius, the Republic of Lithuania ("**PWC**"), is a limited liability company organised in the Republic of Lithuania registered with company number 111473315 and is registered on the list of authorised Lithuanian audit companies, administered by the Lithuanian Chamber of Auditors, under certificate number 001273. PWC was previously appointed as the independent auditor of the Company and audited the 2018 and 2017 Restated Financial Statements and provided an unqualified independent auditor's report in respect of such financial statements. On 22 April 2020, management approved the 2018 and 2017 Restated Financial Statements, which were audited by PWC and in respect of which PWC has provided an independent auditor's report. The independent auditor's report issued by PWC in relation to the 2018 and 2017 Restated Financial Statements contains the following emphasis of matter paragraph: "*We draw attention to Note 3.3 to these reissued two years separate and consolidated financial statements, which describes the reason for the reissuance of the 2018 and 2017 separate and consolidated financial statements. Our opinion is not modified in respect of this matter.*"

PART 11 – GENERAL INFORMATION

1. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on the Company's website at <https://www.ignitisgrupe.lt/en/investors> and at the registered office of the Company at Žvejų str. 14, LT-09310 Vilnius, Republic of Lithuania during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Document:

- (a) the Articles;
- (b) the Financial Statements as set out in this Document;
- (c) the Wood Mackenzie Report;
- (d) the letter of consent referred to in paragraph 3.5 of the section titled "*Important Information about this Document*"; and
- (e) this Document.

2. SIGNIFICANT CHANGE

There has been no significant change in the Group's financial position or financial performance since 30 June 2020, being the latest date to which the Financial Statements were prepared.

3. SIGNIFICANT SUBSIDIARIES

As at the Latest Practicable Date, the Company is the holding company of the Group which consists of the Company and its consolidated subsidiaries, associates and joint ventures, including:

Name of Group member	Jurisdiction of incorporation	Group's interest (%)	Profile of activities
Energijos skirstymo operatorius AB	Republic of Lithuania	97.66	Supply and distribution of electricity to the consumers; distribution of natural gas
Ignitis gamyba, AB	Republic of Lithuania	98.20	Electricity generation, supply, import, export and trade
NT Valdos UAB	Republic of Lithuania	100	Disposal of real estate, other related activities and provision of services
Energetikos paslaugų ir rangos organizacija UAB	Republic of Lithuania	100	Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
Elektroninių mokėjimų agentūra UAB	Republic of Lithuania	100	Provision of collection services
Ignitis Eesti, OÜ*	Republic of Estonia	100	Supply of electricity
Ignitis Latvija SIA*	Republic of Latvia	100	Supply of electricity
Ignitis Polska sp. z o.o.*	Poland	100	Supply of electricity
Ignitis grupės paslaugų centras, UAB	Republic of Lithuania	97.94	Provision of information technology and telecommunications and other services
Verslo aptarnavimo centras, UAB	Republic of Lithuania	98.41	Organisation and execution of public procurement, accounting, legal, personnel administration services
Ignitis UAB	Republic of Lithuania	100	Supply of electricity and gas

<u>Name of Group member</u>	<u>Jurisdiction of incorporation</u>	<u>Group's interest (%)</u>	<u>Profile of activities</u>
Ignitis paramos fondas	Republic of Lithuania	100	Provision of support to projects, initiatives and activities, relevant to the society
Vilniaus kogeneracinė jėgainė UAB	Republic of Lithuania	100	Modernisation of the provision of centralised supply of heat in Vilnius city
Kauno kogeneracinė jėgainė UAB	Republic of Lithuania	51	Modernisation of the provision of centralised supply of heat in Kaunas city
Tuuleenergia OÜ	Republic of Estonia	100	Production of renewable electricity
Eurakras UAB*	Republic of Lithuania	100	Production of renewable electricity
Transporto valdymas UAB	Republic of Lithuania	100	Transport management activity
Vėjo Vatas UAB*	Republic of Lithuania	100	Production of renewable electricity
Vėjo Gūsis UAB*	Republic of Lithuania	100	Production of renewable electricity
Gamybos optimizavimas UAB	Republic of Lithuania	100	Supply of electricity and natural gas
VVP Investment UAB*	Republic of Lithuania	100	Production of renewable electricity
Ignitis renewables, UAB	Republic of Lithuania	100	Production of renewable electricity
Pomerania Invall Sp. z o.o.*	Poland	100	Production of renewable electricity

* *Indirectly controlled subsidiary*

4. MATERIAL CONTRACTS

The following are all of the contracts, not being contracts entered into in the ordinary course of business, that have been entered into by the Company since its incorporation and are, or may be, material or that contain any provision under which the Company has any obligation or entitlement which is or may be material to the Company as at the date of this Document.

4.1 Notes issued under the EMTN Programme

The Company, as issuer, established a euro medium term note programme (last updated on 11 May 2020) which allows for the issuance of notes up to an aggregate nominal amount of EUR 1,500,000,000 (the "**EMTN Programme**"). Pursuant to the EMTN Programme, no notes may be issued with a minimum denomination of less than EUR 100,000 (or its equivalent in any other currency) or for maturities of less than one year. Such notes may be denominated in euro or any other currency agreed between the Company and the relevant dealers. The notes may be interest-bearing (at a fixed or floating rate) or non-interest bearing. The terms and conditions of the notes contain a negative pledge provision and events of default which are customary for euro medium term notes.

The net proceeds of notes issued under the EMTN Programme may be used for its general corporate purposes or to finance or refinance certain eligible projects ("**Eligible Projects**"), being a selected pool of projects funded, in whole or in part, by the Company that promote the transition to a low-carbon and climate resilient growth and a sustainable economy as determined by the Company. Eligible Projects are required to meet the eligibility criteria set out in the Company's Green Bond Framework, which was established in 2017 and is published on the Company's website. The Green Bond Framework sets out, among other things, the type of projects and investments that are eligible for proceeds raised from Green Bonds, the process for selection and allocation of proceeds to Eligible Projects and how the Company will manage and report on the allocation and impact of its Green Bonds.

The Company has issued the following Notes under the EMTN Programme:

- on 14 July 2017, the Company issued €300,000,000 2.000 per cent. Notes due 14 July 2027 (the "**2017 Notes**").
- on 10 July 2018, the Company issued €300,000,000 1.875 per cent. Notes due 10 July 2028 (the "**2018 Notes**").
- on 21 May 2020, the Company issued €300,000,000 2.000 per cent. Notes due 21 May 2030 (the "**2020 Notes**").

The 2017 Notes and the 2018 Notes were issued as Green Bonds, which means the proceeds from those Notes would be used exclusively for the financing or refinancing of existing Eligible Projects. The 2020 Notes were issued for general corporate purposes. The 2017 Notes and the 2018 Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange Green Exchange Segment and on the Nasdaq Vilnius Stock Exchange. The 2020 Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and the Nasdaq Vilnius Stock Exchange.

PART 12 – DEFINITIONS

The following definitions will apply throughout this Document unless the context otherwise requires.

"£", "p", "pound sterling" or "pence"	the lawful currency of the United Kingdom;
"EUR", "euro" or "€"	the lawful currency of the EU member states that adopted the single currency;
"US Dollar", "Dollar", "USD" or "US\$"	the lawful currency of the United States;
"2013 Decision"	Decision C(2013) 7884 adopted by the Commission on 20 November 2013;
"2018 Decision"	Decision C(2018)7141 adopted by the Commission on 31 October 2018;
"2018 Notification"	the notification submitted by the Ministry of Energy on 9 July 2018 covering: (i) state aid provided for the period from 2016 to 2019 and (ii) the period from 2019 to 2024;
"2018 and 2017 Restated Financial Statements"	the Company and the Group's restated audited financial statements as at and for the year ended 31 December 2018 and as at and for the year ended 31 December 2017;
"2019 Financial Statements"	the Company and the Group's audited financial statements as at and for the year ended 31 December 2019;
"AML"	anti-money laundering;
"APMs"	alternative performance measures;
"Articles" or "Articles of Association"	the Company's articles of association;
"Audit Committee"	the audit committee of the Supervisory Board as described in paragraph 3.2 of Part 6 (" <i>Management and Corporate Governance</i> ");
"Audited Financial Statements"	the 2018 and 2017 Restated Financial Statements and the 2019 Financial Statements;
"BoL"	the Bank of Lithuania;
"Category II Undertaking"	an entity included in the List of Category II Enterprises of Importance to Ensuring National Security of the Republic of Lithuania;
"CEO"	the chief executive officer;
"Chairman"	the chairman of the relevant board of the Company as at the date of this Document, whose details are set out in Part 6 (" <i>Management and Corporate Governance</i> ");
"Circular Economy Strategy"	a Circular Economy Action Plan adopted the Commission in March 2020;
"Code of Administrative Violations of Law"	the Republic of Lithuania Code of Administrative Offences;

"Commission"	the European Commission;
"Company"	AB "Ignitis grupė", a public limited company incorporated under the laws of the Republic of Lithuania;
"Corporate Governance Guidelines"	the Guidelines for Corporate Governance of State-owned Group of Energy Companies, approved by the Order No. 1K-205 of the Ministry of Finance (with subsequent amendments made to it on 16 September 2019 and 26 March 2020);
"COVID-19 National Action Plan"	a plan launched by the Lithuanian Government on 17 April 2020 for economic stimulation;
"Criminal Code of the Republic of Lithuania"	Republic of Lithuania Law on the Approval and Entry Into Force of the Criminal Code;
"Division Heads"	the heads of the relevant divisions of the Company as set out in paragraph 5 of Part 6 (" <i>Management and Corporate Governance</i> ");
"Document"	this registration document;
"EEA"	the European Economic Area;
"EIB"	the European Investment Bank;
"Elektrėnai Complex"	the electricity generation complex in Lithuania with a total installed capacity of 1.1 GW;
"EMA"	UAB Elektroninių mokėjimų agentūra;
"EMTN Programme"	the EUR 1,500,000,000 euro medium term note programme established by the Company (last updated on 11 May 2020);
"Energy Efficiency Directive"	Directive 2012/27/EU on Energy Efficiency;
"EPR"	UAB Energetikos paslaugų ir rangos organizacija;
"ESG"	environmental, social and governance principles;
"ESO"	AB "Energijos skirstymo operatorius";
"Estonia"	the Republic of Estonia;
"EU"	the European Union;
"EU Clean Energy Package"	the proposals submitted by the Commission in November 2016 known as the "Clean Energy for All Europeans" package, updating the "Third Energy Package";
"EU Energy and Climate Change Legislation"	a comprehensive package of measures to establish a new Energy Policy for Europe to combat climate change and boost the EU's energy security and competitiveness proposed by the European Commission in 2007;
"EU Energy Strategy"	a number of headline targets for climate change and energy sustainability pertaining to the main targets of a 20 per cent. reduction in EU greenhouse gas emissions as compared to 1990 levels until 2020, and a 40 per cent. reduction by 2030;

"EU Regulation on Cross-Border Exchanges"	Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity;
"EU Renewable Energy Directive"	Directive 2009/28/EC on the Promotion of the Use of Energy from Renewable Sources;
"Euroclear"	Euroclear UK and Ireland Limited;
"Euroclear Participants"	the accountholders in Euroclear;
"Exchange Act"	US Securities Exchange Act of 1934, as amended;
"Extraordinary General Meeting"	any other general meeting of the Shareholders convened in the course of the relevant year, except the General Meeting;
"Financial Statements"	the Audited Financial Statements and the Interim Financial Information;
"Fortum"	Fortum Heat Lietuva, UAB;
"Gazprom"	OAO Gazprom;
"GDPR"	the General Data Protection Regulation (EU) 2016/679;
"GEN"	AB "Ignitis gamyba";
"General Meeting"	the annual general meeting of the Company;
"GET Baltic"	UAB GET Baltic;
"Governance Coordination Centre"	the Lithuanian Government's state-owned enterprise monitoring and governance coordination unit;
"Group"	the Company together with its directly and indirectly controlled subsidiaries;
"IFRIC"	International Financial Reporting Interpretations Committee;
"IFRS"	the International Financial Reporting Standards, as adopted by the European Union;
"IGN"	UAB Ignitis;
"Industrial Emissions Directive"	Directive 2010/75/EU on Industrial Emissions (Integrated Pollution Prevention and Control) adopted in 2010;
"Interim Financial Information"	the Group's unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2020 together with comparative information for the six-month period ended 30 June 2019;
"Internal Audit Service"	the internal audit service of the Company;
"IPPC Act"	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", which implemented the Industrial Emissions Directive;

"IRS"	the US Internal Revenue Service;
"ISDA"	the International Swaps and Derivatives Association;
"IT"	the information technologies;
"KKJ"	Kauno kogeneracinė įėjainė UAB;
"KN"	AB Klaipėdos Nafta;
"Kyoto Protocol"	an international treaty which extends the 1992 United Nations Framework Convention on Climate Change;
"Labour Code"	the labour code of the Republic of Lithuania, which came into force on 1 July 2017;
"Latest Practicable Date"	3 September 2020, being the latest practicable date prior to the publication of this Document;
"Latvia"	the Republic of Latvia;
"Law on the Bases of Property and Business Valuation"	the Law on the Bases of Property and business Valuation of the Republic of Lithuania, which came into force on 25 May 1999, as amended from time to time;
"Law on Companies"	the Law on Companies of the Republic of Lithuania, which came into force on 13 July 2020, as amended from time to time;
"Law on Electricity"	the Law on Electricity of the Republic of Lithuania, which came into force on 20 July 2020, as amended from time to time;
"Law on Energy"	the Law on Energy of the Republic of Lithuania, which came into force on 16 May 2020, as amended from time to time;
"Law on Energy Efficiency"	the law adopted in November 2016 by the Republic of Lithuania which implements the requirements of the Energy Efficiency Directive;
"Law on Energy from Renewable Sources"	the Law on Energy From Renewable Sources of the Republic of Lithuania, which came into force 12 May 2011, as amended from time to time;
"Law on Heat Sector"	the Law on Heat Sector of the Republic of Lithuania, which came into force on 20 May 2003, as amended from time to time;
"Law on Natural Gas"	the Law on Natural Gas of the Republic of Lithuania, which came into force on 10 October 2000, as amended from time to time;
"Law on Payment Institutions"	the Law on Payment Institutions of the Republic of Lithuania, which came into force on 17 November 1999, as amended from time to time;
"Law on the Protection of the Objects of National Security Importance"	the Law on the Protection of the Objects of National Security Importance of the Republic of Lithuania, which came into force on 10 October 2002, as amended from time to time;

"Law on Securities"	the Law on Securities of the Republic of Lithuania, which came into force in 8 February 2007, as amended from time to time;
"Law on Special Conditions on Land Use"	the Law on Special Condition on Land Use of the Republic of Lithuania, which came into force on 6 June 2019, as amended from time to time
"Licenced Qualifying Holding"	has the meaning given to such term in paragraph 1.3 of Part 7 (" <i>Regulation</i> ");
"LITGAS"	UAB LITGAS;
"Lithuania"	the Republic of Lithuania;
"LTIP"	the management long-term incentive plan to be implemented by the Company;
"Management Board"	the management board of the Company as described in paragraph 4 of Part 6 (" <i>Management and Corporate Governance</i> ");
"MAR" or "Market Abuse Regulation"	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse;
"Mažeikiai"	the wind farm project at Mažeikiai, Lithuania being developed by the Company's subsidiary, VVP Investment UAB;
"Member State"	a member state of the EEA;
"MiFID II"	EU Directive 2014/65/EU on markets in financial instruments, as amended;
"Ministry of Energy"	the Ministry of Energy of the Republic of Lithuania;
"Ministry of Finance"	the Ministry of Finance of the Republic of Lithuania;
"Nasdaq CSD"	the Lithuanian branch of Nasdaq CSD, SE;
"Nasdaq Vilnius Corporate Governance Code"	the corporate governance code of companies listed on Nasdaq Vilnius and Guidelines on the Governance for State-owned Enterprises recommended by the Baltic Institute of Corporate Governance;
"National Energy Independence Strategy"	the strategy approved by the Parliament of the Republic of Lithuania on 21 June 2018 and which establishes the national strategy for the Lithuanian energy sector;
"National Security Commission"	the Commission for Coordination of Protection of Objects of Importance to Ensuring National Security;
"Nomination and Remuneration Committee"	the nomination and remuneration committee of the Supervisory Board, as described in paragraph 3.3 of Part 6 (" <i>Management and Corporate Governance</i> ");
"NTV"	NT Valdos, UAB;
"OT"	the operational technologies;

"Pomerania"	the wind farm project at Pomerania, Poland being developed by the Company's subsidiary, Pomerania Wind Farm sp. Z.o.o.;
"Principal Shareholder"	the Republic of Lithuania, through the Ministry of Finance;
"Prospectus Regulation"	Prospectus Regulation ((EU) 2017/1129), as amended;
"Public Procurement Office"	the public procurement office of the Republic of Lithuania;
"Qualifying Holding"	has the meaning given under paragraph 1.2 of Part 7 (" <i>Regulation</i> ");
"Register of Legal Entities"	the Register of Legal Entities of the Republic of Lithuania;
"Regulation 1215/2012"	the Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2000 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters;
"Relevant State"	each Member State of the European Economic Area and the United Kingdom;
"REN"	UAB "Ignitis renewables";
"Resolution No. 20"	Resolution of the Government of the Republic of Lithuania No 20 of 14 January 1997 "On Dividends for the State-Owned Shares of Companies and Profit Contributions of State Entities";
"Resolution on Dividends"	Resolution of the Government of the Republic of Lithuania of 2 September 2020 "On Dividends Paid by AB "Ignitis grupė"";
"Risk Management and Operational Ethics Supervision Committee"	the risk management and operational ethics supervision committee of the Company as described in paragraph 10 of Part 4 (" <i>Business Overview</i> ");
"SE"	AB "Šiaulių energija";
"Shareholder"	a registered holder of a Share;
"Shares"	ordinary registered shares of EUR 22.33 each in the capital of the Company;
"Smart Energy Fund"	the Company's innovation fund, which is managed by Contrarian Ventures and provides funding for early stage start-ups in the energy sector;
"Strategy"	the Group's current long-term strategy;
"Supervisory Board"	the supervisory board of the Company as described in paragraph 2 of Part 6 (" <i>Management and Corporate Governance</i> ");
"Targets"	the Group's management medium-term financial targets to enable the implementation of the Group's Strategy;
"TFEU"	the Treaty on the Functioning of the EU;
"TOU"	Tuuleenergia OÜ;

"TPV"	UAB "Transporto valdymas";
"UN SDGs"	the United Nations' Sustainable Development Goals;
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland;
"United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
"US Securities Act"	the US Securities Act of 1933, as amended;
"VAT"	value added tax;
"VE"	UAB "Vilniaus Energija";
"VKJ"	Vilniaus kogeneracinė jėgainė UAB;
"Wood Mackenzie"	Wood Mackenzie A/S; and
"Wood Mackenzie Report"	the report titled "IPO Support – Market Advisory" prepared by Wood Mackenzie and dated August 2020.

PART 13 – GLOSSARY

The following definitions will apply throughout this Document unless the context otherwise requires. They are not intended as technical definitions and are provided purely for assistance in understanding certain terms used in this Document.

"ACER"	the Agency for the Cooperation of Energy Regulators;
"B2B"	business to business;
"B2C"	business to consumer;
"BEMIP"	the Baltic Energy Market Interconnection Plan;
"CCGT"	a combined cycle gas turbine unit;
"CHP"	combined heat and power;
"CNG"	compressed natural gas;
"CO ₂ "	carbon dioxide;
"DSO"	distribution system operator;
"EEAG"	the Guidelines on State aid for Environmental Protection and Energy 2014 to 2020;
"EHS"	environmental, health and safety;
"ENTSO-E"	the European Network of Transmission System Operators;
"Epex Spot"	European Power Exchange SE;
"EU ETS"	the EU Emission Trading Scheme;
"FCF"	free cash flow;
"FFO"	funds from operations;
"FiP"	feed-in premium;
"FiT"	feed-in tariffs;
"Gaspool (Argus)"	a running monthly average of the end-of-day bid offer assessments of Gaspool Front Month product reported in the Argus European Natural Gas report;
"GIPL"	the Gas Interconnection Poland-Lithuania;
"GW"	gigawatt;
"GWh"	gigawatt-hour;
"ISO"	Independent System Operator;
"Kaunas CHP Plant"	a waste-to-energy CHP production plant in Kaunas;
"Kaunas HPP"	a "run-of-river" hydro power generation facility in Kaunas;
"Kruonis PSHP"	a pump storage hydro power generation facility in Kruonis;
"Lithuanian Electricity Exchange"	the electricity exchange in Lithuania administered by Nord Pool AS;

"LitPol Link"	an electricity link between the Baltic transmission system and the synchronous grid of Continental Europe;
"LNG"	liquified natural gas;
"LNG Supplement"	a supplement set and approved by the NERC to be collected from all users of natural gas;
"LNG Terminal"	a liquified natural gas terminal;
"LOI"	letter of intent;
"LRAIC"	long-run average incremental cost;
"MW"	megawatt;
"MWh"	megawatt-hour;
"MWth"	megawatt thermal;
"Nasdaq Commodities Exchange"	NASDAQ OMX Oslo ASA, the single financial energy market for Norway, Denmark, Sweden and Finland;
"NER 300"	the funding programme funded from the sale of 300 million emission allowances from the New Entrants' Reserve set up for the third phase of the EU ETS;
"NERC"	National Energy Regulation Council;
"NordBalt"	a submarine power cable between Klaipėda in Lithuania and Nybro in Sweden;
"NOX"	nitrogen oxides;
"PPAs"	power purchase agreements;
"PSO"	public service obligation;
"RAB"	regulated asset base;
"REMIT"	the Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency;
"RES"	renewable energy sources;
"Reserve Power Units"	two gas-fired reserve power units, units 7 and 8 at the Elektrėnai Complex in Lithuania operated by the Group;
"ROCE"	return on capital employed;
"ROE"	return on equity;
"SAIDI"	the System Average Interruption Duration Index;
"SAIFI"	the System Average Interruption Frequency Index;
"Supported Production Volume"	electricity supplied by VE to ESO for ESO's public supply activities under an electricity sale and purchase agreement;
"TEN-T"	the core Trans-European Transport network;
"TSO"	the transmission system operator in the Republic of Lithuania;

"TTF (Argus)"	a running monthly average of the end-of-day bid offer assessments of TTF Front Month product reported in the Argus European Natural Gas report;
"TTF (ICE)"	an index calculated at close of trading on the calendar day that the front month contract expires (that is the last but one business day of each month). It represents the un-weighted average of all settlement prices from the expiring 'front month' contract during the period it was the front month and is published to the ICE Website;
"TWh"	terawatt-hour;
"Vilnius CHP Plant"	a waste-to-energy and biomass CHP production plant in Vilnius;
"WACC"	a weighted average cost of capital.

FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020	F-2
Independent Auditor's Report on Review of Interim Financial Information	F-2
Interim Condensed Consolidated Statement of Financial Position	F-3
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	F-4
Interim Condensed Consolidated Statement of Changes In Equity	F-5
Interim Condensed Consolidated Statement of Cash Flows	F-6
Notes to the Condensed Interim Financial Statements	F-7
CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019	F-37
Independent Auditor's Report	F-37
Statement of Financial Position	F-44
Statement of Profit or Loss and Other Comprehensive Income	F-46
Statement of Changes in Equity	F-47
Statement of Cash Flows	F-49
Notes to the Financial Statements	F-50
CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018	F-150
Independent Auditor's Report	F-150
Statement of Financial Position	F-158
Statement of Profit or Loss and Other Comprehensive Income	F-160
Statements of Changes In Equity	F-162
Statement of Cash Flows	F-163
Notes to the Financial Statements	F-164



UAB „Ernst & Young Baltic“
Aukštaičių g. 7
LT-11341 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com

Ernst & Young Baltic UAB
Aukštaičių St. 7
LT-11341 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the shareholder of “Ignitis grupė”, AB

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of “Ignitis grupė”, AB as at 30 June 2020 which comprise the interim condensed consolidated statement of financial position as at 30 June 2020 and the related interim condensed consolidated statement of profit or loss and other comprehensive income for the three- and six-month periods then ended, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flows for the six-month period then ended, and the explanatory notes to these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by the European Union (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by the European Union (“IAS 34”).

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

26 August 2020

Ignitis grupė AB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2020

All amounts in thousands of euro unless otherwise stated

	Notes	30 June 2020	31 December 2019
ASSETS			
Non-current assets			
Intangible assets	5	143,625	142,737
Property, plant and equipment	6	2,485,594	2,347,817
Right-of-use assets	7	62,051	61,044
Prepayments for non-current assets	10	246	27,809
Investment property		5,135	5,530
Non-current receivables	9	173,516	165,031
Other financial assets		4,063	3,735
Other non-current assets		5,087	5,087
Deferred tax assets		8,572	11,770
Total non-current assets		2,887,889	2,770,560
Current assets			
Inventories		26,193	46,621
Prepayments and deferred expenses	10	38,924	50,548
Trade receivables	11	117,447	117,867
Other receivables		34,733	31,780
Other current assets		2,130	5,796
Prepaid income tax		179	2,434
Cash and cash equivalents	12	283,265	131,837
		502,871	386,883
Assets held for sale	13	9,674	40,643
Total current assets		512,545	427,526
TOTAL ASSETS		3,400,434	3,198,086
EQUITY AND LIABILITIES			
Equity			
Issued capital	14	1,212,156	1,212,156
Reserves		264,966	259,651
Retained earnings (deficit)		(141,792)	(172,188)
Equity attributable to equity holders of the parent		1,335,330	1,299,619
Non-controlling interests		2,486	49,001
Total equity		1,337,816	1,348,620
Liabilities			
Non-current liabilities			
Non-current loans and bonds	15	1,228,151	821,929
Non-current lease liabilities	16	26,424	33,818
Grants and subsidies		282,258	267,949
Deferred income tax liabilities		44,775	38,408
Provisions	17	37,077	35,564
Deferred income	18	157,389	151,910
Other non-current amounts payable and liabilities		764	883
Total non-current liabilities		1,776,838	1,350,461
Current liabilities			
Current portion of non-current loans	15	21,203	37,454
Current loans	15	11,890	196,737
Lease liabilities	16	14,785	8,400
Trade payables		54,530	78,567
Advances received	18	39,107	51,745
Income tax payable		5,545	6,171
Provisions	17	16,056	19,818
Deferred income	18	10,084	9,749
Other current amounts payable and liabilities		109,348	85,042
		282,548	493,683
Liabilities directly associated with the assets held for sale	13	3,232	5,322
Total current liabilities		285,780	499,005
Total liabilities		2,062,618	1,849,466
TOTAL EQUITY AND LIABILITIES		3,400,434	3,198,086

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the three and six month periods ended 30 June 2020

All amounts in thousands of euro unless otherwise stated

	Notes	2020, I half-year	2020, II quarter	2019, I half-year (restated*)	2019, II quarter (restated*)
Revenue from contracts with customers	19	588,274	264,859	556,801	224,354
Other income		2,638	1,599	1,066	(9,977)
Revenue		590,912	266,458	557,867	214,377
Operating expenses					
Purchases of electricity, gas for trade, and related services		(343,985)	(125,332)	(368,648)	(123,609)
Purchases of gas and heavy fuel oil		(16,719)	(10,029)	(11,950)	(5,324)
Depreciation and amortisation		(54,523)	(26,796)	(54,378)	(27,364)
Salaries and related expenses		(49,716)	(24,918)	(41,900)	(20,897)
Repair and maintenance expenses		(11,234)	(6,414)	(15,349)	(7,198)
(Impairment) reversal of impairment of amounts receivable and loans		(847)	(250)	1,079	850
(Impairment) reversal of impairment of property, plant and equipment		(701)	206	(2,284)	(2,104)
Other expenses		(19,777)	(7,774)	(18,407)	(8,733)
Total operating expenses		(497,502)	(201,307)	(511,837)	(194,379)
Operating profit (loss) (EBIT)		93,410	65,151	46,030	19,998
Finance income		970	593	1,294	718
Finance expenses		(10,174)	(5,679)	(9,872)	(5,948)
Profit (loss) before tax		84,206	60,065	37,452	14,768
Current year income tax (expenses)/benefit		(5,462)	(1,842)	(4,576)	(655)
Deferred income tax (expenses)/benefit		(6,819)	(6,104)	(4,037)	(2,251)
Net profit		71,925	52,119	28,839	11,862
Attributable to:					
Equity holders of the parent		72,358	54,332	27,228	11,311
Non-controlling interest		(433)	(2,203)	1,610	551
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss in subsequent periods					
Revaluation of property, plant and equipment, net of deferred income tax effect		108	(1,877)	-	76
Revaluation of emission allowances		3,821	17,023	2,902	8,293
Recalculation of the defined benefit plan obligation, net of deferred income tax		335	19	(164)	(164)
Items that will not be reclassified to profit or loss in subsequent periods, total		4,264	15,165	2,738	8,205
Items that may be reclassified to profit or loss in subsequent periods					
Exchange differences on translation off foreign operations into the Group's presentation currency		(1,751)	684	27	32
Items that may be reclassified to profit or loss in subsequent periods, total		(1,751)	684	27	32
Total other comprehensive income (loss)		2,513	15,849	2,765	8,237
Total comprehensive income (loss) for the period		74,438	67,968	31,604	19,927
Attributable to:					
Equity holders of the parent		74,778	69,724	29,910	19,125
Non-controlling interests		(340)	(1,756)	1,694	802

*Certain amounts presented above do not correspond to the interim condensed consolidated financial statements prepared for the period of 2019 I half-year and 2019 II quarter and reflect correction of error, reclassifications and changes in accounting methods, disclosed in Note 4.

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Ignitis grupė AB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2020

All amounts in thousands of euro unless otherwise stated

Notes	Equity attributable to owners of the Company						Non-controlling interest (restated*)	Total (restated*)
	Issued capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings (restated*)	Subtotal (restated*)		
Balance at 31 December 2018 as previously reported	1,212,156	49,851	162,935	16	(156,763)	1,268,195	48,356	1,316,551
Correction of error and change of accounting methods**	-	-	-	-	(13,231)	(13,231)	(798)	(14,029)
Restated balance as at 1 January 2019 (restated*)	1,212,156	49,851	162,935	16	(169,994)	1,254,964	47,558	1,302,522
Revaluation of emission allowances	-	-	2,810	-	-	2,810	92	2,902
Exchange differences on translation of foreign operations into the Group's presentation currency	-	-	-	27	-	27	-	27
Result of change in actuarial assumptions	-	-	-	-	(156)	(156)	(8)	(164)
Total other comprehensive income (loss)	-	-	2,810	27	(156)	2,681	84	2,765
Net profit (loss) for the reporting period (restated*)	-	-	-	-	27,229	27,229	1,610	28,839
Total comprehensive income for the period (restated*)	-	-	2,810	27	27,073	29,910	1,694	31,604
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)	-	-	(9,165)	-	9,165	-	-	-
Transfer to reserves and movement in reserves	-	62,797	-	(36)	(62,761)	-	-	-
Dividends	20	-	-	-	(13,000)	(13,000)	(297)	(13,297)
Ignitis grupės paslaugų centras UAB share capital increase portion to non-controlling interest	-	-	-	-	-	-	8	8
Restated balance as at 30 June 2019 (restated*)	1,212,156	112,648	156,580	7	(209,517)	1,271,874	48,963	1,320,837
Balance at 1 January 2020	1,212,156	112,647	146,993	11	(172,188)	1,299,619	49,001	1,348,620
Revaluation of non-current assets, net of deferred income tax effect	-	-	108	-	-	108	-	108
Revaluation of emission allowances	-	-	3,728	-	-	3,728	93	3,821
Exchange differences on translation of foreign operations into the Group's presentation currency	-	-	-	(1,751)	-	(1,751)	-	(1,751)
Result of change in actuarial assumptions	-	-	-	-	335	335	-	335
Total other comprehensive income (loss)	-	-	3,836	(1,751)	335	2,420	93	2,513
Net profit (loss) for the reporting period	-	-	-	-	72,358	72,358	(433)	71,925
Total comprehensive income for the period	-	-	3,836	(1,751)	72,693	74,778	(340)	74,438
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)	-	-	(7,753)	-	7,753	-	-	-
Emission allowances utilised	-	-	(294)	-	294	-	-	-
Transfer to reserves, movement in reserves	-	2,353	-	-	(2,353)	-	-	-
Dividends	20	-	-	-	(28,000)	(28,000)	(2,524)	(30,524)
Equity acquisition from non-controlling interest	8	-	1,207	7,717	(19,991)	(11,067)	(43,651)	(54,718)
Balance at 30 June 2020	1,212,156	116,207	150,499	(1,740)	(141,792)	1,335,330	2,486	1,337,816

*Certain amounts presented above do not correspond to the interim condensed consolidated financial statements prepared for the period of 2019 I half-year and 2019 II quarter and reflect correction of error, reclassifications and changes in accounting methods, disclosed in Note 4.

**Preparing annual financial statements for 2019, corrections of errors and changes in accounting methods disclosed in Note 4 paragraphs "Correction of error applied retrospectively in 2019 and previous year annual financial statements" and "Changes in accounting methods" were applied retrospectively

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Ignitis grupė AB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2020

All amounts in thousands of euro unless otherwise stated

	Notes	2020, I half-year	2019, I half-year (restated*)
Cash flows from operating activities			
Net profit*		71,925	28,839
Adjustments for non-monetary expenses (income):			
Depreciation and amortisation expenses		59,127	57,800
Impairment of property, plant and equipment, including held for sale		928	2,286
Revaluation of property, plant and equipment		(72)	(97)
Revaluation of investment property		138	335
Revaluation of derivatives		3,879	666
Impairment/ (reversal of impairment) of financial assets		1,058	(1,079)
Income tax expenses		12,281	8,614
(Amortisation) of grants		(4,604)	(4,695)
Increase (decrease) in provisions		4,623	(2,397)
Inventory write-down to net realizable value/ (reversal)		(387)	4
Expenses/(income) of revaluation of emission allowances		(278)	247
Emission allowances utilised		(241)	987
Elimination of results of investing activities:			
- Loss on disposal/write-off of property, plant and equipment		1,024	1,793
- Results of the revaluation and closing of derivative financial instruments		(195)	-
Elimination of results of financing activities:			
Interest income		(114)	(1,231)
Interest expenses		8,460	7,691
Other expenses of financing activities		858	2,120
Changes in working capital:			
(Increase) decrease in trade receivables and other amounts receivable		5,815	54,078
(Increase) decrease in inventories, prepayments and other current and non-current assets		32,574	(1,517)
Increase (decrease) in amounts payable, deferred income and advance amounts received		(32,337)	(52,064)
Income tax (paid)		(6,449)	(1,810)
Net cash flows from (to) operating activities		158,013	100,570
Cash flows from investing activities			
(Purchase) of property, plant and equipment and intangible assets		(161,914)	(189,838)
Proceeds from sale of property, plant and equipment and intangible assets		2,710	25,679
Financial leasing payments received		367	-
Acquisition of investments in subsidiaries		-	(27,673)
Grants received		17,548	25,630
Interest received		-	13
Other increases (decreases) in cash flows from investing activities		-	(1,129)
Net cash flows from (to) investing activities		(141,289)	(167,318)
Cash flows from financing activities			
Loans received	15	116,354	63,102
Issue of bonds	15	295,657	-
Repayments of borrowings	15	(22,475)	(30,669)
Lease payments	16	(5,397)	(3,185)
Interest paid	15	(1,899)	(1,439)
Dividends paid		(30,524)	(13,297)
Equity acquisition from non-controlling interest	8	(25,721)	-
Net cash flows from (to) financing activities		325,995	14,512
Increase (decrease) in cash and cash equivalents (including overdraft)		342,719	(52,236)
Cash and cash equivalents (including overdraft) at the beginning of the period	12	(59,454)	85,575
Cash and cash equivalents (including overdraft) at the end of the period		283,265	33,339

*Certain amounts presented above do not correspond to the interim condensed consolidated financial statements prepared for the period of 2019 I half-year and 2019 II quarter and reflect reclassifications and changes in accounting methods, disclosed in Note 4.

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

1 General information

Ignitis grupė AB (hereinafter “the Company”) is a public limited liability company registered in the Republic of Lithuania. The Company’s sole shareholder as at 30 June 2020 has adopted a decision to change the Company’s legal status to a public limited liability company (AB) and on 28 July 2020 the new articles were registered. The Company’s registered office address is Žvejų str. 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 the group companies (Note 8) 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 the 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, etc.

The Company seeks to ensure effective operation of the group companies, implementation of goals related to the group’s activities set forth in the National Energy 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	30 June 2020		31 December 2019	
	Share capital, in EUR ‘000	%	Share capital, in EUR ‘000	%
Republic of Lithuania represented by the Lithuanian Ministry of Finance	1,212,156	100	1,212,156	100

As at 30 June 2020, the Group had 3,932 employees (31 December 2019 – 3,846).

2 Accounting principles

2.1 Basis of preparation

These interim condensed consolidated financial statements, prepared for the six months period ended 30 June 2020, cover Ignitis grupė AB (hereinafter “the Company”) and its subsidiaries’ (hereinafter collectively “the Group”) interim condensed consolidated financial statements (hereinafter “interim financial statements”). These interim financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (hereinafter “IAS”) 34 “Interim Financial Reporting”). These interim financial statements do not provide all the information required for the preparation of the annual financial statements, therefore this must be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

These interim financial statements are presented in euros and all values are rounded to the nearest thousand (EUR ‘000), except when otherwise indicated. The Group’s interim financial statements provide comparative information in respect of the previous period. The financial year of the Group coincides with the calendar year.

In year 2019 the management of the Group has made certain error correction, reclassifications of the statements’ captions and restatements due to changes in accounting methods. Identified error, reclassifications of the statements’ captions and changes in accounting methods are disclosed in Note 4. The originally issued and published interim financial statements for the six month period ended 30 June 2019 did not reflect this correction of accounting error, reclassifications and changes in accounting methods. As the 2020 I half-year interim financial statements present comparative information for the previous reporting period, the Group presents figures for 2019 I half-year and 2019 II quarter as restated as described in Note 4.

2.2 New standards, amendments and interpretations

The accounting policies applied in the preparation of these interim financial statements are consistent with the accounting policies applied in the preparation of the Group’s annual financial statements for the year ended 31 December 2019, with the exception of the new standards which entered into force as at 1 January 2020.

Preparing these interim financial statements, the Group did not adopt new standards, amendments and interpretations, the effective date of which is later than 1 January 2020 and early adoption is permitted. The following new standards and amendments to the standards that became effective as at 1 January 2020 and did not affect significantly these interim financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

New and/or amended International financial reporting standards and International financial reporting interpretation committee (hereinafter "IFRIC") interpretations, which entered into force from 1 January 2020 and have been endorsed in EU during the 2020 1 half year

*Amendments to References to the Conceptual Framework in IFRS Standards
(published 29 March 2018, effective from 1 January 2020)*

The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its purpose is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. These amendments had no impact on these interim financial statements of the Group.

*Amendments to IFRS 3: Definition of a Business
(published 22 October 2018, effective from 1 January 2020)*

The IASB issued amendments to the definition of a business in IFRS 3 (amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity is determining whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after 1 January 2020 and to asset acquisition that occur on or after the beginning of that period, with earlier adoption permitted. These amendments had no impact on these interim financial statements of the Group but may impact future periods if the Group enters to any business combinations.

*Amendments to IAS 1 and IAS 8: Definition of a Material
(published 31 October 2018, effective from 1 January 2020)*

The amendments clarify the definition of 'material' and how it should be applied. New definition clarifies that 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRSs. These amendments had no impact on these interim financial statements of the Group, nor is there expected to be any future impact to them.

*Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
(published 26 September 2019, effective from 1 January 2020 and must be applied retrospectively)*

Amendments to IFRS 9, IAS 39 and IFRS 7 conclude phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Phase two (ED) will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). These amendments had no impact on these interim financial statements of the Group.

Standards, amendments and interpretations issued but not yet effective

New standards, amendments and interpretations that are not mandatory for reporting period beginning on 1 January 2020 and have not been early adopted when preparing these interim financial statements are presented below:

*IFRS 17: Insurance Contracts
(published 18 May 2017, effective from 1 January 2023)*

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. This IFRS will not have any impact on the financial position or performance of the Group as insurance services are not provided. The standard has not yet been endorsed by the EU.

*Amendments to IFRS 17 and IFRS 4: The deferral of effective dates for IFRS 17 and IFRS 9 for insurers
(published 25 June 2020, effective from 1 January 2021)*

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.

Ignitis grupė AB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.

These amendments have not yet been endorsed in the EU. The management has assessed that these amendments will not have any impact on the Group's financial statements.

*Amendments to IAS 1: Classification of Liabilities as Current or Non-current
(published 23 January 2020, effective from 1 January 2022)*

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The IASB has issued an exposure draft to defer the effective date to 1 January 2023. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of interim condensed consolidated financial position (hereinafter "statement of financial position"), debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. The Group is currently assessing the impact of this amendment on their interim financial statements. These amendments have not yet been endorsed by the EU.

*Amendments to IFRS 3 Business combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent liabilities and Contingent Assets as well as Annual Improvements (amendments)
(published 14 May 2020, effective from 1 January 2022)*

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

These amendments have not yet been endorsed in the EU. The Group's management is currently assessing the impact of these amendments on the Group's financial statements.

*Amendments to IFRS 16: COVID-19 related rent concessions/discounts
(published 28 May 2020, effective from 1 June 2020)*

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

These amendments have not yet been endorsed in the EU. The Group's management estimated that the application of these amendments will not have a material impact on the Group's financial statements.

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
(published 11 September 2014, effective date not appointed)*

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IFRS 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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that adoption of these amendments will have no significant effect on the Group's financial statements.

3 Critical accounting estimates and judgements used in the preparation of these interim financial statements

Preparing these interim financial statements the significant management judgements regarding the application of the accounting policies and accounting estimates were the same as used in preparing the annual financial statements for the year ended 31 December 2019, except those accounting estimates and judgements presented below:

3.1 Impact of COVID-19 on critical accounting estimates, management judgements and estimation uncertainties

Below there are presented accounting estimates and judgements the uncertainty of which is changed due to COVID-19 pandemic. The following key areas considered by the Group's management in assessing the impact of COVID-19 are presented below:

Going concern

The Group's management assessed cash flows due to deferral of electricity and gas payments, reduction and slower recovery of electricity and gas consumption, as well as cash flows related to the risk of delays in major infrastructure projects, probability of bad debt growth, potential disruptions to funding sources, the risk of COVID-19 infection by workers performing critical functions. The assessment used all currently available information on the threats posed by COVID-19. The Group's management has not identified any threats to the Group's going concern when assessing the potential impact of key COVID-19 factors on the Group's results. The Group has taken actions to manage the risks that have arisen.

Residual value and useful life of property, plant and equipment

Management considered the effect of COVID-19 on the useful life and residual value of the non-current assets used in gas and electricity distribution, thermal, hydro and wind power plants and, finding that there was no change in the expected nature and purpose of these assets, did not determine any effect of COVID-19 on the asset's residual value and useful life. The review of the nature and purpose of the use of non-current assets was based on foreseeable events and economic conditions that could result from a future COVID-19 pandemic. Management has not identified any disruptions in the use of property, plant and equipment neither in the short nor in the long term.

Assessment of expected credit losses

The Group's management has assessed past events, current and future economic conditions as at the date of issue of these interim financial statements in determining the expected credit losses due to impact of COVID-19. As at 30 June 2020 the management has determined that the future economic situation of COVID-19 does not significantly change the loss ratio matrix that is used to calculate the expected credit losses of the Group's financial assets comparing to that used as at 31 December 2019. Also the Group reviewed expected credit losses for financial assets, the assessment of which is performed individually, no significant impairment losses were identified due to COVID-19. General information about the effect of COVID-19 on Group's operations is presented below.

Fair value measurement and impairment of property, plant and equipment

Management has reviewed the key assumptions that are used to measure a fair value and in impairment tests of property, plant and equipment:

- due to COVID-19 there were no changes in the National Energy Regulatory Council's (hereinafter NERC) legal regulatory framework that would have a significant effect on fair value of property, plants and equipment;
- due to COVID-19 NERC did not change any regulatory ratios that were previously approved, e.g. price caps, WACC (Weighted Average Capital Cost), return on investments;
- due to COVID-19 the Group did not realize any significant gap between budgeted and factual figures of expenses and revenues. Also, the management does not anticipate significant deviations in the future between the budget and the fact;
- due to COVID-19 the Group doesn't have any disruptions in investments' strategies that are forecasted 10 years forward;
- the management didn't identify any significant changes in discount rate used to calculate discounted cash flows.

After reviewing the key assumptions, the management has not identified any significant circumstances related to COVID-19 that would require to make fair value measurement (for assets recognized at revalued amount) and impairment tests (for assets recognized at acquisition cost less depreciation and impairment). Therefore, the management concluded that the net book value of property, plant and equipment, which is accounted at revalued value as at 30 June 2020, corresponds to its fair value and the net book value of property, plant and equipment, which is accounted at acquisition cost less depreciation and impairment – not less than its recoverable value.

Impairment of goodwill

The management did not identify any COVID-19 related circumstances that goodwill may be impaired (refer Note 5).

Net realisable value of inventory

As the business activities were not disrupted due to COVID-19 the management evaluated that the carrying book value of inventory as at 30 June 2020 corresponds to at least its net realisable value.

Classification of financial instruments as current and non-current

Management has also reviewed the criteria for classifying loans and other borrowings, as well as other receivables / payables, into current and non-current, and has not identified any circumstances that would require a material adjustment in their classification.

Lease contracts: Revised lease term and discount rate (incremental borrowing rate)

The management assessed all relevant facts and circumstances that create an economic incentives for Group companies that are lessees to exercise the following options or not:

- to exercise an option to extend the term of the lease;
- to exercise an option to purchase the underlying asset at the end of the lease; or
- not to exercise an option to terminate the lease earlier.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

The Group did not experience any significant disruptions due to COVID-19 in business activity, investments strategies and development of ongoing projects. COVID-19 had no impact on the Group's expectations to exercise or not options, stated above. Also, the Group did not receive any significant concessions due to COVID-19. The management has concluded that COVID-19 did not cause the need to remeasure the lease liability and right of use assets.

General information on the impact of COVID-19 on the Group's operations

In relation to the emergency situation the Parliament of the Republic of Lithuania adopted amendments aimed at preserving jobs and helping the people. On 16 March 2020 the Government took the decision (Protocol No.14) and concluded a Plan for the economic stimulation and the implementation of measures directed to mitigate the spread of COVID-19 (hereinafter "the Plan"). One of the measures was to make possible to defer or arrange in portions the payments for the consumed electricity and natural gas to the Company's subsidiary Ignitis UAB. This means that the Company's subsidiary Ignitis UAB and accordingly other Company's subsidiary Energijos skirstymo operatorius AB directly experienced delays in customers' payments for services. Requests for payments' deferrals were approved only during the quarantine which ended on 16 June 2020. Payments were deferred for the following period: for household customers payments were deferred for the whole quarantine period and additional 1 month after the quarantine ended, business customers – for the whole quarantine period and additional 3 month. Insignificant part exclusively was deferred for up to 9 – 12 months from the end of quarantine. The management didn't identify any significant financing component.

The main factors affecting the Group's operations due to the situation described above in relation to COVID-19 are set out below:

Factors	Effect
Cash flows from electricity and gas payments, settlement delays, agreements on longer debt repayments and expected increase in bad debts	<p>In accordance with the recommendations of the Government of the Republic of Lithuania, during the quarantine period from 16 March 2020 till 16 June 2020 the Group provided special payment deferrals to customers who have encountered financial difficulties due to announced quarantine. Requests from private and business customers for the distribution and supply of electricity and gas individually were accepted and analysed, and decisions were made within the prescribed amount. As at 30 June 2020 total requests were received for EUR 7.3 million. The rates of deterioration in customer solvency were significantly lower than those initially estimated. As at 30 June 2020 not all requests were confirmed due to non-compliance of requirements. Total payment deferrals amounted to:</p> <p>B2C* electricity and gas supply and distribution – EUR 0.6 million, B2B* electricity and gas supply and distribution – EUR 3.7 million,</p> <p>The rest of unconfirmed requests caused an increase in the level of overdue debts. Total overdue debts caused by COVID-19 including payment deferrals amount to EUR 7.2 million. Refer to the Note 11 for more information on total credit losses booked as at 30 June 2020.</p> <p><i>*B2B (abbr. of "business-to-business", i.e. business segment), B2C (abbr. of "business-to-customers", i.e. household segment)</i></p>
Cash flow from declining electricity and gas consumption during the quarantine period and slower recovery after it	<p>Changes in electricity consumption during quarantine: B2B decreased by about ~8-9% (peak reached in April of ~15-18%) B2C increased by 5-6%.</p> <p>It should be noted that comparing to the 2019 I half-year Ignitis UAB grew its customer portfolio, therefore the overall electricity consumption has increased by 18.2% (from 2.63 to 3.10 TWh), from which B2C increased by 5.3% (from 1.38 to 1.45 TWh), B2B – 43.6% (from 0.84 to 1.20 TWh).</p> <p>Natural gas consumption:</p> <ul style="list-style-type: none"> • During the quarantine there was no noticeable decrease in the volume of natural gas distributed in the Energijos skirstymo operatorius AB network, which could be directly related to the impact of quarantine.
Cash flows related to the risk of delays in major infrastructure projects' development (construction and development of new power plants)	<p>Due to impact of COVID-19 and the quarantine restrictions applied, the expected risk of delays for wind farms and cogeneration power plants or their individual phases is approximately proportional to the duration of the global quarantine, so some planned investments may be carried over to the end of 2020 or the beginning of 2021, respectively. At the date of issue of these interim financial statements, there are no significant indications of delays in achieving the set targets.</p>

Risk management of COVID-19 infection in employees

During the quarantine period, the Group strictly follows all the recommendations provided by the Government of the Republic of Lithuania regarding the management of the potential threat of COVID-19. The Group has all the conditions for efficient work remotely and does not experience any disruption in the performance of direct functions of employees. The Group's management pays special attention to manage the risk of infection of employees whose functions are to ensure the smooth operation of electricity generation, stable operation of the electricity system, electricity and gas distribution network's and supply's equipment, as well who work on construction sites. These employees are provided with additional personal protection and personal hygiene measures, prepared and implemented actions to ensure their substitutability, the zones at control points are separated by partitions, and etc. At the date of issue of these interim financial statements, the Group did not experience any problems with the functions performed by these employees due to COVID-19.

Management of Group's liquidity risk

The Group manages its liquidity risk by using these instruments:

- Short-term liquidity risk is managed by maintaining obligatory lines of credit and overdrafts, borrowing within the Group through the Cashpool platform. The period of these credit lines and overdrafts must be at least two years, and they must account for at least 20% of the Group's consolidated net debt. Non-obligatory credit lines can be used for maintaining extra liquidity, their extent is not limited. Liquidity is also maintained by means of the Group's investment in short-term debt instruments with a high credit rating (debt securities of states and corporations), short-term deposits or their certificates, and other money-market instruments that meet the requirements of liquidity and security of investments set forth in the Treasury Management Policy of the Group.
- Long-term liquidity risk is managed through continuous assurance by the Finance and Treasury Department of possibilities to finance the activities of the Group using at least two sources, i.e. debt securities, investment bank loans or commercial bank loans, and other means. By diversifying portfolio of long-term loans the Group aims that 20 to 40 percent of the Group's consolidated long-term debt would consist of financing from sources other than commercial bank loans.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

During the quarantine period, the Group concluded a loan agreement with AB Swedbank for EUR 100 million and issued bond emission for EUR 300 million. On 28 April 2020 the Group received the first tranche PLN 190 million, i.e. about EUR 43 million, of the loan, which was concluded between the Group's company Pomerania Wind Farm Sp. z o.o. and European Investment Bank (EIB) on 9 March 2020 (total amount of the loan is concluded for PLN 285 million, i.e. about EUR 60 million). At the date of issue of these interim financial statements, the Group did not experience any significant liquidity problems.

3.2 Provisions for rights to servitudes and special conditions on land use (protection zones)Provisions for rights to servitudes

On 1 November 2017 Amendments to the Law on Electricity of the Republic of Lithuania entered into force, which provide basis for the reimbursement of easements established during the installation of electricity networks on land plots not belonging to the operator. This law stipulates that when constructing transmission, distribution networks or installing other electrical equipment, one-time compensation for losses will be paid for the establishment of statutory servitudes (which entered into force before 10 July 2004). The servitudes payment methodology came into force in 31 July 2018. Based on this methodology, in 2018, the expected total amount of easement benefits was estimated and accounted for. In making this assessment, a significant assumption was made regarding the number of landowners who will apply for compensation, as the law provides reimbursement payments to those owners who will apply for it. At initial recognition, the Group recognized EUR 28,563 thousands of Intangible assets (assets are stated at cost less impairment, their useful lifetime is indefinite) and a provision for non-current liabilities in accordance with IAS 37, which amounted to EUR 28,725 thousand (provision calculated at discounted value). During period of 31 July 2018 – 30 June 2020 the amount of compensation paid amounted to EUR 1,932 thousand. Therefore, this amount reduced the initial provision for servitudes compensation, which amounted to EUR 27,318 thousand (part of assets) and EUR 27,642 thousand (liabilities side) before further changes in assumptions described below.

However, on 8 July 2020 the Constitutional Court issued a ruling stating that servitudes payment methodology, which was based on the principles of determining the coefficient and the value of a land plot, are against the Constitution and laws of the Republic of Lithuania (due to the applied 0.1 coefficient and the principle of determining a value of the land plot, where as in the meantime different principles and different coefficient was applied to the servitude by contract). This means that the Group will not be able to examine requests and apply the methodology where the methodology applied was deemed to be in conflict with Constitution, until the new methodology is set and approved. The ruling is only valid for the future and there is no need to recalculate previously paid compensation. The Group has assessed the following changes as adjusting events and, as appropriate, the Group has recalculated the provision for servitude benefits using new coefficient assumptions:

- The area of land on which electrical installations were installed before 10 March 1990, a coefficient of 0.1 as specified in the methodology shall apply. Such installations account for 88.93% of all installations installed before 10 July 2004. Therefore, a coefficient of 0.1 is applied to 89 percent of the area when calculating the total value of the payment. Assumption was made, that land with electricity distribution equipment installed before 10 March 1990, the land was acquired with an already installed network, so the ownership of the land was acquired with already established restrictions to the usage of the land, therefore the value and availability of this land has not changed and the servitudes payment coefficient of 0.1 should be used.
- The area of land on which electrical installations have been installed after 11 March 1990 and until 10 July 2004, a coefficient of 0.5 shall apply (the amount shall apply to the servitudes determined by contract). Such installations account for 11.07% of all installations installed before 10 July 2004. Therefore, a coefficient of 0.5 is applied to calculate the total value of the payment for 11 percent of the area.

The Group also reviewed other assumptions used in the calculation of the provision, specifically the expected number of applicants, the period over which all benefits will be paid, and the discount rate.

- The discount rate for calculating the provision was selected based on a borrowing rate of 0.345% for similar liabilities (2019 December 31: 0.559%).
- The expected number of applicants was estimated on the basis of available actual historical two-year information. The calculation of the total amount of benefits was based on the percentage of customers who are unlikely to apply for benefits - 65% (15% used as at 31 December 2019), which is based on management's assessment and the number of customers actually applying during 2018-2020, where, on average, only about 3% apply per year.
- The period during which customers will apply for compensation has been set at 10 years starting in 2020, as the application of the methodology has been temporarily suspended (the updated methodology is expected to be approved in the autumn of this year). An additional 1-year deadline for the payment of compensation from the date of submission of the application was applied (the methodology of servitude related compensations provides two years for the payment from the date of submission of the application, but in fact the Group pays within one year).

After assessing the changed circumstances, the Group decided to adjust a provision decreasing the amount of the provision (which was recognized as at 31 December 2019) from EUR 26,952 thousand to EUR 14,576 thousand.

It should be noted that the value of the provision may vary depending on the number of applicants. The sensitivity analysis is as follows:

30 June 2020	Number of applicants, %					
	20%	35%	50%	65%	80%	95%
Change in provision for compensations of servitudes, thousand EUR	-7,231	-	+7,701	+15,212	+22,724	+30,235

Provision for servitudes of real estate

On 8 July 2020 the Constitutional Court issued a ruling stating that servitudes payment methodology, which was based on the principles of determining the coefficient and the value of a land plot, are against the Constitution and laws of The Republic of Lithuania not only for the land plots, but also for real estate (due to the applied 0.1 coefficient, where as in the meantime different principles and different coefficient was applied to the servitude by contract). This means that the Group will not be able to examine requests and apply the methodology where the methodology applied was deemed to be in conflict with Constitution, until the new resolution is approved, issued by the Government of the Republic of Lithuania (dated 25 July 2018, resolution no. 725 approved methodology for determining the maximum amount of one-time compensations to be paid for the use of land and other real estate servitudes for the benefit of network operators established by a law or a contract (wording of 22 January 2020; TAR, 2020-01-30, No. 2103) (hereinafter - Methodology) provisions.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

As the application of the Methodology is suspended and it is not clear how it will be applied in the future and what coefficient will be applied, as no servitude benefit has been paid prior to the Constitutional Court decision, it is not possible to reliably estimate the amount of provision due to:

- a) as no compensations have been paid before the decision of Constitutional Court, it is not possible to estimate how many persons would apply for an servitude payment of real estate.
- b) it is not clear what coefficient should be applied to statutory servitudes in real estate until the Methodology is updated.

Accordingly, with the requirements of IAS 37, the said obligation does not qualify for provision recognition and is therefore not recognized in the financial statements. Also, the Group does not have sufficient information to estimate financial effect or possibility of any reimbursement of this obligation.

Provision for special conditions on land use (protection zones)

The Law on Special Land Use Conditions of the Republic of Lithuania was approved on 6 June 2019, which obliges the Group to register special protection conditions (protection zones) for land near the Group's infrastructure objects and to pay compensations for them. This Law defines the procedure and principles for the registration of such special land territories and provides that compensation must be paid for the use of special land territories in accordance with the procedure approved by the Government of the Republic of Lithuania.

The amendment to the Real Estate Cadastre Regulations necessary for the implementation of the Law on Special Land Use Conditions of the Republic of Lithuania entered into force on 12 February 2020, which details the procedure for changing tags and cadastral provisions for development and for existing networks. This amendment provides for an alternative process for registering protection zones (avoiding the change of cadastral data and the hiring of land surveyors). According to the Law on Special Land Use Conditions of the Republic of Lithuania, the Government has an order to adopt an amendment to this legal act by 1 January 2022 at the latest.

According to the management, the implementation of the obligation provided for in the Law on Special Land Use Conditions of the Republic of Lithuania to register special protection conditions (protection zones) and related provisions for the existing electricity and natural gas distribution network will be subject to a simpler procedure than in 2019. According to the Group, the simplified procedure will lead to lower surveyor costs, as it is expected that only a part of the plots will need to adjust the measurements, which will significantly reduce protection zone's registration costs. The planned amount of expenses related to the registration of protection zones for 2021-2024 is – EUR 12,767 thousand (i.e. for the 4 years period, change compared to 1 year period used for calculation as at 31 December 2019, which in turn increased the amount of the provision).

After assessing the changed circumstances, the Group decided to adjust a provision for asset's security registration expenses for 2021-2024, increasing the amount of the provision (which was recognized as at 31 December 2019) from EUR 8,328 thousand to EUR 12,767 thousand.

In addition to the above, the Ministry of Environment has prepared a methodology for the calculation and payment of Compensation for the application of special land use conditions in the territories specified in the Law on Special Land Use Conditions of the Republic of Lithuania, established in the public interest, which entered into force in 8 April 2020. In the light of the letter of the Ministry of Energy of the Republic of Lithuania issued on 18 June 2020, which explains that the provisions of the Methodology apply to both the existing network and the newly built network. According to the provisions of the Methodology, compensation for protection zones would be paid upon registration of protection zones, i.e. under the simplified procedure, this would happen after 2023, and the amount of compensation is of an evaluative nature, taking into account the main purpose of the plot, the scope of restrictions, the specific losses incurred and / or incurred by the plot owners based on supporting documents. In view of these Methodological requirements and the data available to the Group, the Group cannot reliably estimate future compensation for registered Special Land Use Conditions (Protected Areas), therefore, in accordance with IAS 37 this liability does not qualify for recognition and is therefore not recognized in the financial statements. In addition, management is not able to provide a quantitative assessment of a possible contingency without having all the necessary information.

4 Restatement of comparative figures due to correction of error, reclassifications and changes in accounting methods

Corrections of accounting errors, reclassifications between items and changes in accounting methods done in 2019 annual financial statements must be reflected in the comparative financial information of 2019 I half-year and 2019 II quarter. The Group provides information on restatements of certain figures presented in the interim financial statements for the six-month period ended 30 June 2020:

Correction of error applied retrospectively in 2019 and previous year annual financial statements

1. Error related to revenues from electricity trading exchange market

Group company Ignitis Polska Sp. z o.o., which operates in electricity trading exchange market by concluding forward and future electricity purchase and sale transactions, recognized income and expenses from these transactions aimed to earn a profit from the resulting short-term fluctuations in electricity prices in the separate items of profit or loss and other comprehensive income. However, after a thorough analysis of IFRS 9 Financial Instruments, the Group has determined that these transactions cannot be classified using the exception of "own-use" and only result (i.e. profit or loss) of these transactions should be recognized in the statement of Profit or Loss and Other Comprehensive Income (refer to the table "Corrected and reclassified captions of the Group's statement of Profit or Loss and Other Comprehensive Income" column No.1 in this Note). Correction of this error did not affect figures presented in the statement of cash flow for period 2019 I half-year.

Reclassifications applied in 2019 annual financial statements however not reflected in the interim financial statements prepared for the period 2019 I half-year

The Group changed presentation of several items in 2019 annual financial statements. As the presentation of these items were shown differently in the interim financial statements for the 2019 I half-year, the Group decided to reclassify comparative amounts. The following reclassifications did not have material effect on net profit of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

2. Reclassification of gas for trade purchases

Preparing the 2019 annual financial statements the purchases of gas for trade were reclassified between the line items “Purchases of gas and heavy fuel oil” and “Purchases of electricity, gas for trade and related services” in the statement of Profit or Loss and Other Comprehensive Income. Preparing these interim financial statements comparative figures for the period 2019 I half-year were reclassified accordingly (refer to the table “Corrected and reclassified captions of the Group’s statement of profit or loss and other comprehensive income” column No. 2 in this Note). This reclassification did not affect figures presented in the statement of cash flow for period 2019 I half-year.

3. Reclassification of related party transactions related to revenue received from electricity balancing services

Preparing the 2019 annual financial statements the additional amount of revenue received from electricity balancing services was reclassified between the line items “Revenue from contracts with customers” and “Purchases of electricity, gas for trade and related services” in the statement of Profit or Loss and Other Comprehensive Income. Preparing these interim financial statements comparative figures for the period 2019 I half-year were reclassified accordingly (refer to the table “Corrected and reclassified captions of the Group’s statement of profit or loss and other comprehensive income” column No. 3 in this Note). This reclassification did not affect figures presented in the statement of cash flow for period 2019 I half-year.

4. Reclassification of revenue received from sales of inventory, services and emission allowances

Preparing 2019 annual financial statements the Group made reclassification of the revenue received from sales of inventory items (metal scrap and other), some services and emission allowances: in the statement of Profit or Loss and Other Comprehensive Income this revenue was reclassified from “Other income” to “Revenue from contracts with customers”. Preparing these interim financial statements comparative figures for the period 2019 I half-year were reclassified accordingly (refer to the table “Corrected and reclassified captions of the Group’s statement of Profit or Loss and Other Comprehensive Income” column No. 4 in this Note). This reclassification did not affect figures presented in the statement of cash flow for period 2019 I half-year.

5. Reclassification of depreciation of assets held for sale

Preparing the 2019 annual financial statements the Group identified that depreciation expenses of the disposal group, which includes assets of subsidiaries Transporto valdymas UAB and Duomenų logistikos centras UAB held for sale, must be presented as impairment expenses. Therefore the depreciation expenses presented in the statement of Profit or Loss and Other Comprehensive Income related to the line item of “Depreciation and amortization” were reclassified to the line item “Impairment of property, plant and equipment”. Preparing these interim financial statements comparative figures for the period 2019 I half-year were reclassified accordingly (refer to the table “Corrected and reclassified captions of the Group’s statement of Profit or Loss and Other Comprehensive Income” column No. 5 in this Note).

6. Reclassification related to revenue from derivatives

As at 1 June 2019 Energijos tiekimas UAB was merged to Ignitis UAB. Preparing 2019 annual financial statements the Group identified that an additional revenue and related costs from derivatives that were merged during this business combination should be reclassified, therefore reclassifications were made between the following items in the statement of Profit or Loss and Other Comprehensive Income: “Other income” and “Purchases of electricity, gas for trade and related services”. Preparing these interim financial statements comparative figures for the period 2019 I half-year were reclassified accordingly (refer to the table “Corrected and reclassified captions of the Group’s statement of Profit or Loss and Other Comprehensive Income” column No. 6 in this Note). This reclassification did not affect figures presented in the statement of cash flow for period 2019 I half-year.

7. Other reclassifications

The Group made other not significant reclassifications so that items in 2019 I half-year would match presentation of 2019 annual financial statements (refer to the table “Corrected and reclassified captions of the Group’s statement of Profit or Loss and Other Comprehensive Income” column No. 7 in this Note). An effect of these reclassifications to the cash flow figures for the period 2019 I half-year is presented in the table “Reclassified captions of the Group’s statement of Cash Flow” in this Note.

Corrected and reclassified captions of the Group's statement of Profit or Loss and Other Comprehensive Income

Correction of error and reclassifications related to six months period ended as at 30 June 2019

	2019 I half-year as previously reported	Correction of error	Reclassifications					2019 I half-year after correction of error and reclassifications	
		Netting of revenues and expenses related to electricity trading exchange market	Reclassification of purchases of gas for trade	Reclassification of revenue related to sales electricity balancing services	Reclassification of revenue related to sales of inventory, services and emission allowances	Reclassification of depreciation of assets held for sale	Reclassification of revenue from financial derivatives		Other reclassifications
		1	2	3	4	5	6	7	
Revenue from contracts with customers	762,301	(130,173)	-	(11,330)	5,537	-	-	-	626,335
Other income	5,010	-	-	-	(5,537)	-	1,252	341	1,066
Revenue	767,311	(130,173)	-	(11,330)	-	-	1,252	341	627,401
Operating expenses									
Purchases of electricity, gas for trade and related services	(425,987)	130,173	(144,034)	11,330	-	-	(1,252)	-	(429,770)
Purchases of gas and heavy fuel oil	(155,984)	-	144,034	-	-	-	-	-	(11,950)
Depreciation and amortisation	(54,572)	-	-	-	-	1,957	-	(593)	(53,208)
Salaries and related expenses	(41,900)	-	-	-	-	-	-	-	(41,900)
Repair and maintenance expenses	(15,349)	-	-	-	-	-	-	-	(15,349)
Reversal of (impairment) of amounts receivable and loans	1,079	-	-	-	-	-	-	-	1,079
Impairment of property, plant and equipment	(327)	-	-	-	-	(1,957)	-	-	(2,284)
Other expenses	(18,140)	-	-	-	-	-	-	(267)	(18,407)
Total operating expenses	(711,180)	130,173	-	11,330	-	-	(1,252)	(860)	(571,789)
Profit (loss) from operations	56,131	-	-	-	-	-	-	(519)	55,612
Finance income	1,294	-	-	-	-	-	-	-	1,294
Finance costs	(9,872)	-	-	-	-	-	-	-	(9,872)
Profit (loss) before tax	47,553	-	-	-	-	-	-	(519)	47,034
Current year income tax (expenses)/benefit	(4,576)	-	-	-	-	-	-	-	(4,576)
Deferred income tax (expenses)/benefit	(5,487)	-	-	-	-	-	-	77	(5,410)
Net profit (loss) from continuing operations	37,490	-	-	-	-	-	-	(442)	37,048
Net profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
Net profit (loss)	37,490	-	-	-	-	-	-	(442)	37,048
Attributable to:									
Equity holders of the parent	35,468	-	-	-	-	-	-	(442)	35,026
Non-controlling interests	2,022	-	-	-	-	-	-	-	2,022
Other comprehensive income (loss)									
Items that will not be reclassified to profit or loss in subsequent periods									
Revaluation of Emission allowances	2,934	-	-	-	-	-	-	(32)	2,902
Recalculation of the defined benefit plan obligation, net of deferred income tax	(164)	-	-	-	-	-	-	-	(164)
Items that will not be reclassified to profit or loss in subsequent periods, total	2,770	-	-	-	-	-	-	(32)	2,738
Items that may be reclassified to profit or loss in subsequent periods, total									
Exchange differences on translation of foreign operations into the Group's presentation currency	27	-	-	-	-	-	-	-	27
Items that may be reclassified to profit or loss in subsequent periods, total	27	-	-	-	-	-	-	-	27
Total other comprehensive income (loss)	2,797	-	-	-	-	-	-	(32)	2,765
Total comprehensive income (loss) for the period	40,287	-	-	-	-	-	-	(474)	39,813
Attributable to:									
Equity holders of the parent	38,181	-	-	-	-	-	-	(474)	37,707
Non-controlling interests	2,106	-	-	-	-	-	-	-	2,106

Reclassified captions of the Group's statement of Cash Flow

Reclassifications related to six month period ended as at 30 June 2019

	2019, I half-year as previously reported	Reclassifi- cations	2019, I half-year after reclassifications
Cash flows from operating activities			
Net profit	37,490	(442)	37,048
Adjustments for non-monetary expenses (income):			
Depreciation and amortisation expenses	57,994	(1,364)	56,630
Impairment of property, plant and equipment, including held for sale	329	1,957	2,286
Revaluation of property, plant and equipment	(97)	-	(97)
Revaluation of investment property	335	-	335
Revaluation of derivatives	666	-	666
Impairment/ (reversal of impairment) of financial assets	(1,079)	-	(1,079)
Corporate income tax expenses	10,064	(77)	9,987
(Depreciation) of grants	(4,695)	-	(4,695)
Increase (decrease) in provisions	(2,315)	-	(2,315)
Inventory write-down to net realizable value/ (reversal)	4	-	4
Expenses/(income) of revaluation of emission allowances	247	-	247
Emission allowances utilised	987	-	987
Elimination of results of investing activities:			
(Gain)/loss on disposal/write-off of property, plant and equipment	1,793	-	1,793
Elimination of results of financing activities:			
Interest income	(1,231)	-	(1,231)
Interest expenses	7,691	-	7,691
Other (income)/expenses of financing activities	2,120	-	2,120
Changes in working capital:			
(Increase) decrease in trade receivables and other amounts receivable	54,156	(78)	54,078
(Increase) decrease in inventories, prepayments and other current and non-current assets	(1,517)	-	(1,517)
Increase (decrease) in amounts payable, deferred income and advance amounts received	(60,300)	(258)	(60,558)
Income tax (paid)	(1,810)	-	(1,810)
Net cash flows from (to) operating activities	100,832	(262)	100,570
Cash flows from investing activities			
(Purchase) of property, plant and equipment and intangible assets	(189,838)	-	(189,838)
Proceeds from sale of property, plant and equipment and intangible assets	25,679	-	25,679
Acquisition of investments in subsidiaries	(27,940)	267	(27,673)
Grants received	25,630	-	25,630
Interest received	13	-	13
Other increases (decreases) in cash flows from investing activities	(1,129)	-	(1,129)
Net cash flows from (to) investing activities	(167,585)	267	(167,318)
Cash flows from financing activities			
Loans received	63,102	-	63,102
Repayments of borrowings	(30,669)	-	(30,669)
Lease payments	(3,185)	-	(3,185)
Interest paid	(1,439)	-	(1,439)
Dividends paid	(13,292)	(5)	(13,297)
Net cash flows from (to) financing activities	14,517	(5)	14,512
Increase (decrease) in cash and cash equivalents (including overdraft)	(52,236)	-	(52,236)
Cash and cash equivalents (including overdraft) at the beginning of the period	85,575	-	85,575
Cash and cash equivalents (including overdraft) at the end of the period	33,339	-	33,339

Changes in accounting methods

1. Change in the accounting method for new customers connection fees

From 1 January 2018 connection fees in gas distribution activities were recognized as revenue when the customer's connection to the distribution network is finished. In electricity distribution activities from 1 January 2018 until 1 October 2018 connection fees were recognized as income over the useful life of the related, newly created property, plant and equipment (connection infrastructure), from 1 October 2018 (after the activity of public electricity supply was transferred from one group company to another) – revenue was recognized when the customer's connection to the distribution network is finished. After an in-depth analysis of the provisions stated in IFRS 15 Revenue from Contracts with Customers, the Group changed the accounting treatment for recognition of revenue from connection fees, which are received from new customers for connection to the gas and electricity distribution networks, determining that revenue should be recognized over the useful life of the related assets, which corresponds to the best estimate of customer relationship's period (refer to the table "Restated captions of the Group's statement of Profit or Loss and Other Comprehensive Income" column No.1, 2 and 3 in this Note).

2. Change in the accounting method for public service obligations' services (hereinafter "PSO")

Through the electricity tariff paid by electricity end-users, the Group collects PSO fees from business customers and private individuals connected to the electricity distribution network and transfers them to the PSO fund administrator (Baltpool UAB). The PSO fee, as an integral part of the electricity tariff, was not identified as a separate performance obligation. In 2018, the management considered the Group to be the principal party to the PSO fees, therefore the collected PSO fees were accounted for as revenue and when they were transferred to the PSO fund administrator as an expense. Preparing the 2019 annual financial statements, the Group changed the method of accounting for PSO fees, treating the Group as an agent for PSO fees, and accounted the income from collection and expenses after transfer of PSO fees in one expense line "Purchases of electricity, gas and related services" in the statement of profit or loss and other comprehensive income (refer to the table "Restated captions of the Group's statement of Profit or Loss and Other Comprehensive Income" column No.4 in this Note).

3. Change in accounting method for electricity transfer and gas distribution services supplied in Latvia

During 2018 in providing electricity and gas supply services in Latvia, the Group did not consider electricity transmission and gas distribution services, which are provided by a non-Group company and are included in the total price paid by end users for electricity and gas supply services, as separate performance obligations and therefore treated itself as the main provider of such services. Fees collected from customers for electricity transmission and gas distribution services were recognized as revenue and, when transferred to the electricity transmission network operator and the gas distribution system operator, as expenses. Preparing the 2019 annual financial statements the Group changed the accounting method of fees for electricity transfer and gas distribution services in Latvia, considering itself an agent, and accounted for the collection and transfer of these charges under one expense line "Purchases of electricity, gas for trading and related services" (refer to the table "Restated captions of the Group's statement of Profit or Loss and Other Comprehensive Income" column No.5 in this Note).

4. Change in the accounting method for liquified natural gas terminal's security component (hereinafter "LNGT")

The Group acts as a natural gas supplier, which collects the LNGT security component through a gas tariff paid by final gas customers and transfers it to the operator of transfer system. The LNGT security component, as an integral part of the natural gas tariff, has not been identified as a separate performance obligation. In 2018, the Group, acting as a supplier of natural gas to end users, was treated by management as a main party in respect of LNGT security component, therefore collected LNGT security component fees were accounted for as revenue and after transfer to the operator as an expense. Preparing the 2019 annual financial statements, the Group changed the method of accounting for the LNGT security component treating the Group as an agent in respect to the LNGT security component and collected and transferred LNGT security component fees accounted in one expense line "Purchases of electricity, gas and related services" (refer to the table "Restated captions of the Group's statement of Profit or Loss and Other Comprehensive Income" column No.6 in this Note).

The effect of changes in accounting methods to the cash flow figures for period 2019 I half-year is presented in the table "Restated captions of the Group's statement of Cash Flow" in this Note.

All amounts in thousands of euro unless otherwise stated

Restated captions of the Group's statement of Profit or Loss and other Comprehensive Income

Restatements related to the six months period ended at 30 June 2019

	2019 I half-year after correction of error and reclassifications	Restatements due to changes in accounting methods						2019 I half-year after correction of error, reclassifications and restatements
		Deferral of new customers connection fees revenue over time	Amendments of fair value of gas pipelines related to new connection fees	Impact of amendments to non-controlling interests	Netting of income and expenses related to PSO fees	Netting of income and expenses related to electricity transfer and gas distribution in Latvia	Netting of income and expenses related to LNGT security component	
		1	1	1	2	3	4	
Revenue from contracts with customers	626,335	(8,045)	(367)	-	(41,625)	(7,398)	(12,099)	556,801
Other income	1,066	-	-	-	-	-	-	1,066
Revenue	627,401	(8,045)	(367)	-	(41,625)	(7,398)	(12,099)	557,867
Operating expenses								
Purchases of electricity, gas for trade and related services	(429,770)	-	-	-	41,625	7,398	12,099	(368,648)
Purchases of gas and heavy fuel oil	(11,950)	-	-	-	-	-	-	(11,950)
Depreciation and amortisation	(53,208)	(1,581)	411	-	-	-	-	(54,378)
Salaries and related expenses	(41,900)	-	-	-	-	-	-	(41,900)
Repair and maintenance expenses	(15,349)	-	-	-	-	-	-	(15,349)
Reversal of (impairment) of amounts receivable and loans	1,079	-	-	-	-	-	-	1,079
Impairment of property, plant and equipment	(2,284)	-	-	-	-	-	-	(2,284)
Other expenses	(18,407)	-	-	-	-	-	-	(18,407)
Total operating expenses	(571,789)	(1,581)	411	-	41,625	7,398	12,099	(511,837)
Profit (loss) from operations	55,612	(9,626)	44	-	-	-	-	46,030
Finance income	1,294	-	-	-	-	-	-	1,294
Finance costs	(9,872)	-	-	-	-	-	-	(9,872)
Profit (loss) before tax	47,034	(9,626)	44	-	-	-	-	37,452
Current year income tax (expenses)/benefit	(4,576)	-	-	-	-	-	-	(4,576)
Deferred income tax (expenses)/benefit	(5,410)	1,206	167	-	-	-	-	(4,037)
Net profit (loss) from continuing operations	37,048	(8,420)	211	-	-	-	-	28,839
Net profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Net profit (loss)	37,048	(8,420)	211	-	-	-	-	28,839
Attributable to:								
Equity holders of the parent	35,026	-	-	(7,797)	-	-	-	27,229
Non-controlling interests	2,022	-	-	(412)	-	-	-	1,610
Other comprehensive income (loss)								
Items that will not be reclassified to profit or loss in subsequent periods								
Revaluation of Emission allowances	2,902	-	-	-	-	-	-	2,902
Recalculation of the defined benefit plan obligation, net of deferred income tax	(164)	-	-	-	-	-	-	(164)
Items that will not be reclassified to profit or loss in subsequent periods, total	2,738	-	-	-	-	-	-	2,738
Items that may be reclassified to profit or loss in subsequent periods, total								
Exchange differences on translation of foreign operations into the Group's presentation currency	27	-	-	-	-	-	-	27
Items that may be reclassified to profit or loss in subsequent periods, total	27	-	-	-	-	-	-	27
Total other comprehensive income (loss)	2,765	-	-	-	-	-	-	2,765
Total comprehensive income (loss) for the period	39,813	(8,420)	211	-	-	-	-	31,604
Attributable to:								
Equity holders of the parent	37,707	-	-	(7,797)	-	-	-	29,910
Non-controlling interests	2,106	-	-	(412)	-	-	-	1,694

Restated captions of the Group's statement of Cash Flow

Restatements related to the six month period ended as at 30 June 2019

	2019 I half-year after correction of error and reclassifications	Restatements	2019 I half-year after correction of error, reclassifications and restatements
Cash flows from operating activities			
Net profit	37,048	(8,209)	28,839
Adjustments for non-monetary expenses (income):			
Depreciation and amortisation expenses	56,630	1,170	57,800
Impairment of property, plant and equipment, including held for sale	2,286	-	2,286
Revaluation of property, plant and equipment	(97)	-	(97)
Revaluation of investment property	335	-	335
Revaluation of derivatives	666	-	666
Impairment/ (reversal of impairment) of financial assets	(1,079)	-	(1,079)
Corporate income tax expenses	9,987	(1,373)	8,614
(Depreciation) of grants	(4,695)	-	(4,695)
Increase (decrease) in provisions	(2,315)	(82)	(2,397)
Inventory write-down to net realizable value/ (reversal)	4	-	4
Expenses/(income) of revaluation of emission allowances	247	-	247
Emission allowances utilised	987	-	987
Elimination of results of investing activities:			
- (Gain)/loss on disposal/write-off of property, plant and equipment	1,793	-	1,793
Elimination of results of financing activities:			
Interest income	(1,231)	-	(1,231)
Interest expenses	7,691	-	7,691
Other (income)/expenses of financing activities	2,120	-	2,120
Changes in working capital:			
(Increase) decrease in trade receivables and other amounts receivable	54,078	-	54,078
(Increase) decrease in inventories, prepayments and other current and non-current assets	(1,517)	-	(1,517)
Increase (decrease) in amounts payable, deferred income and advance amounts received	(60,558)	8,494	(52,064)
Income tax (paid)	(1,810)	-	(1,810)
Net cash flows from (to) operating activities	100,570	-	100,570
Cash flows from investing activities			
(Purchase) of property, plant and equipment and intangible assets	(189,838)	-	(189,838)
Proceeds from sale of property, plant and equipment and intangible assets	25,679	-	25,679
Acquisition of investments in subsidiaries	(27,673)	-	(27,673)
Grants received	25,630	-	25,630
Interest received	13	-	13
Other increases (decreases) in cash flows from investing activities	(1,129)	-	(1,129)
Net cash flows from (to) investing activities	(167,318)	-	(167,318)
Cash flows from financing activities			
Loans received	63,102	-	63,102
Repayments of borrowings	(30,669)	-	(30,669)
Lease payments	(3,185)	-	(3,185)
Interest paid	(1,439)	-	(1,439)
Dividends paid	(13,297)	-	(13,297)
Net cash flows from (to) financing activities	14,512	-	14,512
Increase (decrease) in cash and cash equivalents (including overdraft)	(52,236)	-	(52,236)
Cash and cash equivalents (including overdraft) at the beginning of the period	85,575	-	85,575
Cash and cash equivalents (including overdraft) at the end of the period	33,339	-	33,339

5 Intangible assets

Movement on the Group's account of intangible assets are presented below:

	Patents and licences	Computer software	Emission allowances	Other intangible assets	Goodwill	In total
As at 31 December 2019						
Acquisition cost	4,665	25,958	51,805	89,164	3,611	175,203
Accumulated amortisation	(2,435)	(20,207)	-	(9,824)	-	(32,466)
Net book value	2,230	5,751	51,805	79,340	3,611	142,737
Net book value at 1 January 2020	2,230	5,751	51,805	79,340	3,611	142,737
Additions	-	130	677	3,349	-	4,156
Revaluation	-	-	4,684	-	-	4,684
Reclassified to/from property plant and equipment	-	-	-	-	1,316	1,316
Reclassifications between categories	(270)	2,721	-	(2,451)	-	-
Emission allowances utilised	-	-	(385)	-	-	(385)
Re-measurement of provision related to Rights to servitudes and security zones	-	-	-	(7,607)	-	(7,607)
Grant received on emission allowances	-	-	1,992	-	-	1,992
Amortisation change	(11)	(1,851)	-	(1,406)	-	(3,268)
Net book value at 30 June 2020	1,949	6,751	58,773	71,225	4,927	143,625
As at 30 June 2020						
Acquisition cost	2,186	25,807	58,773	82,041	4,927	173,734
Accumulated amortisation	(237)	(19,056)	-	(10,816)	-	(30,109)
Net book value	1,949	6,751	58,773	71,225	4,927	143,625

As at 30 June 2020 the Group's other intangible assets include rights to servitudes for an amount EUR 18,322 thousand (31 December 2019: EUR 29,975 thousand) and protection zones for an amount EUR 12,767 thousand (31 December 2019: EUR 8,328 thousand). Significant decrease was caused by change in management's assumptions used to evaluate the period-end balance of provisions of rights to servitudes and protection zones: provision for protection zones decreased by EUR 12,046 thousand, provision for rights to servitudes increased by EUR 4,439 thousand (Note 3.2).

Market price of emission allowances increased from EUR 24.93 per unit as at 31 December 2019 to EUR 26.90 per unit as at 30 June 2020 which led to revaluation of EUR 4,684 thousand during the period.

As at 30 June 2020 the Group performed impairment test for its goodwill. The tests showed that there is no need for impairment of goodwill as at 30 June 2020. The impairment test was performed using the discounted cash flow method and using the following key assumptions:

1. The cash flow forecast covered the period until the year 2040 as usual period of wind farm parks operations last for 25 years;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party or actual volume of production (depends on wind farm park).
3. During the first twelve years of operation, the price of electricity is equal to agreed tariff. After end of period when agreed tariff is applied, projection of electricity prices prepared by third party are used;
4. The cash flows were discounted using a discount rate (weighted average cost of capital after tax) of 5.3% (6.2% pre-tax).

6 Property, plant and equipment

Movement on the Group's account of property, plant and equipment are presented below:

	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations	Assets of Hydro Power Plant, Pumped Storage Power Plant	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Vehicles	IT and telecommunication equipment	Other property, plant and equipment	Construction-in-progress	In total
As at 31 December 2019												
Acquisition cost	3,371	30,981	1,390,318	290,446	210,729	65,234	776,583	3,618	22,827	12,574	374,248	3,180,929
Accumulated depreciation	-	(4,561)	(209,365)	(48,158)	(107,520)	(15,319)	(326,962)	(1,179)	(11,341)	(2,095)	-	(726,500)
Accumulated impairment	-	-	-	-	-	-	(106,277)	-	-	-	(335)	(106,612)
Net book value	3,371	26,420	1,180,953	242,288	103,209	49,915	343,344	2,439	11,486	10,479	373,913	2,347,817
Net book value at 1 January 2020	3,371	26,420	1,180,953	242,288	103,209	49,915	343,344	2,439	11,486	10,479	373,913	2,347,817
Additions	-	1,381	215	-	22	-	78	1,548	609	491	177,709	182,053
Sales	-	(9)	(34)	(6)	-	-	-	(134)	(1)	-	-	(184)
Write-offs	-	(2)	(1,383)	(143)	-	-	(11)	-	(6)	(16)	-	(1,561)
Revaluation	-	-	-	-	-	-	-	78	-	-	-	78
Reclassifications between categories	-	481	32,048	11,894	137	599	10	(2)	639	914	(46,720)	-
Reclassified from (to) assets, intangible assets	-	-	-	-	-	-	-	-	(1)	-	(1,316)	(1,317)
Reclassified from (to) assets held for sale (Note 13)	-	-	-	-	-	-	-	10,203	-	-	-	10,203
Reclassified from (to) investment property	-	-	(57)	-	-	-	314	-	-	-	-	257
Reclassified from (to) inventories	-	-	-	-	107	-	(11)	-	(1)	(4)	(12)	79
Reclassified from (to) right-of-use asset's	-	-	-	-	-	-	356	-	-	-	-	356
Depreciation change	-	(2,298)	(28,968)	(2,661)	(2,888)	(1,682)	(9,912)	(947)	(1,886)	(945)	-	(52,187)
Net book value at 30 June 2020	3,371	25,973	1,182,774	251,372	100,587	48,832	334,168	13,185	10,839	10,919	503,574	2,485,594
As at 30 June 2020												
Acquisition cost	3,371	32,832	1,418,838	302,442	210,988	65,833	777,629	15,878	20,929	11,832	503,909	3,364,481
Accumulated depreciation	-	(6,859)	(236,064)	(51,070)	(110,401)	(17,001)	(337,184)	(2,693)	(10,090)	(913)	-	(772,275)
Accumulated impairment	-	-	-	-	-	-	(106,277)	-	-	-	(335)	(106,612)
Net book value	3,371	25,973	1,182,774	251,372	100,587	48,832	334,168	13,185	10,839	10,919	503,574	2,485,594

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

The Group reviewed the carrying amount of its property, plant and equipment which are recognized at acquisition cost less depreciation and impairment to determine whether there are any indications that those assets have suffered an impairment loss. Assets with carrying amount of EUR 251,372 thousand (attributable to gas distribution CGU) showed some indications (see below point 1) and impairment test was performed. The impairment test showed that there is no need for impairment loss as at 30 June 2020. The following key assumptions were used by the Group in making impairment test:

- (1) Depreciation expenses from the share of new customers for the assets, which were entered into operation before 2020, will be included into the income (regulated tariffs) of gas distribution; Depreciation expenses from the share of new customers for the assets, which were entered into operation after 2020, will not be included into the income of gas distribution;
- (2) Discount rate was not changed compared to test performed as at 31 December 2019 – 5.07% (after tax) (5.96% pre-tax)
- (3) Updated long-term investment forecast of gas segment and its financing in accordance with the Group's updated 10-year investment plan: 1) based on cost-benefit analysis, the decision was made not to install smart meters (recommendation to update cost-benefit analysis every 4 years); 2) increase investments into new customers, increase financing of new customers.

The Group reviewed the carrying amount of its property, plant and equipment which are recognized at revalued amount (attributable to electricity CGU with carrying amount of EUR 1,245,921 thousand) to determine whether there are any indications that those assets have suffered an impairment loss or its fair value significantly changed. Analysis did not show any indication of impairment or significant change of fair value compared to 31 December 2019.

The Group did not identify any other assets which could have indications of impairment.

Acquisitions of tangible assets during 2020 I half-year include the following major acquisitions to the construction in progress:

- acquisitions for the construction of new high-efficiency waste-fired cogeneration power plants, the final exploitation and start of commercial activities of which are planned for the end of 2020,
- acquisitions related to the development of the electricity distribution network,
- acquisitions for construction projects of wind farms.

The Group has significant acquisition commitments of property, plant and equipment which will have to be fulfilled during the later years. Group's acquisition and construction commitments amounted to EUR 134,351 thousand as at 30 June 2020 (31 December 2019: EUR 128,504 thousand).

7 Right-of-use assets

Movement on Group's account of right-of-use asset is presented below:

	Land	Buildings	Structures and machinery	Wind power plants and their installations	Vehicles	Other property, plant and equipment	In total
31 December 2019							
Acquisition cost	16,143	13,874	8,232	27,290	823	317	66,679
Accumulated depreciation	(123)	(2,114)	(726)	(2,246)	(345)	(81)	(5,634)
Net book value at 1 January 2020	16,020	11,760	7,506	25,044	478	236	61,044
Additions	1,633	3,163	3	-	-	15	4,814
Write-offs	-	-	(5)	-	(84)	(59)	(148)
Reclassifications between categories	-	12	(12)	-	-	-	-
Reclassified from (to) tangible assets	-	-	-	-	(356)	-	(356)
Reclassified from (to) assets held for sale	-	144	90	-	-	-	234
Depreciation	(228)	(1,716)	(387)	(1,123)	(21)	(62)	(3,537)
Net book value at 30 June 2020	17,425	13,363	7,195	23,921	17	130	62,051
As at 30 June 2020							
Acquisition cost	17,774	16,646	8,304	27,290	21	261	70,296
Accumulated depreciation	(349)	(3,283)	(1,109)	(3,369)	(4)	(131)	(8,245)
Net book value	17,425	13,363	7,195	23,921	17	130	62,051

8 The structure of the Group

Directly and indirectly controlled subsidiaries

Reorganization of the Company's subsidiaries Ignitis grupės paslaugų centras UAB and Verslo aptarnavimo centras UAB was completed as at 1 January 2020. The subsidiary Verslo aptarnavimo centras UAB, which ceased operations after the reorganization, was reorganized by merging with the continuing Ignitis grupės paslaugų centras UAB. All assets, rights and obligations of Verslo aptarnavimo centras UAB were transferred to the continuing Ignitis grupės paslaugų centras UAB.

On 8 June 2020 announcement was made to dispose of all shares of Duomenų logistikos centras UAB. Transaction was not finalised as at interim reporting date due to pending decision by the Competition Council. For further information refer to Note 25 "Events after the reporting period".

The Group's structure as at 30 June 2020:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Ignitis grupė AB	Lithuania	Parent company	-	-	- Parent company
Subsidiaries of the Group:					
Energijos skirstymo operatorius AB	Lithuania	Subsidiary	97.6578	2.3422	Supply and distribution of electricity to the consumers; distribution of natural gas
Ignitis gamyba AB	Lithuania	Subsidiary	97.4463	2.5537	Electricity generation, supply, import, export and trade
NT Valdos UAB	Lithuania	Subsidiary	100.0000	-	- Disposal of real estate, other related activities and provision of services
Duomenų logistikos centras UAB	Lithuania	Subsidiary	79.6360	20.3640	Information technology and telecommunication services
Energetikos paslaugų ir rangos organizacija UAB	Lithuania	Subsidiary	100.0000	-	- Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
Elektroninių mokėjimų agentūra UAB	Lithuania	Subsidiary	100.0000	-	- Provision of collection services
Ignitis Eesti, OÜ	Estonia	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Ignitis Latvija SIA	Latvia	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Ignitis Polska Sp. z o.o.	Poland	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Ignitis grupės paslaugų centras UAB	Lithuania	Subsidiary	98.8339	1.1661	Provision of information technology and telecommunications and other services
Ignitis UAB	Lithuania	Subsidiary	100.0000	-	- Supply of electricity and gas
Ignitis paramos fondas	Lithuania	Subsidiary	100.0000	-	- Provision of support to projects, initiatives and activities, relevant to the society
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000	-	- Modernization of the provision of centralized supply of heat in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernization of the provision of centralized supply of heat in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000	-	- Production of renewable electricity
Eurakras UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity
Transporto valdymas UAB	Lithuania	Subsidiary	100.0000	-	- Transport management activity
Vėjo Vatas UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity
Vėjo Gūsis UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity
Gamybos optimizavimas UAB	Lithuania	Subsidiary	100.0000	-	- Supply of electricity and natural gas
VVP Investment UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity
Ignitis renewables UAB	Lithuania	Subsidiary	100.0000	-	- Production of renewable electricity
Pomerania Wind Farm Sp. z o. o.	Poland	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity

During April 2020 the Company has acquired shares from minority shareholders of subsidiaries Energijos skirstymo operatorius AB (23,932 thousand shares for the price of 0.88 EUR per share) and Ignitis gamyba, AB (4,082 thousand shares for the price of 0.64 EUR per share). Acquisition leads to increased percentage of ownership by 2.68% in Energijos skirstymo operatorius, AB and 0.63% in Ignitis gamyba, AB. Total consideration paid for the acquired shares equal to EUR 25,721 thousand, including premium equal to dividends for year 2019.

As at 18 May 2020 Ignitis grupė AB has exercised its right as the majority shareholder of Energijos skirstymo operatorius AB and Ignitis gamyba AB and has initiated the process of mandatory shares buyout from minority shareholders of these companies, as granted to by the law on securities of the Republic of Lithuania. Deadline for buy-out process was set as at 17 August 2020. The price of shares during mandatory buyout was agreed with the Bank of Lithuania and was set at same level as during the non-competitive tender offers (EUR 0.88 per share for Energijos skirstymo operatorius AB and EUR 0.64 per share for Ignitis gamyba AB). On 10 August 2020 the Group received a claim from minority shareholder of Energijos skirstymo operatorius AB and the buyout of this company's shares is postponed – for more information see note 25.

Ignitis grupė AB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

Despite the claim, the management of the Group determined, that the Group has plan and contractual obligation to buyout all the shares of the abovementioned subsidiaries. Consequently, the liability of EUR 29,030 thousand was recognized under the financial position caption "Other current amounts payable and liabilities" as at 30 June 2020. The management determined that the Company does not have a present ownership interest for the non-controlling interest, and applied an accounting policy of derecognizing the non-controlling interest. The difference between the liability of EUR 29,030 thousand and the non-controlling interest derecognized was recognized in equity, using above mentioned agreed prices of EUR 0.88 per 20 954 thousand shares of Energijos skirstymo operatorius AB and EUR 0.64 per 16 548 thousand shares of Ignitis gamyba AB. The price per share was determined using recommendation from Bank of Lithuania and was based on 6 months weighted average price of shares. The Group believes that the price for shares will not significantly change. As mentioned in note 25, mandatory buyout of Ignitis gamyba UAB was finished as at 17 August 2020.

On 21 May 2020 Nasdaq Vilnius AB has made a decision to remove the shares of the Company's subsidiaries Energijos skirstymo operatorius and Ignitis gamyba AB from the Official Trading List. The shares of Energijos skirstymo operatorius and Ignitis gamyba AB were removed on 1 July 2020 (the last day of trading on the Nasdaq Vilnius shares is 30 June 2020).

During 2020 I half-year there were no other significant changes in Group's structure than described above. There were no restructure, business combinations or activity discontinuations as well.

The Group's structure as at 31 December 2019:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Ignitis grupė AB	Lithuania	Parent company	-	-	- Parent company
Subsidiaries of the Group:					
Energijos skirstymo operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to the consumers; distribution of natural gas
Ignitis gamyba, AB	Lithuania	Subsidiary	96.8164	3.1836	Electricity generation, supply, import, export and trade
NT Valdos UAB	Lithuania	Subsidiary	100.0000	-	- Disposal of real estate, other related activities and provision of services
Duomenų logistikos centras UAB	Lithuania	Subsidiary	79.6360	20.3640	Information technology and telecommunication services
Energetikos paslaugų ir rangos organizacija UAB	Lithuania	Subsidiary	100.0000	-	- Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
Elektroninių mokėjimų agentūra UAB	Lithuania	Subsidiary	100.0000	-	- Provision of collection services
Ignitis Eesti, OÜ	Estonia	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Ignitis Latvija SIA	Latvia	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Ignitis Polska sp. z o.o.	Poland	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Ignitis grupės paslaugų centras, UAB	Lithuania	Subsidiary	97.9447	2.0553	Provision of information technology and telecommunications and other services
Verslo aptarnavimo centras UAB	Lithuania	Subsidiary	98.4061	1.5939	Organisation and execution of public procurement, accounting, legal, personnel administration services
Ignitis UAB	Lithuania	Subsidiary	100.0000	-	- Supply of electricity and gas
Ignitis paramos fondas	Lithuania	Subsidiary	100.0000	-	- Provision of support to projects, initiatives and activities, relevant to the society
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000	-	- Modernization of the provision of centralized supply of heat in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernization of the provision of centralized supply of heat in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000	-	- Production of renewable electricity
Eurakras UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity
Transporto valdymas UAB	Lithuania	Subsidiary	100.0000	-	- Transport management activity
Vėjo Vatas UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity
Vėjo Gūsis UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity
Gamybos optimizavimas UAB	Lithuania	Subsidiary	100.0000	-	- Supply of electricity and natural gas
VVP Investment UAB	Lithuania	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity
Ignitis renewables UAB	Lithuania	Subsidiary	100.0000	-	- Production of renewable electricity
Pomerania Invall Sp. z o. o.	Poland	Indirectly controlled subsidiary	100.0000	-	- Production of renewable electricity

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

Investments in associates

The Group's investments in associates did not change during 2020 I half-year and as at 30 June 2020 and 31 December 2019 were as follows:

	30 June 2020		31 December 2019	
	Carrying amount	Group's ownership interest, %	Carrying amount	Group's ownership interest, %
Geoterma UAB (Bankrupt)	2,142	23.44	2,142	23.44
Total	2,142		2,142	
Group's share of losses of associate	(2,142)		(2,142)	
Balance	-		-	

9 Non-current receivables

Non-current receivables comprised as follows:

	30 June 2020	31 December 2019
Non-current receivables		
Amount receivable on disposal of LitGrid AB	158,658	158,658
Finance lease	13,292	3,043
Accrued Kaunas cogeneration plant infrastructure installation cost compensation	-	606
Accrued revenue related to the capacity reserve	777	475
Loans granted	179	211
Other non-current amounts receivable	610	2,126
Total:	173,516	165,119
Less: allowance	-	(88)
Balance	173,516	165,031

Under the valid agreement between the Company and EPSO-G, during the period until year 2022 EPSO-G will have to cover the debt for the shares of Litgrid AB acquired in year 2012. The fair value of the amount receivable comprises the amount receivable for shares (30 June 2020 and 31 December 2019: EUR 174,535 thousand) and final price premium. The final price premium did not change during 2020 I half-year. The management's assessment of the amount of price premium as at 30 June 2020 was negative and equal to EUR 15,877 thousand. The amount receivable for EPSO-G shares is classified as financial assets at fair value through profit or loss. In more detail, the situation is described in Notes 3.1 and 4.8 of the 2019 annual financial statements.

10 Prepayments and deferred expenses

The Group's non-current prepayments as at 30 June 2020 and 31 December 2019 were as follows:

	30 June 2020	31 December 2019
Prepayments for property, plant, equipment	246	27,809
Balance	246	27,809

The Group's current prepayments as at 30 June 2020 and 31 December 2019 were as follows:

	30 June 2020	31 December 2019
Prepayments for natural gas	6,542	8,880
Deposits related to Power Exchange	22,892	19,195
Deferred expenses	3,682	1,306
Prepayments for other goods and services	3,293	13,693
Prepayments for electricity due to over-declaration by customers	-	5,194
Other prepayments	2,515	2,280
Balance	38,924	50,548

11 Trade receivables

The Group's trade receivables consist of:

	30 June 2020	31 December 2019
Amounts receivable under contracts with customers		
Trade receivables for electricity	83,534	77,439
Trade receivables for gas from non-household customers	24,162	31,990
Trade receivables for gas from household customers	2,969	3,479
Trade receivables for waste management	1,034	-
Trade receivables for exported electricity and electricity produced abroad	189	621
Trade receivables for sale of heat	56	545
Trade receivables for IT and telecommunications services	-	173
Other trade receivables	15,099	11,675
Trade receivables from other contracts		
Trade receivables for lease of assets	-	722
Total	127,043	126,644
Less: impairment of trade receivables	(9,596)	(8,777)
Balance	117,447	117,867

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

As at 30 June 2020 and 31 December 2019, the Group had not pledged the claim rights to trade receivables. Interest is not accrued on receivables under agreements with customers, and the regular settlement term is usually 15-30 days. Settlement term for deferred payments due to COVID-19 (Note 3.1) is described in Note 19.

The assessment model for valuation of amounts receivables did not change during 2020 I half-year: significant amounts receivable – individually, and all immaterial amounts – collectively by using the loss ratio matrix.

The table below presents information on the Group's trade receivables under contracts with customers as at 30 June 2020 that are assessed on a collective basis using the loss ratio matrix.

Group	Loss ratio	Trade receivables	Decrease in value
Not past due	1.31	53,753	702
Up to 30 days	4.66	8,792	410
30–60 days	10.49	1,458	153
60-90 days	26.04	1,640	427
90-120 days	32.36	924	299
More than 120 days	56.40	10,554	5,952
As at 30 June 2020	10.30	77,121	7,943

The table below presents information on the Group's trade receivables under contracts with customers as at 31 December 2019 that are assessed on a collective basis using the loss ratio matrix.

	Loss ratio	Trade receivables	Decrease in value
Not past due	0.19	46,329	86
Up to 30 days	4.22	8,337	352
30–60 days	7.44	833	62
60-90 days	17.24	609	105
90-120 days	23.16	354	82
More than 120 days	49.88	13,018	6,494
As at 31 December 2019	10.34	69,480	7,181

The table below presents information on the Group's trade receivables under contracts with customers that are assessed on an individual basis:

	30 June 2020		31 December 2019	
	Trade receivables	Decrease in value	Trade receivables	Decrease in value
Not past due	37,990	44	53,824	437
Up to 30 days	6,632	101	550	35
30–60 days	3,597	223	214	28
60-90 days	533	125	78	21
90-120 days	1,170	1,160	109	7
More than 120 days	-	-	2,389	1,068
Balance	49,922	1,653	57,164	1,596

12 Cash and cash equivalents

Cash, cash equivalents and a bank overdraft include the following for the purposes of the interim condensed consolidated cash flow statement:

	30 June 2020	31 December 2019
Cash and cash equivalents	283,265	131,837
Bank overdraft	-	(191,291)
Balance	283,265	(59,454)

Cash and cash equivalent as at 30 June 2020 and 31 December 2019 comprise cash in bank accounts.

13 Assets held for sale

The Group's non-current assets held for sale consist of as follows:

	30 June 2020	31 December 2019
Property, plant and equipment and investment property	1,811	4,753
Disposal group	7,863	35,890
Balance	9,674	40,643

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

Movement of non-current assets held-for-sale during the 2020 I half-year and 2019 I half-year were as follows:

	2020 I half-year	2019 I half-year
Balance as at 1 January	40,643	65,706
Disposals	(1,989)	(33,392)
Write-offs	-	(19)
Result of revaluation of non-current assets	(3)	(608)
Change of other assets attributed to disposal group	-	11,394
Increase (decrease) in property, plant and equipment and investment property	(928)	(572)
Impairment loss recognised on the remeasurement to fair value less costs to sell	-	(4,067)
Reclassified (to) from:		
Intangible assets	-	15
Property, plant, and equipment	(10,203)	1,062
incl. impairment	-	-
Investment property	-	1,124
Non-current receivables	(17,846)	-
Balance as at 30 June	9,674	40,643

As at 31 December 2019 the line item 'Disposal group' includes assets of subsidiaries Transporto valdymas UAB and Duomenų logistikos centras UAB amounting to EUR 35,890 thousand, which were intended to be disposed by the Group. During 2020 I half-year the management changed its decision to sell a subsidiary Transporto valdymas UAB. Therefore, as at 30 June 2020 a subsidiary intended to be sold is Duomenų logistikos centras UAB, the assets of which amounts to EUR 7,863 thousand. As at 30 June 2020 liabilities of EUR 3,232 thousand being disposed along with these assets were reported under the line item 'Liabilities related to non-current assets held for sale' (31 December 2019: EUR 5,322 thousand).

14 Issued capital

As at 30 June 2020 the Group's share capital comprised EUR 1,212,156,294 and was divided in to 4,179,849,289 ordinary shares with par value is EUR 0.29 of each. As at 31 December 2019 the Group's share capital comprised EUR 1,212,156,294 and was divided in to 4,179,849,289 ordinary shares with par value is EUR 0.29 of each.

As at 30 June 2020 and 31 December 2019 all shares were fully paid.

15 Loans and bonds

Borrowings

Borrowings of the Group consisted of:

	30 June 2020	31 December 2019
Non-current		
Bonds issued	886,215	590,120
Bank borrowings	341,936	231,809
	1,228,151	821,929
Current		
Current portion of non-current loans	21,203	37,454
Bank overdrafts	-	191,291
Accrued interest	11,890	5,446
	33,093	234,191
Total borrowings	1,261,244	1,056,120

On 10 March 2020 Pomerania Wind Farm Sp. z o.o. concluded an agreement with the European Investment Bank (EIB) for PLN 258 million (approximately EUR 60 million) loans for the implementation of its wind farm project. The first part of PLN 190 million (about EUR 43 million) was received on 28 April 2020. The Company and the EIB entered into a first call guarantee agreement to secure this loan. The Company's subsidiary Ignitis renewables UAB, which owns all Pomerania Wind Farm sp. z o.o. shares, entered into an agreement with the EIB for 100% of Pomerania Wind Farm sp. z o.o. shares' pledging in the favour of lender. The loan repayment term is 31 December 2035.

On 16 April 2020 the Group has signed an overdraft agreement with Swedbank AB for EUR 100 million. As at 30 June 2020, the undrawn credit facilities amounted to EUR 100 million. The repayment date of the loan is 16 October 2020.

On 14 May 2020, the Group placed a EUR 300 million issue of bonds with a 10-year term to maturity. Annual interest of 2.00% will be payable for bonds and they have been issued with the yield of 2.148%. Net cash inflows from bond emission comprise 98.55% of the par value of the bond issue or EUR 295,657,500.

1st half of 2020, expenses related to interest on the issued bonds totalled EUR 7,076 thousand (during 1st half of 2019: EUR 6,360 thousand). The accrued amount of coupon payable as at 30 June 2020 amounted to EUR 11,884 thousand (31 December 2019: EUR 5,446 thousand).

Non-current borrowings by maturity:

	30 June 2020	31 December 2019
From 1 to 2 years	108,911	32,104
From 2 to 5 years	63,621	95,719
After 5 years	1,055,619	694,106
In total	1,228,151	821,929

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

During 2020 I half-year the Group didn't have any breaches of financial and non-financial covenants due to which the classification to current and non-current should be changed.

The weighted average interest rates (%) on the Group's borrowings payable with fixed and variable interest rates:

	30 June 2020	31 December 2019
Non-current borrowings		
Fixed interest rate	2.069	2.069
Variable interest rate	0.958	0.958
Current borrowings		
Variable interest rate	0.446	0.446

Reconciliation of the Group's cash, borrowings and other financial liabilities except leasing liabilities and cash flows from financing activities:

	Assets		Borrowings and other liabilities			Total
	Cash	Non-current portion of non-current borrowings	Current portion of non-current borrowings	Current borrowings	Financial instruments and derivatives	
Balance at 1 January 2020	(131,837)	821,929	37,454	196,737	(2,741)	921,542
Cash changes						
Increase (decrease) in cash and cash equivalents	(151,428)	-	-	-	(227)	(151,655)
Proceeds from issued bonds	-	295,657	-	-	-	295,657
Proceeds from borrowings	-	116,354	-	-	-	116,354
(Repayments) of borrowings	-	-	(18,458)	(4,017)	-	(22,475)
Interest paid	-	(491)	(492)	(916)	-	(1,899)
Overdraft	-	-	-	(191,291)	-	(191,291)
Result from realization of financial instrument and derivatives	-	-	-	-	33	33
Non-cash changes						
Accrual of interest payable	-	4,238	496	5,009	-	9,743
Revaluation of financial instruments and derivatives	-	-	-	-	3,878	3,878
Reclassification of interest payable from (to) trade payables	-	(458)	(4)	(537)	-	(999)
Lease contracts concluded	-	-	-	34	-	34
Reclassifications between items	-	(9,078)	2,207	6,871	-	-
Balance at 30 June 2020	(283,265)	1,228,151	21,203	11,890	943	978,922

16 Lease liabilities

Movements in the Group lease liabilities during the 2020 I half-year:

	Non-current lease liabilities	Current lease liabilities	Total
Opening balance as at 1 January 2020	33,818	8,400	42,218
Cash changes			
Lease payments (principal portion)	(1,011)	(4,386)	(5,397)
Interest paid	-	(159)	(159)
Non-cash changes			
Lease contracts concluded	3,290	666	3,956
Interest charges	13	293	306
Reclassifications between items	(9,953)	9,953	-
Reclassifications to trade and other payables	(29)	(140)	(169)
Reclassification to liabilities attributable to assets held for sale	285	158	443
Other changes	11	-	11
Balance as at 30 June 2020	26,424	14,785	41,209

17 Provisions

Provisions of the Group consisted of:

	30 June 2020	31 December 2019
Non-current provisions	37,077	35,564
Current provisions	16,056	19,818
Total amount of provisions	53,133	55,382

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

Movement of the Group's provisions during the 2020 I half-year were as follows:

	Environmental emission allowance liabilities	Provisions for employee benefits	Provisions for rights to servitudes	Other provisions	Total
Balance as at 1 January 2020	479	3,540	26,952	24,411	55,382
Increase during the period	3,472	322	-	4,990	8,784
Utilised during the period	(385)	(269)	(258)	(2,667)	(3,579)
Revaluation of emission allowances utilised	980	-	-	-	980
Result of change in actuarial assumptions	-	(177)	-	3,861	3,684
Result of change in other assumptions	-	-	(12,118)	-	(12,118)
Balance as at 30 June 2020	4,546	3,416	14,576	30,595	53,133

As at 30 June 2020 significant part of other provisions includes:

- provisions for protection zones for an amount of EUR 12,766 thousand (31 December 2019: EUR 8,328 thousand),
- provisions for capacity reserve and system services for an amount of EUR 14,827 thousand (31 December 2019: EUR 12,718 thousand).

Significant change in provisions for rights to servitudes (compensations of servitudes) and protection zones were caused by change in management's key assumptions used to estimate the period-end balance (Note 3.2).

18 Advances received and deferred income

Deferred income

Movements in the Group deferred income during 2020 I half-year:

	Current portion	Non-current portion
Balance as at 1 January 2020	9,749	151,910
Received during the period	-	9,463
Recognised as income	(3,661)	-
Reclassification from other payable amounts	12	-
Reclassifications between items	3,984	(3,984)
Balance as at 30 June 2020	10,084	157,389

As at 30 June 2020 as well as 31 December 2019 deferred income represents an income from connection of new customers to natural gas system and to the electricity grid under the contracts with customers. Revenue from connection of new customers to natural gas system and to electricity grid is recognised over the average useful life of related items of property, plant and equipment. Due to COVID-19 impact the management reviewed useful lives of property, plant and equipment (Note 3.1) and didn't identify any indications that terms might be changed.

Advances received

The Group's advances received as at 30 June 2020 and 31 December 2019 were as follows:

	30 June 2020	31 December 2019
Current prepayments under contracts with customers (contract liabilities)	38,438	51,665
Current prepayments under other agreements	669	80
Balance	39,107	51,745

19 Revenue from contracts with customers

The Group's revenue from contracts with customers during 2020 and 2019 I half-year consisted of:

	2020, I half-year	2019, I half-year
Electricity related revenue		
Revenue from the sale of electricity	6,484	5,635
Revenue from public electricity supply	86,455	69,568
Revenue from sale of produced electricity	40,406	36,587
Income from capacity reserve services	28,311	30,473
Electricity distribution	278,885	245,051
Gas related revenue		
Revenue from gas sales	97,440	120,212
Gas security component income	14,119	14,859
Gas distribution	19,034	19,688
Other revenue		
Revenue from Public service obligation services	6,368	4,020
Connection fees	3,644	2,072
Proceeds from the sale of heat energy	1,442	2,653
Other revenue from contracts with customers	5,686	5,983
Total	588,274	556,801

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

Contract balances

Contract assets consists of trade receivables excluding receivables related to lease contracts. Contract liabilities consists of advances received EUR 38,438 thousand (31 December 2019: EUR 51,665 thousand), and deferred income. Balances arising from contracts with customers are as follows:

	Notes	30 June 2020	31 December 2019
Contracts' with customers – assets			
Trade receivables*	11	117,435	117,145
		117,435	117,145
Contracts' with customers – liabilities			
Advances received	18	38,438	51,665
Deferred income	18	167,473	161,659
		205,911	213,324

* Accounts receivables related to lease contracts are excluded

Rights to returned good assets and refund liabilities

Rights to returned goods assets and refund liabilities did not change from previous reporting period.

Performance obligations

Due to measures taken in respect of quarantine by the Government of Republic of Lithuania on 16 March 2020 (Note 3.1) to make possible to defer or arrange in portions the payments for the consumed electricity and natural gas, the Group provided special payments deferrals to customers for distribution and supply of electricity and gas.

As at 30 June 2020 requests for payments' deferrals do not exceed EUR 7.3 million, satisfied requests amount to about EUR 4.3 million, the rest led to a natural increase in the level of overdue debts. Payments were deferred for the following period: for household customers payments were deferred for 1 month after the quarantine ended, business customers – 3 months. Insignificant part exclusively was deferred for up to 9 – 12 months from the end of quarantine. The management didn't identify any significant financing component.

The regular payment term, except the term of deferred payments above, as at 30 June 2020 and 31 December 2019 was defined 30 days.

There are no warranties specified in the contracts. During 2020 I half-year there were no changes in timing of transfer of the goods and services: performance obligations of gas and electricity sale, supply, distribution, thermal energy, connection fees are satisfied over time, sales of inventory and scrap – at a specific point in time.

20 Dividends

The Company's announced distribution of dividends during the first half-year of 2020 and 2019:

	2020, I half-year		2019, I half-year	
	Dividends	Dividends per share	Dividends	Dividends per share
Ignitis grupė AB	28,000	0.0067	13,000	0.0031

21 Transactions with related parties

As at 30 June 2020 and 31 December 2019 the ultimate parent 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 balances of these transactions with the shareholder, 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 and their close family members.

The Group's transactions with related parties during the 2020 I half-year and 2019 I half-year are presented below:

Related party	2020, I half-year			2019, I half-year		
	Sales	Purchases	Finance incomes (expenses)	Sales	Purchases	Finance incomes (expenses)
Entity's controlled or under significant influence by the state						
EPSO-G UAB	-	-	398	18	-	541
Litgrid AB	43,468	80,349	-	38,765	64,362	-
Amber Grid AB	15,073	21,625	-	36,310	32,315	-
Baltpool UAB	73,093	31,462	-	8	16,446	-
Tetas UAB	58	2,513	-	311	1,546	4
GET Baltic UAB	16,208	15,301	-	19,932	1,144	-
Group's associate and other related parties						
	-	-	-	-	-	-
Total	147,900	151,250	398	95,344	115,813	545

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

The Group's balances with related parties as at 30 June 2020 and 31 December 2019 are presented below:

Related party	30 June 2020		31 December 2019	
	Amounts receivable	Amounts payable	Amounts receivable	Amounts payable
Entity's controlled or under significant influence by the state:				
EPSO-G UAB	159,338	-	158,943	-
Litgrid AB	11,778	15,286	10,297	14,749
Amber Grid AB	3,345	5,229	4,203	6,329
Baltpool UAB	9,927	6,160	11,682	10,177
Tetas UAB	16	575	84	869
GET Baltic UAB	1,181	1	754	-
Group's associate and other related parties	-	-	116	217
Total	185,585	27,251	186,079	32,341

Key management personnel's benefits for 2020 I half-year and 2019 I half-year were as follows:

	2020 I half-year	2019 I half-year*
Salaries and other short-term benefits	2,486	2,330
Whereof: Termination benefits and benefits to Board Members	219	249
Number of management staff	60	59

*Data for 2019 I half-year is revised by adding related information of Group companies which register seat is not in Lithuania.

Key Management personnel includes heads of administration, their deputies and board members.

22 Operating segments

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

In year 2018 a new strategy of the Group was approved. This strategy sets out four main lines of business for the Group - strategic generation, green generation, solutions for customers and an activity of distribution grid operator. Following the adoption of the new strategy, steps have been taken to refine the actions due. The scope of the operating segments has been modified following the changes as well as due to the changes in the Group's structure, which were completed in 2nd quarter of 2019, management from then follows its performance by operating segments that are consistent with the line of business specified in the Group's strategy:

- electricity supply and distribution and gas distribution segment renamed Networks and now includes only the distribution of electricity and gas activities carried out by Energijos skirstymo operatorius AB. Electricity public supply activity transferred to the segment of solutions for customers following the transfer from Energijos skirstymo operatorius AB to Ignitis UAB of this business activity;
- electricity generation segment separated into two segments – Flexible generation and Green generation. Flexible generation segment includes activities carried out by Ignitis gamyba AB (except Kaunas Algirdas' Brazauskas Hydro Power Plant, Kruonis pumped storage power plant, Biofuel and steam boiler). Green generation segment includes activities carried out by Ignitis gamyba AB (Kaunas Algirdas' Brazauskas Hydro Power Plant, Kruonis pumped storage power plant, Biofuel and steam boiler), Vilniaus kogeneracinė jėgainė UAB, Kauno kogeneracinė jėgainė UAB, Eurakras UAB, Tuuleenergia OU, Vėjo gūsis UAB, Vėjo vatas UAB, VVP Investment UAB, Ignitis renewables UAB, Pomerania Invall Sp. z o.o.;
- trade in gas and trade in electricity segments merged into one segment named Customers and Solutions. It includes activities carried out by Ignitis UAB, Energijos Tiekimas UAB (until 31 May 2019), Ignitis Eesti OÜ, Ignitis Latvija SIA, Ignitis Polska Sp. z o.o. Electricity energy public supply activity is taken over from networks segment following the transfer from Energijos skirstymo operatorius AB to Ignitis UAB of this business activity.

Other activities and eliminations include:

- support services companies (Ignitis grupės paslaugų centras UAB, Verslo aptarnavimo centras UAB);
- non-core activities companies (Energetikos paslaugų ir rangos organizacija UAB, Duomenų logistikos centras UAB, NT Valdosa UAB, Transporto valdymas UAB);
- additional service entities (Elektroninių mokėjimų agentūra UAB, Gamybos optimizavimas UAB);
- parent company Ignitis grupė AB;
- consolidation corrections and eliminations of intercompany transactions.

In 2020 operating segments were changed - parent company does not constitute a separate operating segment and for clarity and easier information for readers is no longer disclosed separately, but is combined with other companies included in other activities, consolidation adjustments and eliminations of intercompany transactions.

The Group has a single geographical segment – the Republic of Lithuania, electricity sales in Latvia, Estonia and Poland are not significant for the Group. 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 interim 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 adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (adjusted EBITDA – a non-IFRS alternative performance measure). Another performance measure is adjusted Earnings Before Interest and Taxes (adjusted EBIT – a non-IFRS alternative performance measure). Both measures are calculated starting from data presented in the interim financial statements prepared in accordance with IFRS as adjusted by management for selected items which are not defined by IFRS.

Ignitis grupė AB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

The Group management calculates EBITDA as follows:

Revenue -
Operating expenses +
Depreciation and amortisation expenses (Notes 5, 6, 7) +
Expenses on revaluation and provisions for emission allowances +
Impairment expenses of non-current assets (Notes 6, 13) +
Write-off expenses of non-current assets
EBITDA

The Group management calculates adjusted EBIT as follows:

EBIT +
Management adjustments (for revenues)+
Management adjustments (for expenses)-
Impairment and write-offs expenses of non-current assets -
Expenses on revaluation and provisions for emission allowances
Adjusted EBIT

The Group management calculates Investments as follows:

Additions of property, plant and equipment +
Additions of intangible assets +
Assets acquired through the acquisition of subsidiaries +
Additions of other financial assets +
Additions of investment property
Investments

The Group management calculates Net debt as follows:

Total borrowings (Note 15) +
Total lease liabilities (Note 16) -
Cash and cash equivalents (Note 12)
Net Debt

Management's adjustments, adjusted EBITDA and EBIT

Management's adjustments used in calculating adjusted EBITDA and EBIT:

Segment / Management's adjustments	2020 I half-year	2019 I half-year
Networks		
Temporary regulatory differences of Energijos skirstymo operatorius AB	(4,551)	16,054
Cash effect restatement new connection points and upgrades of Energijos skirstymo operatorius AB	4,484	4,092
Compensation received for the previous periods	-	(2,613)
Result of disposal of non-current assets	(140)	(71)
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	831	173
Flexible generation		
Temporary regulatory differences of Ignitis gamyba AB	-	(3,725)
Received compensation related to carried out projects in previous periods	-	(9,276)
Temporary fluctuations in fair value of derivatives	3,948	-
Result of disposal of non-current assets	(6)	-
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	66	(1,113)
Green generation		
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	9	4
Customers and Solutions		
Temporary regulatory differences of Ignitis UAB	(40,947)	4,192
Temporary fluctuations in fair value of electricity and gas derivatives of Ignitis UAB and Energijos tiekimas UAB (until 31 May 2019)	13,564	14,240
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	589	785
Other segments and consolidation adjustment		
Result of disposal of non-current assets	(416)	(321)
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	6	(159)
Ignitis grupė AB management and other fee's collected from controlled fund "Smart Energy Fund powered by Ignitis Group" for periods other than reporting period.	495	-
Consolidation adjustment of cash effect restatement for new consumers connection of Energijos skirstymo operatorius AB	1,336	2,559
	(20,732)	24,821

Ignitis grupė AB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

Group information about operating segments for 2020 I half-year is provided below:

	Networks	Flexible generation	Green generation	Customers and Solutions	Other activities and eliminations	Total Group
Sales revenue from external customers	236,087	38,527	39,488	272,693	4,117	590,912
Inter-segment revenue (less dividend)	1,879	(707)	159	(10,050)	8,719	-
Revenue	237,966	37,820	39,647	262,643	12,836	590,912
Purchases of electricity, gas for trade, and related services, gas and heavy fuel oil	(91,086)	(23,133)	(8,244)	(225,662)	(12,579)	(360,704)
Wages and salaries and related expenses	(27,201)	(3,561)	(2,924)	(4,639)	(11,391)	(49,716)
Repair and maintenance expenses	(8,101)	(1,701)	(1,305)	(2)	(125)	(11,234)
Other expenses	(15,481)	(1,736)	(3,374)	(7,331)	8,491	(19,431)
EBITDA	96,097	7,689	23,800	25,009	(2,768)	149,827
Depreciation and amortization	(40,970)	(5,698)	(6,289)	(3,242)	1,676	(54,523)
Impairment and write-offs expenses of non-current assets	(8,119)	11	1	-	5,846	(2,261)
Expenses on revaluation and provisions for emission allowances	-	367	-	-	-	367
Operating profit (loss) (EBIT)	47,008	2,369	17,512	21,767	4,754	93,410
EBITDA	96,097	7,689	23,800	25,009	(2,768)	149,827
Management adjustments (for revenues)	(207)	3,942	-	(27,383)	920	(22,728)
Management adjustments (for expenses)	831	66	9	589	501	1,996
Adjusted EBITDA	96,721	11,697	23,809	(1,785)	(1,347)	129,095
Depreciation and amortisation	(40,970)	(5,698)	(6,289)	(3,242)	1,676	(54,523)
Total adjusted operating profit (loss) (adjusted EBIT)	55,751	5,999	17,520	(5,027)	329	74,572
Property, plant and equipment, intangible and right-of-use assets	1,620,321	390,119	670,660	37,902	(27,732)	2,691,270
Investments	49,316	341	130,363	900	6,169	187,089
Net debt	693,436	(257)	325,411	58,848	(58,250)	1,019,188

Group information about operating segments for 2019 I half-year is provided below*:

	Networks	Flexible generation	Green generation	Customers and Solutions	Other activities and inter-company eliminations	Total Group
Sales revenue from external customers	208,466	47,430	35,980	261,530	4,461	557,867
Inter-segment revenue (less dividend)	3,152	67	2,014	5,507	(10,740)	-
Revenue	211,618	47,497	37,994	267,037	(6,279)	557,867
Purchases of electricity, gas for trade, and related services, gas and heavy fuel oil	(91,594)	(15,270)	(8,839)	(272,879)	7,984	(380,598)
Wages and salaries and related expenses	(22,122)	(3,239)	(1,843)	(2,204)	(12,492)	(41,900)
Repair and maintenance expenses	(11,489)	(2,406)	(1,041)	-	(413)	(15,349)
Other expenses	(15,848)	(569)	(2,309)	(8,263)	12,014	(14,975)
EBITDA	70,565	26,013	23,962	(16,309)	814	105,045
Depreciation and amortization	(40,141)	(5,784)	(6,338)	(670)	(1,445)	(54,378)
Impairment and write-offs expenses of non-current assets	(2,137)	(295)	-	-	(1,958)	(4,390)
Expenses on revaluation and provisions for emission allowances	-	(247)	-	-	-	(247)
Operating profit (loss) (EBIT)	28,287	19,687	17,624	(16,979)	(2,589)	46,030
EBITDA	70,565	26,013	23,962	(16,309)	814	105,045
Management adjustments (for revenues)	17,462	(13,001)	-	18,432	2,238	25,131
Management adjustments (for expenses)	173	(1,113)	4	785	(159)	(310)
Adjusted EBITDA	88,200	11,899	23,966	2,908	2,893	129,866
Depreciation and amortisation	(40,141)	(5,784)	(6,338)	(670)	(1,445)	(54,378)
Total adjusted operating profit (loss) (adjusted EBIT)	48,059	6,115	17,628	2,238	1,448	75,488
Property, plant and equipment, intangible and right-of-use assets	1,583,305	405,632	396,791	43,194	(61,138)	2,367,784
Investments	95,578	225	107,486	1,323	3,314	207,926
Net debt	640,255	(3,838)	147,494	78,987	(20,916)	841,982

*Certain amounts presented above do not correspond to the interim condensed consolidated financial statements prepared for the period of 2019 I half-year and reflect correction of error, reclassifications and changes of accounting methods, disclosed in Note 4.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of euro unless otherwise stated

Seasonality

The Group does not have significant seasonal fluctuations in its operations. Management has analysed seasonal fluctuations in significant subsidiaries (which revenue comprises approximately 90% of the Group's revenue) and did not identify significant fluctuations in main alternative performance measures in any of those subsidiaries. Only 1 component had fluctuations of revenue above 5% comparing 1st and 2nd half of the 2019 and similarly 2020 calendar year. During 1st half of 2020 that subsidiary earns app. 58% of its revenue, however, seasonality impact on main alternative performance measures is not significant.

23 Fair values of financial instruments

The Group's derivative financial instruments (Level 2 of the fair value hierarchy), the Group's price premium payable and amounts receivable for disposal of Litgrid AB shares (Level 3) are measured at fair value.

Fair value is determined on the basis of discounted cash flow models and option pricing models as appropriate.

The balance of the Group's financial assets and financial liabilities measured at amortised cost approximated their fair value, except for bond issue debts.

The bond issue debt of EUR 886,215 thousand (31 December 2019: EUR 590,120 thousand) (Note 15), the fair value of which was equal to EUR 897,652 thousand as at 30 June 2020 (31 December 2019: EUR 630,732 thousand), was reported in the Group's statement of financial position at 30 June 2020. The fair value was calculated by discounting future cash flows related to the coupon payments with reference to the interest rate observable in the market and the regular future payments related to issued bonds. The cash flows were discounted using a weighted average discount rate of 1.94% (31 December 2019 – 1.29%). Discount rates for certain bond issues are determined as 120 base points interest rate increased by EUR interest rate swap for tenors that is similar to period left until redemption of issued bonds. The bond issue debt is attributed to Level 2 of the fair value hierarchy.

The balance of debt liabilities to OP Corporate Bank Plc and SEB Bankas AB was equal to EUR 62,046 thousand as at 30 June 2020 (31 December 2019: EUR 82,246 thousand). The fair value of financial liabilities related to the debts, which is calculated by discounting future cash flows with reference to the interest rate observable in the market, is equal to EUR 57,540 thousand (31 December 2019 – EUR 80,936 thousand). The cash flows were discounted using a discount rate of 0.981% (31 December 2019 – 0.973%). The measurement of financial liabilities related to the debts is attributed to Level 2 of the fair value hierarchy.

The balance of the loans of the Group company Ignitis gamyba AB was equal to EUR 19,109 thousand (31 December 2019 – EUR 25,734 thousand). The fair value of these borrowings was approx. EUR 18,015 thousand as at 30 June 2020 (31 December 2019 – EUR 24,101 thousand). The fair value was measured as present value of discounted cash flows at a discount rate of 1.23% (31 December 2019 – 3.00%).

As at 30 June 2020, the Group accounted for an amount receivable for the sale of LitGrid AB at fair value through profit or loss. The carrying amount of the amount receivable was equal to EUR 158,658 thousand (31 December 2019 – EUR 158,658 thousand). Their fair value is attributed to Level 3 in the fair value hierarchy. Fair value was estimated on the basis of discounted cash flows using the rate of 0.614% (31 December 2019 – 0.614%).

The table below presents allocation between the fair value hierarchy levels of the Group's financial instruments as at 30 June 2020 (refer to Note 2.30 of 2019 annual financial statements for the description of the fair value hierarchy levels):

Group	Note	Balance	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Financial instruments measured at fair value through profit (loss)						
Assets						
Receivable for the sale of LitGrid AB	9	158,658	-	-	158,658	158,658
Derivative financial instruments		2,084	-	2,084	-	2,084
Liabilities						
Put option redemption liability		16,660	-	16,660	-	16,660
Derivative financial instruments		3,015	-	3,015	-	3,015
Financial instruments for which fair value is disclosed						
Liabilities						
Bonds issued	15	886,215	-	897,652	-	897,652
Debt liabilities to OP Corporate Bank Plc and SEB Bankas AB		62,046	-	57,540	-	57,540
Loans of Ignitis gamyba AB		19,109	-	18,015	-	18,015

24 Litigations

During 2020 I half-year there were no significant changes in litigations reported in annual financial statements for 2019 or new significant litigations except for mentioned below. Litigations after the reporting period are disclosed in note 25.

On 12 March 2020, AB "Šiaulių energija" ("SE") brought a claim against group company Energijos skirstymo operatorius AB before the Vilnius Regional Court claiming damages of EUR 1.3 million. The claim is in relation to losses suffered by SE due to an accident that occurred on 25 March 2019 on an electricity grid owned by a third person, a Lithuanian electricity transmission system operator, Litgrid AB, who is also a party to these proceedings. The damages account for repair works, electricity costs and loss of earning suffered by SE due to the accident. A hearing in relation to this claim is scheduled for 24 September 2020. The Group believes that it will defend its interests these proceedings successfully and has not made provisions for these proceedings.

On 11 June 2020 Lithuanian Court of Appeal changed judgement of Vilnius Regional Court dated 28 January 2020 and fully declined claim by Vilniaus energija UAB. The judgement is effective, but can be appealed till 11 September 2020.

25 Events after the reporting period

On 7 July 2020, the Group together with LITGRID AB (hereinafter 'Litgrid') concluded a share sale-purchase agreement with QEIF II Development Holding Sàrl, a subsidiary of Quaero European Infrastructure Fund II, managed by Quaero Capital, regarding the sale of shares of subsidiary Duomenų logistikos centras UAB (hereinafter 'DLC'). Under the agreement, the Group sold 79.64% of shares, and Litgrid – 20.36% of shares of DLC. Upon closing, QEIF II Development Holding Sàrl has acquired a title to 100% of DLC. The title to shares of DLC to QEIF II Development Holding Sàrl were transferred following the decision of Coordination Commission for the Protection of Objects of National Security on compliance of the transaction with national security interests, and the adoption of decision on consent for the transfer of the DLC shares by extraordinary General Meeting of Shareholders of Litgrid. The total value of the transaction is EUR 10.1 million. The subsidiary was sold with profit.

On 23 July 2020, the Ministry of Finance of the Republic of Lithuania (hereinafter 'the Ministry of Finance'), the authority implementing the rights of the sole shareholder of the Company, submitted for consideration draft resolution of the Government of the Republic of Lithuania 'On the amendments to the Resolution No 20 of the Government of the Republic of Lithuania of 14 January 1997 'On the dividends of company shares held by the State and profit contributions from state enterprises' and draft resolution of the Government of the Republic of Lithuania "On dividends paid by Ignitis grupė UAB". After the consideration, the draft resolutions will be submitted to the Government of the Republic of Lithuania. Following the approval of the resolutions by the Government of the Republic of Lithuania, the Company will approve the updated dividend policy. The Company will inform about further related actions in the manner set forth by laws.

On 28 July 2020 a new version of the Company's Articles of Association was registered and entered into force in the Register of Legal Entities, which changed the legal form of the Company from a private limited company to a public company and established the name of the Company - Ignitis grupė AB. The company's Articles of Association were amended in 30 June 2020 by the decision of the Ministry of Finance of the Republic of Lithuania.

On 3 August 2020, the Group received a claim from minority shareholder of subsidiary Ignitis gamyba AB regarding buyout of shares (Note 8). The claim asks to determine fair price of the shares. The Group thinks that this claim does not have significant effect on delisting of both subsidiaries or buyout.

On 10 August 2020, the Group received a claim from minority shareholder of subsidiary Energijos skirstymo operatorius AB regarding buyout of shares (Note 8). The claim asks to determine fair price of the shares and to postpone buyout of shares till the fair price will be determined. There is a possibility, that buyout of Energijos skirstymo operatorius AB shares might be postponed, but the Group thinks that this claim would not have significant effect on buyout of Energijos skirstymo operatorius AB shares.

The mandatory buyout of shares of group company AB Ignitis gamyba (hereinafter – GEN) was finished on 17 August 2020. Completed transactions were settled on 19 August 2020. During the period of the mandatory buyout, which lasted from 18 May 2020 to 17 August 2020, 4 859 782 (four million eight hundred fifty-nine thousand seven hundred and eighty-two) shares of GEN were bought out, which equals to 0.75 % of the authorized capital of GEN. After the mandatory buyout of shares of GEN, the Group owns 98.20% of the shares of GEN, other shareholders own 1.8% or 11 688 245 (eleven million six hundred eighty-eight thousand two hundred and forty-five) of the shares of GEN. At the time of the mandatory buyout of shares of GEN, the Group offered the price agreed with the Bank of Lithuania for the shares, which was the same as that paid during the non-competitive tender offer, i.e. EUR 0.640 per share.

26/08/2020

CERTIFICATION STATEMENT

Referring to the provisions of the Article 13 of the Law on Securities of the Republic of Lithuania and the Rules of disclosure of information of the Bank of Lithuania, we, Darius Maikštėnas, Chief Executive Officer of AB Ignitis grupė and, Darius Kašauskas, Finance and Treasury Director of AB Ignitis grupė, and Giedruolė Guobienė Head of Accounting department UAB Ignitis grupės paslaugų centras acting under Order No IS-88-20 of 10 April 2020, hereby confirm that, to the best of our knowledge, AB Ignitis grupė interim condensed consolidated financial statements for the six month period ended 30 June 2020 prepared according to International accounting standard 34 'Interim financial reporting' as adopted by the European Union, give a true and fair view of AB Ignitis grupė consolidated assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report includes a fair review of the development and performance of the business as well as the condition of AB Ignitis grupė together with the description of the principle risks and uncertainties it faces.

AB Ignitis grupė
Chief Executive Officer

A handwritten signature in blue ink, appearing to read 'Darius Maikštėnas', written over a faint grid background.

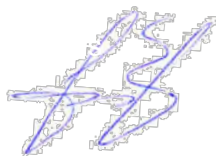
Darius Maikštėnas

AB Ignitis grupė
Finance and Treasury
Director

A handwritten signature in blue ink, appearing to read 'Darius Kašauskas', written over a faint grid background.

Darius Kašauskas

UAB Ignitis grupės paslaugų centras,
Head of Accounting department,
acting under Order No. IS-88-20
(signed 10 April 2020)

A handwritten signature in blue ink, appearing to read 'Giedruolė Guobienė', written over a faint grid background.

Giedruolė Guobienė



UAB „Ernst & Young Baltic“
Subačiaus g. 7
LT-01302 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholder of UAB Ignitis grupė

Report on the Audit of the Company's and Consolidated Financial Statements

Opinion

We have audited the accompanying separate financial statements of UAB Ignitis grupė (hereinafter the Company), and the consolidated financial statements of UAB Ignitis grupė and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2019, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2019 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). 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 are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter

How the matter was addressed in the audit

Impairment assessment of investments into subsidiaries and receivables from subsidiaries

As disclosed in Note 9 to the financial statements, the carrying value of the Company's investments into subsidiaries amounts to EUR 1,204 million and the total balance of receivables from these subsidiaries (comprising loans granted and accrued interest), amounts to EUR 835 million (Notes 10 and 18) as at 31 December 2019.

During the current year impairment indicators were identified by the management regarding the investments in certain subsidiaries, therefore an

We gained an understanding of the management's process for the evaluation of the performance of subsidiaries and for assessment of the recoverable value of investments in subsidiaries.

Among other procedures, we considered the completeness of the impairment indicators identified by the management by comparing the carrying value of the Company's investments into each subsidiary with the Company's share in the net assets of the subsidiary at their book value and discussing with the

Key audit matter

impairment assessment was performed by comparing the carrying value of these investments to their recoverable amount to determine whether an impairment was required to be recognised. The Company's management has assessed the recoverable amount based on the value in use calculations and fair value of net assets of subsidiary. As a result, no additional impairment loss has been identified. In addition, the Company's management has reversed EUR 13 million of the previously recognised impairment for the investments, as disclosed in Note 9 to the financial statements.

The management's assessment of the recoverable amount of investments into subsidiaries and impairment losses on receivables from them requires estimation and judgement around assumptions used as disclosed in Notes 9 and 10. Changes to these assumptions could lead to material changes in the estimated recoverable amount of investments and impairment losses on receivables from subsidiaries, impacting both potential impairment charges and also potential reversals of impairment recorded in prior years.

This annual impairment test was significant to our audit as it involves management judgment regarding the assumptions used in the underlying cash flows forecasts and net assets amounts calculated, respectively. Furthermore, the investments into the subsidiaries and receivables from these subsidiaries represent more than 92% of the total assets of the Company as at 31 December 2019. Therefore, we considered it to be a key audit matter.

Revenue from contracts with customers

Revenue from contracts with customers for the financial year ended 31 December 2019 amounts to EUR 1,079 million (EUR 1,024 million for the year ended 31 December 2018).

Application of appropriate financial reporting standards for revenue recognition from contracts with customers is rather complex and requires significant management judgement. Furthermore, as disclosed in Note 4.27 of the accompanying financial statements, the management of the Group in 2019 has reassessed the accounting treatment for certain transactions following the initial application of IFRS 15 "Revenue from contracts with customers" and restated comparative information in respect of connection fees of new customers to the distribution system, and agent vs. principal assessment for: (a) Public Service Obligations fees (PSO fee) of electricity distribution and supply services in Lithuania and of electricity supply services in Latvia; (b) Liquefied natural gas terminal security component (LNGT security component) for natural gas

How the matter was addressed in the audit

management their performance and outlook.

We also considered the assumptions and methodologies used by the management to determine the recoverable amounts of the investments in subsidiaries, including accounts receivable from these subsidiaries. We involved internal valuation specialists to assist us with the assessment of the valuation models and key assumptions used by the management in the value in use and fair value of net assets calculations for the specific business.

We assessed whether future cash flows were based on the business plans in the respective cash generating units, and whether net assets calculations were substantiated based on the assets fair value less cost to sell, where information on future disposal agreements was obtained. We tested the sensitivity in the available headroom of the investment considering if a possible change in assumptions could cause the carrying amount to exceed its recoverable amount and assessed the historical accuracy of management's estimates.

We also considered the subsidiaries' ability to repay the amounts due to the Company by examination of their liquidity position based on their financial statements as well as their future cash flow forecasts.

Finally, we evaluated the adequacy of the Company's disclosures included in Notes 9 and 10 to the financial statements about the assumptions used in the impairment test and the outcome of the test.

In relation to revenue recognition we performed the following procedures, among others:

- we gained an understanding of the revenue recognition and measurement processes for key revenue streams of the Group;
- we tested key controls implemented over the electricity distribution system and the gas and electricity supply processes;
- we tested relevant IT general controls for selected IT systems (including billing systems) used by the Group in the process of revenue recognition and measurement;
- we obtained external customer confirmations for selected largest customers of (a) gas distribution revenue, (b) revenue from trade in electricity and gas in Lithuania, (c) electricity generation revenue of the active capacity reserve and (d) revenue from assurance of the capacity reserve recognized by the Group;
- we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into

Key audit matter

supply service in Lithuania; (c) electricity transfer component, which includes both transmission and distribution, and gas distribution component in Latvia.

In addition, as disclosed in Note 4.26, the management of the Group has corrected some errors related to regulatory assets / liabilities recognition and revenue recognition for certain electricity trading exchange contracts. Due to changes in IFRS 15 application and correction of errors, the Group changed the comparative figures presented in the financial statements for 2019.

Revenue recognition was significant to our audit due to the materiality of the amounts involved, significant management judgment applied in analyzing and applying the IFRS revenue recognition requirements to the key revenue streams of the Group, and its impact on the consolidated financial statements for 2019.

How the matter was addressed in the audit

consideration historical revenue information, changes in approved tariffs and comparing with actual results;

- we understood how the amounts of regulatory assets / liabilities accounted for were calculated and performed recalculation of these amounts;
- we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period.

In relation to the accounting treatment changes and error corrections made in the 2019 financial statements comparative information with respect to IFRS 15 application, our procedures included the following, mainly to assess management's applied judgment and whether the new application better reflects the substance of the transactions entered into by the Group:

- we have read contracts with customers on a sample basis and reviewed IFRS 15 analysis prepared by the management as to whether performance obligations in contracts with customers have been appropriately identified and whether revenue related to the different performance obligations is recognized in accordance with IFRS 15 requirements;
- we have reviewed management's analysis to assess whether the Group acts as a principal or an agent in relation to (a) PSO fee of the electricity distribution and supply services in Lithuania and of electricity supply services in Latvia; (b) LNGT security component for natural gas supply service in Lithuania; and (c) electricity transfer component, which includes both transmission and distribution, and gas distribution component in Latvia in accordance with IFRS 15 requirements;
- we have assessed the calculations relating to the accounting treatment changes and error corrections related to the restated comparative information;
- we have involved our IFRS specialists to assist us with the assessment of the judgements made by the management.

Furthermore, we have considered the adequacy of disclosures done by the Group regarding:

- revenue from contracts with customers recognition and measurement accounting policies applied (Note 2.22),
- significant management judgment used to determine the appropriate accounting policies (Notes 4.12, 4.13 and 4.14), and
- accounting treatment and error correction changes as well as their impact on the amounts presented in the 2019 financial statements (Notes 4.26 and 4.27).

Key audit matter

Fair value assessment of property, plant and equipment of the electricity distribution segment

The property, plant and equipment allocated to the electricity distribution business segment (the electricity PPE) is accounted for at revalued amounts less subsequent accumulated depreciation and subsequent accumulated impairment losses and had a net book value of EUR 1,181 million as at 31 December 2019.

In 2018 the Group has performed a revaluation of property, plant and equipment of the electricity PPE and accounted for revaluation results (Note 4.3). IAS 16 requires the Group to perform a further revaluation of assets, when the fair value of a revalued asset differs materially from its carrying amount.

As disclosed in Note 4.3, the possible change in fair value of electricity PPE was tested by management of the Group as at 31 December 2019 by using a discounted cash flows model and comparing the potential fair value derived from the model to the carrying value of the electricity PPE.

The fair value assessment of property, plant and equipment was significant to our audit as it involves management's judgment in making the assumptions related to cash flows forecasts, as well as the discount rate, used in it as disclosed in Note 4.3. Furthermore, the carrying value of the electricity PPE represents approximately 37% of the total assets of the Group as at 31 December 2019.

Impairment assessment of property, plant and equipment

The property, plant and equipment allocated to gas distribution segment cash generating unit (the gas CGU) and the major part of hydroelectric and thermal power plant assets are accounted for at cost less accumulated depreciation and accumulated impairment losses, and had a net book value of EUR 243 million and EUR 447 million as at 31 December 2019, respectively.

Decreasing operating results of the gas distribution business segment in year 2019 were considered as an indication for potential impairment by the management. Therefore, the management of the

How the matter was addressed in the audit

Our audit procedures included, among others, the following:

- we have obtained an understanding of the process (including assumptions and methods) through which management perform their assessment of fair value changes of the electricity PPE;
- we considered reasonability of significant assumptions used by management in their estimation of cash flow forecasts by comparing previous management estimates of cash flows components to actual levels;
- we involved valuation specialists to assist us with the consideration of the discount rate and valuation model used by the management in the fair value assessment;
- we tested arithmetical accuracy of the discounted cash flows model;
- we tested the sensitivity of potential fair value changes of the electricity PPE, considering if a reasonably expected change in the assumptions (as disclosed in Note 4.3) could cause the fair value to significantly differ from its carrying value;
- we have read and compared the property, plant and equipment disclosure prepared by the management and presented in Note 6 to source data and supporting accounting registers;
- finally, we have considered the adequacy of the Group's disclosures included in Note 4.3 about the assumptions used in the fair value assessment and the outcome of the it, including sensitivity disclosures.

Our audit procedures included, among others, the following:

- we have obtained understanding of the process (including assumptions and methods) how management perform their assessment of gas CGU and hydroelectric and thermal power plant assets impairment testing;
- we considered reasonability of significant assumptions used by management in their estimation of cash flow forecasts by comparing previous management estimates of cash flows components to actual levels;

Key audit matter

Group performed an impairment test of the gas CGU based on the recoverable value estimate (using a discounted cash flows model) as disclosed in Note 4.3 to the accompanying financial statements. As a result of testing no additional impairment was recognized.

Management of the Group concluded that there are no indications indicating the possibility of impairment for hydroelectric and thermal power plants, therefore as of 31 December 2019 no impairment tests were carried out for these assets, except of the Elektrėnai complex. The management of the Group performed an impairment test of Elektrėnai complex based on the recoverable value estimate (using a discounted cash flows model) as disclosed in Note 4.4 to the accompanying financial statements. As a result of testing no additional impairment was recognized.

The impairment tests were significant to our audit as they involve management judgment in making the assumptions related to cash flows forecasts, as well as the discount rate, used in the recoverable value estimates as disclosed in Notes 4.3 and 4.4. Furthermore, the gas CGU and hydroelectric and thermal power plant assets carrying values represent approximately 8% and 14% of the total assets of the Group as at 31 December 2019, respectively.

How the matter was addressed in the audit

- we involved valuation specialists to assist us with the consideration of the discount rate and valuation model used by the management in the gas CGU and Elektrėnai complex impairment tests;
- we tested arithmetical accuracy of the discounted cash flows models;
- we tested the sensitivity in the available headroom of the gas CGU and Elektrėnai complex considering if a reasonably expected change in the assumptions (as disclosed in Notes 4.3 and 4.4) could cause the carrying amount to exceed its recoverable amount;
- we have read and compared the property, plant and equipment disclosure prepared by the management and presented in Note 6 to source data and supporting accounting registers;
- we have analyzed changes in the regulatory environment, taking into account the recent decisions made by the National Energy Regulatory Council and assessed their impact on management assumptions used in the calculation of the recoverable amounts of the gas CGU and Elektrėnai complex;
- finally, we have considered the adequacy of the Group's disclosures included in Notes 4.3 and 4.4 about the assumptions used in the impairment test and the outcome of the test, including sensitivity disclosures.

Other matters

The statutory Company's separate financial statements and the Group's consolidated financial statements for the year ended 31 December 2018 were audited by other auditor which has issued an unqualified opinion as of 16 April 2019.

Other information

Other information consists of the information included in the Group's 2019 Annual Report, including Corporate Governance Report Annex and the Chapter of Corporate Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection to our audit of the financial statements, our responsibility is to read the other information 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.

We also have to evaluate, if the financial information included in the Group's Annual Report, including Corporate Governance Report, corresponds to the financial statements for the same financial year and if the Group's Annual Report, including Corporate Governance Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- ▶ The financial information included in the Group's Annual Report, including Corporate Governance Report, corresponds to the financial information included in the financial statements for the year then ended; and
- ▶ The Group's Annual Report, including Corporate Governance Report, was prepared in accordance with the

requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, 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 the 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/or the 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 the 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 skepticism 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/or the 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/or the 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.

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

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

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder in 2019 we have been appointed to carry out the audit of the Company's and the Group's consolidated financial statements. Our appointment to carry out the audit of the Company's and the Group's consolidated financial statements in accordance with the shareholder's has been made for a three-year period. The audit of the financial statements for the year ended 31 December 2019 was our first annual audit of the Company and the Group.

Consistency with the audit report submitted to the audit committee

We confirm that our opinion in the section 'Opinion' is consistent with the additional Audit report which we have submitted to the Company, the Group and the Audit Committee.

Non audit services

We confirm that to the best of our knowledge and belief, services provided to the Company and the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in the Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period, we have not provided to the Company and the Group any other services except for the audit of the financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

22 April 2020

Ignitis grupė UAB, company code 301844044, Žvejų str. 14, LT-09310 Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION
At 31 December 2019

All amounts are in EUR thousand unless otherwise stated

Group's Statement of Financial Position

	Notes	Group				Notes	Group		
		At 31 December 2019	At 31 December 2018 (restated*)	At 1 January 2018 (restated*)			At 31 December 2019	At 31 December 2018 (restated*)	At 1 January 2018 (restated*)
ASSETS									
Non-current assets									
Intangible assets	5	142,737	106,330	36,360					
Property, plant and equipment	6	2,347,817	2,091,386	1,761,082					
Right-of-use assets	7	61,044	-	-					
Prepayments for non-current assets	15	27,809	23,621	21,911					
Investment property	8	5,530	6,494	14,878					
Non-current receivables	10,11	165,031	160,606	170,488					
Other financial assets	12	3,735	2,008	426					
Other non-current assets	13	5,087	6,094	3,239					
Deferred tax assets	25	11,770	14,468	18,081					
Total non-current assets		2,770,560	2,411,007	2,026,465					
Current assets									
Inventories	14	46,621	43,137	56,866					
Prepayments and deferred expenses	15	50,548	30,655	38,119					
Trade receivables	16	117,867	143,120	112,092					
Other receivables	17	31,780	25,436	27,800					
Other current assets		5,796	2,147	1,093					
Prepaid income tax		2,434	4,192	2,102					
Other financial assets	12	-	656	-					
Cash and cash equivalents	19	131,837	127,835	171,756					
		386,883	377,178	409,828					
Assets held for sale	20	40,643	65,706	79,301					
Total current assets		427,526	442,884	489,129					
TOTAL ASSETS		3,198,086	2,853,891	2,515,594					
EQUITY AND LIABILITIES									
Equity									
Issued capital	21	1,212,156	1,212,156	1,212,156					
Reserves	22	259,651	212,802	99,380					
Retained earnings (deficit)		(172,188)	(169,994)	(73,353)					
Equity attributable to equity holders of the parent		1,299,619	1,254,964	1,238,183					
Non-controlling interests		49,001	47,558	42,651					
Total equity		1,348,620	1,302,522	1,280,834					
Liabilities									
Non-current liabilities									
Non-current loans and bonds	23	821,929	735,410	480,068					
Non-current lease liabilities	24	33,818	14,334	187					
Grants and subsidies	26	267,949	208,874	200,311					
Deferred income tax liabilities	25	38,408	36,409	36,049					
Provisions	28	35,564	35,355	7,367					
Deferred income	27	151,910	136,438	128,704					
Other non-current amounts payable and liabilities	29	883	1,887	1,832					
Total non-current liabilities		1,350,461	1,168,707	854,518					
Current liabilities									
Current portion of non-current loans	23	37,454	61,819	119,599					
Current loans	23	196,737	47,727	14,082					
Lease liabilities	24	8,400	5,220	145					
Trade payables	30	78,567	93,237	98,338					
Advances received	27	51,745	49,766	27,765					
Income tax payable		6,171	4,545	3,695					
Provisions	28	19,818	5,558	2,498					
Deferred income	27	9,749	9,122	4,365					
Other current amounts payable and liabilities	31	85,042	102,682	109,421					
		493,683	379,676	379,908					
Liabilities directly associated with the assets held for sale	20	5,322	2,986	334					
Total current liabilities		499,005	382,662	380,242					
Total liabilities		1,849,466	1,551,369	1,234,760					
TOTAL EQUITY AND LIABILITIES		3,198,086	2,853,891	2,515,594					

*Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27

All amounts are in EUR thousand unless otherwise stated

Company's Statement of Financial Position

	Notes	Company	
		At 31 December 2019	At 31 December 2018
ASSETS			
Non-current assets			
Intangible assets	5	1,874	1,874
Property, plant and equipment	6	86	427
Right-of-use assets		838	-
Prepayments for non-current assets	15	144	816
Investments in subsidiaries	9	1,204,494	1,206,921
Non-current receivables	10, 11	723,201	679,593
Other financial assets	12	3,474	2,008
Deferred tax assets	25	763	1,077
Total non-current assets		1,934,874	1,892,716
Current assets			
Prepayments and deferred expenses	15	32	62
Other receivables	11, 17	380	631
Prepaid income tax		-	15
Current loans	18	270,949	189,324
Cash and cash equivalents	19	144	231
		271,505	190,263
Assets held for sale	20	7,141	7,141
Total current assets		278,646	197,404
TOTAL ASSETS		2,213,520	2,090,120

	Notes	Company	
		At 31 December 2019	At 31 December 2018
EQUITY AND LIABILITIES			
Equity			
Issued capital	21	1,212,156	1,212,156
Reserves	22	80,720	19,811
Retained earnings		36,525	78,231
Total equity		1,329,401	1,310,198
Liabilities			
Non-current liabilities			
Non-current loans and bonds	23	639,465	671,245
Non-current lease liabilities	24	563	-
Provisions	28	-	-
Other non-current amounts payable and liabilities	29	-	378
Total non-current liabilities		640,028	671,623
Current liabilities			
Current portion of non-current loans	23	32,901	57,401
Current loans	23	196,737	47,721
Lease liabilities	24	277	-
Trade payables	30	259	947
Advances received	27	52	51
Provisions	28	-	806
Other current amounts payable and liabilities	31	13,865	1,373
Total current liabilities		244,091	108,299
Total liabilities		884,119	779,922
TOTAL EQUITY AND LIABILITIES		2,213,520	2,090,120

Ignitis grupė UAB, company code 301844044, Žvejų str. 14, LT-09310 Vilnius, Lithuania
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

All amounts are in EUR thousand unless otherwise stated

Statement of Profit or Loss and other Comprehensive Income

	Notes	Group		Company			Notes	Group		Company	
		2019	2018 (restated*)	2019	2018			2019	2018 (restated*)	2019	2018
Revenue from contracts with customers	32	1,079,347	1,024,278	3,283	3,188	Other comprehensive income (loss)					
Other income	33	11,280	45,782	25	703	Items that will not be reclassified to profit or loss					
Dividend income	39	-	-	25,918	67,378	Revaluation of property, plant and equipment, net of deferred income tax effect	(2)	103,941			
		1,090,627	1,070,060	29,226	71,269	Revaluation of Emission allowances	721	19,198			
Operating expenses						Recalculation of the defined benefit plan obligation, net of deferred income tax	(28)	77	-	-	
Purchases of electricity, gas for trade and related services	34	(711,669)	(768,462)	-	-	Items that will not be reclassified to profit or loss in subsequent periods, total	691	123,216	-	-	
Purchases of gas and heavy fuel oil		(22,987)	(26,545)	-	-	Items that may be reclassified to profit or loss in subsequent periods, total					
Depreciation and amortisation	5, 6, 7, 26	(109,887)	(87,664)	(273)	(7)	Exchange differences on translation of foreign operations into the Group's presentation currency	(5)	(26)	-	-	
Salaries and related expenses		(86,986)	(79,741)	(5,582)	(5,067)	Items that may be reclassified to profit or loss in subsequent periods, total	(5)	(26)	-	-	
Repair and maintenance expenses		(29,798)	(21,200)	-	-	Total other comprehensive income (loss)	686	123,190	-	-	
Revaluation of property, plant and equipment	6, 7, 26	(816)	(67,671)	-	-	Total comprehensive income (loss) for the period	59,662	101,219	32,203	44,688	
Impairment (reversal of impairment) of investments in subsidiaries		-	-	13,047	(6,815)	Attributable to:					
Impairment (reversal of impairment) of amounts receivable and loans		172	(9,876)	(1,394)	(11,198)	Equity holders of the parent	57,351	94,964	32,203	44,688	
Impairment of property, plant and equipment	6, 20	(8,655)	(3,151)	-	-	Non-controlling interests	2,311	6,255	-	-	
Other expenses	35	(37,208)	(26,143)	(1,891)	(1,357)						
Total operating expenses		(1,007,834)	(1,090,453)	3,907	(24,444)						
Finance income	36	2,193	1,621	15,502	10,069						
Finance expenses	37	(18,833)	(14,899)	(17,015)	(12,169)						
Results of the revaluation and closing of derivative financial instruments		-	(573)	-	(572)						
Profit (loss) before tax		66,153	(34,244)	31,620	44,153						
Current year income tax (expenses)/benefit	38	(6,739)	(4,604)	-	7						
Deferred income tax (expenses)/benefit	38	(438)	16,877	583	528						
Net profit (loss)		58,976	(21,971)	32,203	44,688						
Attributable to:											
Equity holders of the parent		56,665	(22,440)	32,203	44,688						
Non-controlling interests		2,311	469	-	-						

*Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2019

All amounts are in EUR thousand unless otherwise stated

Group's Statement of Changes in Equity

Group	Notes	Equity attributable to equity holders of the Company					Subtotal	Non-controlling interests	In total
		Issued capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings			
Balance as at 1 January 2018 as previously reported		1,212,156	46,512	52,826	42	(13,706)	1,297,830	45,796	1,343,626
Effect of change in accounting policies following the adoption of new IFRS		-	-	-	-	(59,647)	(59,647)	(3,145)	(62,792)
Restated balance as at 1 January 2018		1,212,156	46,512	52,826	42	(73,353)	1,238,183	42,651	1,280,834
Revaluation of non-current assets, net of deferred income tax effect		-	-	117,357	-	-	117,357	5,781	123,138
Exchange differences on translation of foreign operations into the Group's presentation currency		-	-	-	(26)	-	(26)	-	(26)
Result of change in actuarial assumptions		-	-	-	-	73	73	5	78
Total other comprehensive income (loss)		-	-	117,357	(26)	73	117,404	5,786	123,190
Net profit (loss) for the reporting period (restated*)		-	-	-	-	(22,440)	(22,440)	469	(21,971)
Total comprehensive income for the period (restated*)		-	-	117,357	(26)	(22,367)	94,964	6,255	101,219
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(6,746)	-	6,746	-	-	-
Emission allowances utilised		-	-	(473)	-	473	-	-	-
Depreciation of the revaluation reserve of emission allowances		-	-	(29)	-	29	-	-	-
Transfer to reserves, movement in reserves		-	3,339	-	-	(3,339)	-	-	-
Dividends	39	-	-	-	-	(78,265)	(78,265)	(2,596)	(80,861)
Increase in issued capital of Kauno kogeneracinė jėgainė UAB		-	-	-	-	-	-	1,172	1,172
Acquisition of subsidiary		-	-	-	-	82	82	-	82
Part of the increase in issued share capital of Ignitis gamyba AB by way of in-kind contribution attributable to non-controlling interests		-	-	-	-	-	-	76	76
Balance as at 31 December 2018 (restated*)		1,212,156	49,851	162,935	16	(169,994)	1,254,964	47,558	1,302,522
Balance as at 1 January 2019		1,212,156	49,851	162,935	16	(169,994)	1,254,964	47,558	1,302,522
Revaluation of property, plant and equipment, net of deferred income tax effect		-	-	(2)	-	-	(2)	-	(2)
Revaluation of Emission allowances		-	-	699	-	-	699	22	721
Exchange differences on translation of foreign operations into the Group's presentation currency		-	-	-	(5)	-	(5)	-	(5)
Remeasurement of the defined benefit plan obligation, net of deferred income tax		-	-	-	-	(26)	(26)	(2)	(28)
Total other comprehensive income (loss)		-	-	697	(5)	(26)	666	20	686
Net profit (loss) for the reporting period		-	-	-	-	56,665	56,665	2,311	58,976
Total comprehensive income for the period		-	-	697	(5)	56,639	57,331	2,331	59,662
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(15,812)	-	15,812	-	-	-
Emission allowances utilised		-	-	(812)	-	812	-	-	-
Depreciation of the revaluation reserve of emission allowances		-	-	(15)	-	15	-	-	-
Transfer to reserves, movement in reserves	22	-	62,796	-	-	(62,796)	-	-	-
Dividends	39	-	-	-	-	(13,000)	(13,000)	(896)	(13,896)
Increase in issued capital of Ignitis grupės paslaugų centras UAB		-	-	-	-	-	-	8	8
Other adjustments of retained earnings		-	-	-	-	324	324	-	324
Balance as at 31 December 2019		1,212,156	112,647	146,993	11	(172,188)	1,299,619	49,001	1,348,620

*Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2018

All amounts are in EUR thousand unless otherwise stated

Company's Statement of Changes in Equity

Company	Note	Issued capital	Legal reserve	Other reserves	Retained earnings	In total
Balance as at 1 January 2018		1,212,156	14,516	-	117,103	1,343,775
Other comprehensive income		-	-	-	-	-
Total other comprehensive income (loss)		-	-	-	-	-
Net profit (loss) for the reporting period		-	-	-	44,688	44,688
Total comprehensive income for the period		-	-	-	44,688	44,688
Transfers to legal reserve	22	-	5,295	-	(5,295)	-
Dividends	39	-	-	-	(78,265)	(78,265)
Balance as at 31 December 2018		1,212,156	19,811	-	78,231	1,310,198
Balance as at 1 January 2019		1,212,156	19,811	-	78,231	1,310,198
Other comprehensive income		-	-	-	-	-
Total other comprehensive income (loss)		-	-	-	-	-
Net profit (loss) for the reporting period		-	-	-	32,203	32,203
Total comprehensive income for the period		-	-	-	32,203	32,203
Transfers to legal reserve	22	-	60,909	-	(60,909)	-
Dividends	39	-	-	-	(13,000)	(13,000)
Balance as at 31 December 2019		1,212,156	80,720	-	36,525	1,329,401

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

All amounts are in EUR thousand unless otherwise stated

Statement of Cash Flows

	Notes	Group		Company	
		2019	2018 (restated*)	2019	2018
Cash flows from (to) operating activities					
Net profit (loss)		58,976	(21,971)	32,203	44,688
Adjustments to non-cash items:					
Depreciation and amortisation expenses	5, 6, 7	118,900	96,934	273	7
Impairment of property, plant and equipment	6, 20	8,655	3,151	-	-
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	26	-	(10,003)	-	-
Revaluation of property, plant and equipment	6	787	76,617	-	-
Revaluation of investment property	8	-	(18)	-	-
Revaluation of derivatives		(730)	(354)	-	-
Impairment/(reversal of impairment) of financial assets	10,12,16,17	(172)	9,876	1,394	11,198
Impairment/(reversal of impairment) of investments in subsidiaries	9	-	-	(13,047)	6,815
Income tax expenses	38	7,177	(12,273)	(583)	(535)
(Depreciation) of grants	26	(9,011)	(9,270)	-	-
Increase (decrease) in provisions	28	5,010	2,484	(806)	(2,097)
Inventory impairment allowance/(reversal)		(27)	(718)	-	-
Expenses/(income) of revaluation of emission allowances	5	367	(8,933)	-	-
Emission allowances utilised		880	908	-	-
Elimination of results of investing activities:					
- Dividend (income)	39	-	-	(25,918)	(67,378)
- (Gain)/loss on disposal and/or write-off of property, plant and equipment		3,158	477	-	-
Results of the revaluation and closing of derivative financial instruments		-	-	-	572
Other (income)/expenses of investing activities		-	82	-	15
Elimination of results of financing activities:					
- Interest income	36	(1,547)	(1,427)	(15,500)	(10,040)
- Interest expense	37	15,288	12,442	14,413	11,217
- Other (income)/expenses of financing activities		2,899	2,263	2,600	924
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		10,429	(21,603)	(1,714)	106
(Increase) decrease in inventories, prepayments and other current assets		(21,491)	18,896	702	(20)
Increase (decrease) in amounts payable, deferred income and advance amounts received		(17,841)	47,281	(2,127)	(463)
Income tax (paid)		(4,552)	(6,309)	897	-
Net cash flows from (to) operating activities		177,155	178,532	(7,213)	(4,991)

	Notes	Group		Company	
		2019	2018 (restated*)	2019	2018
Cash flows from (to) investment activities					
(Purchase) of property, plant and equipment and intangible assets		(428,160)	(416,205)	(45)	(6,454)
Proceeds from sale of property, plant and equipment and intangible assets		39,536	48,162	-	-
Loans (granted)		-	-	(191 876)	(351,160)
Loan repayments received		-	-	67 579	140,117
Acquisition of investments in subsidiaries	9	(27,965)	(23,509)	(13 300)	(46,254)
Disposal of investments in subsidiaries	9	-	-	39 748	-
Grants received	26	64,048	25,523	-	-
Interest received		1,054	1,105	14 017	5,389
Dividends received		-	-	25 918	67,378
Other increases (decreases) in cash flows from investing activities		4,200	(1,582)	-	(1,582)
Net cash flows from (to) investing activities		(347,287)	(366,506)	(57 959)	(192,566)
Cash flows from (to) financing activities					
Loans received	23	130,937	57,810	-	-
Issue of bonds	23	-	294,346	-	294,346
Repayments of borrowings	23	(70,394)	(155,421)	(57 401)	(95,052)
Lease payments	23	(7,379)	(544)	(238)	-
Interest paid	23	(14,146)	(10,402)	(13 306)	(7,746)
Dividends paid		(13,915)	(80,608)	(13 000)	(78,265)
Increase in issued capital of Kauno kogeneracinė jėgainė UAB	9	-	7,840	-	-
Result of the closing of derivative financial instruments		-	(573)	-	(572)
Other increases (decreases) in cash flows from financing activities		-	-	(1)	(9,700)
Net cash flows from (to) financing activities		25,103	112,448	(83 946)	103,011
Increase (decrease) in cash and cash equivalents (including overdraft)		(145,029)	(75,526)	(149,118)	(94,546)
Cash and cash equivalents (including overdraft) at the beginning of the period		85,575	161,101	(42,029)	52,517
Cash and cash equivalents (including overdraft) at the end of period	19	(59,454)	85,575	(191,147)	(42,029)

*Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27

1 General

These financial statements cover the financial statements of a parent company Ignitis grupė UAB (hereinafter “the Company”) and consolidated financial statements of the Company and its subsidiaries (hereinafter collectively “the Group”). Reporting period is one year ended 31 December 2019.

Ignitis grupė UAB 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. Information on the Group’s structure is provided in Note 9.

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, etc.

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.

Shareholder of the Company	As at 31 December 2019		As at 31 December 2018	
	Share capital, in EUR '000	%	Share capital, in EUR '000	%
Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania	1,212,156	100	1,212,156	100

As at 31 December 2018 under current employment contracts the Group and the Company employed 3,846 and 108 employees, respectively (31 December 2018: 3,813 and 125 employees contracted, respectively).

These financial statements were authorized for issue in accordance with a resolution of the directors on 20 April 2020.

The Company’s shareholders have a statutory right to either approve or refuse to approve these financial statements and require the management to 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 2019 are summarized below:

2.1 Basis of preparation

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

The Group and the Company’s financial statements as at and for the year ended 31 December 2019 have been prepared on a going concern basis applying measurement based on historical cost, except for property, plant and equipment, emission allowances measured at revaluated amount, investment property, and certain financial instruments measured at fair value.

These financial statements are presented in euros and all values are rounded to the nearest thousand (EUR '000), except when otherwise indicated. The Group and the Company’s financial statements provide comparative information in respect of the previous period.

In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective correction of errors, application of an accounting policy or accounting treatments, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2018 is presented in these consolidated financial statements as the management of the Group during 2019 have corrected certain errors and reviewed accounting treatment applied for:

- Presentation of revenue received from new customers connection fees (Note 4.27)
- Presentation of revenue relating to rendering of Public Service Obligations (hereinafter “PSO services”) (Note 4.27)
- Presentation of incomes of Liquefied Natural Gas Terminal’s (hereinafter “LNGT”) security component collected from customers (Note 4.27)
- Presentation of incomes of electricity transfer (includes both transmission and distribution) and gas distribution services in Latvia (Note 4.27)
- Accounting principles for revenue, receivables and payables related to regulated activities (Note 4.26)
- Presentation of revenue and costs related to electricity trading exchange market through the forward and future contracts (Note 4.26).

Correction of errors and change of accounting treatment for the Group’s financial statements are applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors therefore the Group presents an additional statement of financial position for the 1 January 2018, when the revised accounting and presentation methods were applied retrospectively by restating items in the financial statements (see Note 4).

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

IFRS 16: Leases (New)
(published 31 January 2016, effective from 1 January 2019)

The Company and the Group first-time adopted IFRS 16 Lease in the financial year ended 31 December 2019, which had a significant impact on the Company’s and the Group’s financial statements. 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 are required to recognize:

All amounts are in EUR thousand unless otherwise stated

(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 statement of profit or loss and other comprehensive income 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. When the Group/Company is a lease, the value of assets being transferred under the lease agreement and related lease liabilities is stated in the Group and the Company's statement of financial position.

The Company and the Group accounted for the impact of the first-time adoption of IFRS 16 starting from 1 January 2019 using the modified retrospective approach.

The Company and the Group performed the calculation of assets transferred according to the lease agreement and related liabilities under IFRS 16. At 1 January 2019, the Company and the Group recognized assets and liabilities managed under the right-of-use, which indicates the impact of the first-time adoption of IFRS 16 on the Group's and the Company's financial statements.

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

	As at 31 December 2018	IFRS 16	As at 1 January 2019
ASSETS			
Non-current assets	2,411,007	14,566	2,425,573
Property, plant and equipment	2,091,386	(35,969)	2,055,417
Right-of-use assets	-	50,535	50,535
Current assets	442,884	-	442,884
TOTAL ASSETS	2,853,891	14,566	2,868,457
EQUITY AND LIABILITIES			
Equity	1,302,522	-	1,302,522
Retained earnings (deficit)	(169,994)	-	(169,994)
Non-current liabilities	1,168,707	12,281	1,180,988
Non-current lease liabilities	14,334	12,281	26,615
Current liabilities	382,662	2,285	384,947
Lease liabilities	5,220	2,285	7,505
TOTAL EQUITY AND LIABILITIES	2,853,891	14,566	2,868,457

The impact of the first-time adoption of IFRS 16 on the Company's financial statements is shown in the table below:

	As at 31 December 2018	IFRS 16	As at 1 January 2019
ASSETS			
Non-current assets	1,892,716	1,024	1,893,740
Right-of-use assets	-	1,024	1,024
Current assets	197,404	-	197,404
TOTAL ASSETS	2,090,120	1,024	2,091,144
EQUITY AND LIABILITIES			
Equity	1,310,198	-	1,310,198
Retained earnings (deficit)	78,231	-	78,231
Non-current liabilities	671,623	253	671,876
Non-current lease liabilities	-	253	253
Current liabilities	108,299	771	109,070
Lease liabilities	-	771	771
TOTAL EQUITY AND LIABILITIES	2,090,120	1,024	2,091,144

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Group	Company
The future minimum lease payments under irrevocable operating lease agreements as at 31 December 2018 are as follows:	21,464	1,033
Less: Commitments relating to short-term leases	(23)	-
Less: Commitments relating to leases of low-value assets	(6)	-
Corrected future minimum lease payments under irrevocable operating lease agreements as at 31 December 2018 are as follows:	21,435	1,033
The weighted average interest rate as at 1 January 2019, %	3,44	0,42
The lease liability is recognized on 1 January 2019 by applying the interest rate	14,566	1,024
Lease liabilities as at 1 January 2019	14,566	1,024
whereof:		
Short-term lease liabilities	2,285	771
Long-term lease liabilities	12,281	253

Practical expedient when the Group and the Company is a lessee:

Upon adoption of IFRS 16, the Group and the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The following specific transition requirements and available practical expedients that the standard provides were applied by the Group and the Company:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics,
- For initial application applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date and to leases for which a new underlying asset is of low value amounted to thousand 3 EUR or less,
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application,
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Amendments to IFRS 9: Prepayment features with negative compensation (published 12 October 2017, effective from 1 January 2019)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. According to the Company's and the Group's management, the first-time adoption of the amendments had no significant impact on the Company's and the Group's financial statements

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (published 12 October 2017, effective from 1 January 2019)

The amendment relates to whether the measurement, in particular relating to impairment, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The amendment clarifies that entities shall apply the requirements in IFRS 9, Financial instruments, before applying requirements in IAS 28 to long-term interests to which the equity method is not applied. In applying IFRS 9, the Company does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28. According to the Company's and the Group's management, the first-time adoption of the amendments had no significant impact on the Company's and the Group's financial statements.

All amounts are in EUR thousand unless otherwise stated

IFRIC 23 Uncertainty over Income Tax Treatment

(published 7 June 2017, effective from 1 January 2019)

The interpretation clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by taxation authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. According to the Company's and the Group's management, the first-time adoption of the interpretation had no significant impact on the Company and the Group's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

(published 7 February 2018, effective from 1 January 2019)

The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. According to the Company and the Group's management, the first-time adoption of the amendments had no significant impact on the Company and the Group's financial statements.

Annual Improvements to IFRSs 2015–2017 Cycle

(published 17 December 2017, effective from 1 January 2019)

- *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- *IAS 12 Income Tax:* The amended explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. This requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits.
- *IAS 23 Borrowing Costs:* The amendments to paragraph 14 clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally

According to the Company's and the Group's management, the first-time adoption of the regular annual amendments had no significant impact on the Company and the Group's financial statements.

Standards, amendments and interpretations issued but not yet effective and not early adopted

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2020 or later and that have not been adopted when preparing these financial statements:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(published 11 September 2014, effective date not appointed)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IFRS 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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business,

even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that adoption of new standard will have no significant effect on financial statements of the Company and the Group.

Amendments to References to the Conceptual Framework in IFRS Standards

(published 29 March 2018, effective from 1 January 2020)

The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB has also issued a separate accompanying document, *Amendments to References to the Conceptual Framework in IFRS Standards*, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its purpose is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. The Company and the Group are currently assessing the impact of this amendment on their financial statements.

Amendments to IFRS 3: Definition of a Business

(published 22 October 2018, effective from 1 January 2020)

The IASB issued amendments to the definition of a business in IFRS 3 (amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity is determining whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier adoption permitted. The amendments have not yet been endorsed by the EU. The Company and the Group are currently assessing the impact of this amendment on their financial statements.

Amendments to IAS 1 and IAS 8: Definition of a Material

(published 31 October 2018, effective from 1 January 2020)

The amendments are effective annual reporting periods beginning on or after 1 January 2020, 1 January, or later with the option to apply earlier. The amendments clarify the definition of 'material' and how it should be applied. New definition clarifies that 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRSs. The amendments have not yet been endorsed by the EU. The Company and the Group are currently assessing the impact of this amendment on their financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

(published 26 September 2019, effective from 1 January 2020)

Amendments to IFRS 9, IAS 39 and IFRS 7 conclude phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships

All amounts are in EUR thousand unless otherwise stated

that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Company and the Group are currently assessing the impact of this amendment on their financial statements. The standard has not yet been approved by the EU.

IFRS 17: Insurance Contracts (New)
(published 18 May 2017, effective from 1 January 2023)

IFRS 17 changes IFRS 4, which permits entities to continue to use current practices in accounting for insurance contracts. This made it difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a general principle-based standard that sets out accounting requirements for all types of insurance contracts, including reinsurance contracts held by an insurer. The Standard requires the recognition and measurement of classes of insurance contracts: (i) risk-adjusted present value of future cash flows (cash flows from the performance of the contract), which reflects all available information about cash flows from the contract that is consistent with market observable data by adding (if the value is a liability) or subtracting (if the value is an asset); (ii) the amount reflecting unearned profit (contracted service margin) from the group of contracts. Profits from a group of insurance contracts will be recognized by insurers for the duration of the insurance coverage and the moment they transfer the risk. If a group of contracts is or becomes a loss, the entity will recognize the loss immediately. The standard has not yet been approved by the EU. This IFRS will not have any impact on the financial position or performance of the Group and the Company as insurance services are not provided.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
(published 23 January 2020, effective from 1 January 2022)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. The Company and the Group are currently assessing the impact of this amendment on their financial statements. These Amendments have not yet been endorsed by the EU.

2.2 Consolidation

Consolidation

The consolidated financial statements of the Group include the financial statements of the parent company Ignitis grupė 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 profit or loss and other 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

Business combination applying IFRS 3 (subsidiaries that are not under common control)

Acquisition of subsidiaries that are not under common control is accounted for using the acquisition method. When the acquisition method is applied the consideration transferred in a business combination is measured as fair value of net assets transferred to the former owners of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable net assets assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Contingent consideration

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

All amounts are in EUR thousand unless otherwise stated

Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

Business combination is achieved in stages

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Business combination of entities under common control

For a business combination of entities under common control the following methods are applied:

- (a) the acquisition method set out in IFRS 3 or;
- (b) the pooling of interests' method.

In selecting which method to apply to the accounting for business combinations of entities under common control, the Group assesses whether there is a "commercial substance" for which the following criteria are considered:

- the purpose of the transaction;
- the involvement of outside parties in the transaction, such as non-controlling interests or other third parties;
- whether or not the transaction is conducted at fair value;
- the existing activities of the entities involved in the transaction; and
- whether or not it is bringing entities together into a 'reporting entity' that did not exist before.

If the transaction has a commercial substance to the merging parties the Group applies the acquisition method as set above in paragraph "Acquisition of subsidiaries that are not under common control", accordingly if not – the Group applies the pooling of interests' method. By applying the pooling of interests' method, the business combination of entities under common control is accounted according to the following procedures:

- the assets and liabilities of the entities in business combinations are stated at their carrying amounts equal to those reported in the consolidated financial statements of the ultimate parent company;
- no newly arising goodwill is recognized on a business combination, however acquiree can recognize intangible assets that meets recognition criteria in IAS 38;
- any differences between consideration paid and the carrying amount of net assets acquired as at the date of acquisition is recognized directly in equity within retained earnings.

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 (the Company)

A subsidiary is an entity directly or indirectly controlled by a parent company. Investments in directly controlled subsidiaries are stated in the parent company's balance sheet at acquisition cost less impairment loss, where the investment's carrying amount in the parent company's statement of financial position 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 or loss and may trigger impairment test for investment in the subsidiary.

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 statement of financial position investments in associates are stated at acquisition cost less impairment loss, where the investment's carrying amount in the parent's statement of financial position 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 at initial recognition are carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the investee. Profit and other distributions received by the Group from an associate reduce the carrying amount of the investment in the associate. Adjustments to the investment's carrying amount are also performed for changes in the Group's share of the net assets in the associate arising from changes in the associate's other comprehensive income.

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 profit or loss. 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.

2.5 Foreign currency translation

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 (hereinafter 'the functional currency'). The consolidated financial statements are presented in the euros (EUR).

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).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at average exchange rates observed during reporting period. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment is stated at cost or revalued amount. The following categories of Property, plant and equipment are accounted for at cost less accumulated depreciation and impairment:

- Assets of Hydro Power Plant, Pumped Storage Power Plant,
- Structures and machinery of Thermal Power Plant (Elektrėnai Complex and Vilnius Thermal Power Plant No 3),
- Gas distribution pipelines, gas technological equipment and installations,
- Wind power plants and their installations,
- IT and telecommunication equipment.

All other property, plant and equipment are measured 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. 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. All other repairs and maintenance costs charged to the statement of profit or loss and other comprehensive income as incurred.

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:

Category of property, plant and equipment	Useful lives (number of years)
Buildings	8-75
Structures and machinery	
- electrical and communication devices	20-25
- electricity distribution equipment	15-45
- electrical equipment	15-35
- other equipment	5-50
Wind power plants and their installations	20
Assets of Hydro Power Plant, Pumped Storage Power Plant, and Structures and machinery of Thermal Power Plant (Reserve Power Plant and Combined Cycle Unit)	
Assets of Hydro Power Plant, Pumped Storage Power Plant,	
- hydrotechnical waterway structures and equipment	75
- pressure pipelines	50
- hydrotechnical turbines	25-40
- other equipment	8-15
Structures and machinery 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
Structures and machinery of Combined Cycle Unit:	
- structures and infrastructure	20-50
- electricity lines	20-40
- electricity generation equipment	20-50
Gas distribution pipelines, gas technological equipment and installations	18-55
Vehicles	2-35
IT and telecommunication equipment	3-10
Other property, plant and equipment:	
- tools, other property, plant and equipment	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 (see Note 2.17).

All amounts are in EUR thousand unless otherwise stated

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 of the statement of profit or loss and other 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 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

Patents, licences and trademarks

Patents, licenses and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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 a business combination (license to produce electricity with incentive tariff), useful life is determined to be 12 years.

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).

Emission allowances

For detailed description of accounting policy for emission allowances see Note 2.23.

Servitudes

The Group intangible assets includes 'Servitudes' which comprise the Group rights to use the land plots owned by third persons on the basis of servitudes. Servitudes comprise statutory and contractual servitudes. Statutory servitudes comprise the Group's rights to use the land plots owned by third persons in which electric networks were established up to 10 July 2004 on the basis of statutory servitudes. Contractual servitudes comprise the Group's rights to use the land plots owned by third

persons in which electric networks were established since 2018 on the basis of contractual servitudes. The useful life of an intangible asset (right to use the land which has a servitude) is indefinite, therefore, these assets are not subject to amortisation. Useful life of intangible assets are indefinite since the right to use the land is granted for an indefinite period of time according to the conditions of agreements for compensation for servitudes as well as Clause 4.130 of Civil code. Accordingly, right to use the land (to which servitude is applied) is retained by the Group regardless of the condition, repairs or renewals of Group's assets constructed on the mentioned land. Since, right-to-use the land is indefinite both contractual and statutory servitudes are out of scope of IFRS 16 lease. However, the Group has accounted for provision to compensate land owners for servitudes in accordance with requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (see Note 2.21, Provisions). Remeasurement of provision due to changes in underlying assumptions is accompanied with respective adjustment of carrying amount of intangible assets.

The Group tests the intangible assets of servitudes for potential impairment, by comparing their recoverable value with the carrying value at least once per year or when there are signs of impairment. If the value of the asset changes, such change is accounted for by decreasing/increasing the value of the servitudes.

Special conditions on land use (protection zones)

The Group's intangible assets includes the Group's obligations to register and the right to use a third-party land on the basis of special conditions on land use. The accounting policies applied are similar to those applied for intangible assets 'Servitudes'.

Other intangible assets

Intangible assets expected to provide economic benefits in future periods are measured 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.

The Group and the Company's intangible asset amortization expenses are accounted for within depreciation and amortization item in the statement of profit or loss and other comprehensive income.

2.8 Right-of-use assets

Right-of-use asset is the asset that reflects the right of the Group and the Company to use the leased asset over the life of a lease. As at 1 January 2019, the Group and the Company recognize a right-of-use asset for all types of leases, including leases of right-of-use assets in sublease, with the exception of leases of intangible assets, short-term leases and leases for which the underlying asset is of low value.

Initial measurement of right-of-use assets

At the commencement date, the Company/Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises: the amount equal to the lease liability at its initial recognition, lease payments made at or before the commencement of the lease (less any lease incentives received), any initial direct costs incurred by the Company/Group, and an estimate of costs to be incurred by the Company/Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Company/Group incurs obligation for these costs either at the commencement date or as a consequence of having used the underlying

All amounts are in EUR thousand unless otherwise stated

asset during a particular period. The Company/Group recognizes these costs as part of the cost of right-of-use asset when the Company/Group incurs an obligation for these costs.

Subsequent measurement of right-of-use assets

Subsequent to initial recognition, the Company/Group measures the right-of-use asset using the cost model. Under the cost model, the Company/Group measures a right-of-use asset at cost: less any depreciation and any accumulated impairment losses adjusted for any remeasurement of the lease liability.

The right-of-use assets depreciated by the Company/Group under the depreciation requirements of IAS 16, Property, Plant and Equipment.

If the lease transfers ownership of the underlying asset to the Company/Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Company/Group will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company/Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company/Group does not apply IFRS 16 Leases to leases of intangible assets.

The Group and the Company presents rights-of-use assets separately from tangible assets in the statement of financial position.

2.9 Impairment of non-financial assets

At each reporting date, the Group/Company reviews the book values of its property, plant and equipment, intangible assets and right-of-use 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 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.

2.10 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 is subsequently carried at fair value, which is determined by independent property valuers. Investment property is not depreciated, and gain or loss on change in the fair value of investment property is recognised in profit or loss for the reporting period.

Transfers to and from investment property are made only when there is an evidence of change in the purpose of use of assets. 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.

2.11 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.

2.12 Financial assets

The Company/Group recognises financial assets in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised using trade date accounting.

Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of a financial asset.

Transaction costs comprise all charges and commissions that the Company/Group would not have paid if it had not entered into an agreement on the financial instrument.

The Company and the Group classify their financial assets into the following three new categories:

- (i) financial assets subsequently measured at amortised cost;
- (ii) financial assets subsequently measured at fair value through other comprehensive income; and
- (iii) financial assets subsequently measured at fair value through profit or loss.

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company/Group applies when managing its financial assets and characteristics of cash flows from these assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company/Group. The intentions of the Company's/Group's management regarding separate instruments has no effect on the applied

All amounts are in EUR thousand unless otherwise stated

business model. The Company/Group may apply more than one business model to manage its financial assets. In view of the business model applied for managing the group of financial assets, the accounting for financial assets, except for financial assets subsequently measured at fair value through other comprehensive income as the Group and the Company does not have this kind of assets, is as follows:

Financial assets measured at amortised cost

Loans granted by the Company/Group, amounts receivable, and cash and cash equivalents are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows. These assets are stated at amortised cost using the effective interest method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses. Effective interest rate method is a method applied to allocate interest income over the relevant period so as to achieve a constant periodic rate of interest (effective interest) on the carrying amount. The effective interest rate exactly discounts estimated future cash inflows or outflows (excluding future expected credit losses) to gross carrying amount of the financial instrument over the expected life of the financial instrument or a shorter period, if necessary.

Financial assets are recognised as 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.

Assets held in order to collect contractual cash flows that represent solely payments of principal and interest (SPPI) are carried at amortised cost. Interest income calculated on these financial assets is recognised as finance income and amortised using the effective interest rate method. Any gain or loss arising from the write-off of assets is recognised in the statement of profit or loss and other comprehensive income. Impairment losses are accounted for as impairment and write-off expenses in the statement of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss

Debt instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at fair value through other comprehensive income (FVOCI) are stated as financial assets to be measured at fair value through profit or loss (FVPL).

To this category, the Company/Group attributes amounts receivable from disposal of business or equity instruments that do not meet the SPPI conditions. The Company/Group attributes financial assets to assets measured at fair value through profit or loss, if this eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising gains or losses thereof on different bases. A gain or loss on fair value measurement of debt investment is recognised in profit or loss in the period in which it arises.

Effective interest method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss over the relevant period.

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

Impairment of financial assets – expected credit losses

The Group and the Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators.

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

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

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

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

For short-term trade receivables without a significant financing component the Company/Group applies a simplified approach required by IFRS 9 and measures the loss allowance at expected lifetime credit losses from initial recognition of the receivables.

The Company/Group assesses impairment of amounts receivable individually or collectively.

All amounts are in EUR thousand unless otherwise stated

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

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company/Group on a collective basis applies the loss ratio matrix. The loss ratio matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss ratios are updated during the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years or of customer types. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics. The non-recoverability analysis is conducted for the last several years in order to determine the general default ratio. As regards different groups of consumers, a different loss ratio matrix is used.

The lifetime expected credit losses of other amounts receivable are assessed based on the individual assessment basis. The Company's/Group's management performs the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgement on the recognition of lifetime expected credit losses in respect of that particular borrower.

Recognition stages of expected credit losses:

1. Upon granting of a loan or concluding a finance lease agreement, the Company/Group recognises the expected credit losses for the twelve-month period. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
2. Upon establishing that the credit risk related to the borrower or lessee has significantly increased, the Company/Group accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
3. Where the Company/Group establishes that the recovery of the loan is doubtful or that the condition of the lessee shows that the loan of this lessee needs to be classified as doubtful debts, the Company/Group classifies this loan (finance lease receivables) as credit-impaired financial assets (doubtful loans and receivables). Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets which is reduced by the amount of expected credit losses.

In stage 2, an assessment of the significant deterioration in the borrower's financial situation is performed by comparing the financial situation as at the time of the assessment and the financial situation as at the time of issuing the loan.

The latest point at which the Company/Group recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than

30 days. In case of other evidence available, the Company/Group accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the borrower;
- (b) a breach of contract, such as a default or past due event for more than 90 days;
- (c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties;
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

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

Derecognition of financial assets

A financial asset (or, where applicable a part of financial asset or 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:
 - if control is not retained, the financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised separately as assets or liabilities;
 - if control is retained, it shall continue to recognise the financial asset is continued to be recognised to the extent of continuing involvement in the financial asset.

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

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

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

All amounts are in EUR thousand unless otherwise stated

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.

Natural gas balance cost is determined according to the weighted average. The Group's inventories, which consist of liquefied natural gas at the LNG terminal and Klaipėda distribution station, are stated at acquisition cost. The value of natural gas in storage and the cost price of natural gas shall be calculated using a weighted average cost method. The weighted average price is calculated as the weighted average of the stock at the beginning of the month and the purchases during the month.

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 on 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 Issued 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 profit or loss and other 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 Financial liabilities and equity instruments issued

Recognition of instruments as debt or equity instruments

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

Equity instruments

Equity instrument is any contract that evidences an interest in the assets of the Company/Group after deducting all of its liabilities. Equity instruments are recorded at the value of the proceeds received net

of direct issue costs. Share premium represents the difference between the nominal value of shares and the proceeds received.

Financial liabilities

Liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings and bonds issued at the moment of initial recognition, are recognised at fair value, less transaction costs.

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

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

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

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 relates to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

Derecognition of financial liabilities

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

2.18 Lease liabilities

a) *The Group's and the Company's as Lessees accounting policy applicable from 1 January 2019*

Initial measurement of lease liability

At the commencement date, the Group / Company measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If the interest rate implicit in the lease cannot be readily determined, the Group / Company applies incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that

All amounts are in EUR thousand unless otherwise stated

are not paid at the commencement date: fixed payments, less any lease incentives receivable; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable by the Company/Group under residual value guarantees; the exercise price of a purchase option if the Company/Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Company/Group exercising an option to terminate the lease. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

Subsequent measurement of lease liability

After the commencement date, the Company/Group measures the lease liability by: increasing the carrying amount to reflect interest on the lease liability; reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate or if applicable the revised discount rate.

After the commencement date, the Company/Group shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both: interest on the lease liability; and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Remeasurement of lease liability

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The Company/Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company/Group shall recognise any remaining amount of the remeasurement in profit or loss.

Revised discount rate

The Company/Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate, if there is a change in the lease term. The Company/Group determines the revised lease payments on the basis of the revised lease term or when there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances. The Company/Group determines the revised lease payments to reflect the change in amounts payable under the purchase option.

If there is a change in the lease term or in the assessment of an option to purchase, the Company/Group shall determine the revised discount rate as the interest rate implicit in the lease for the of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Unchanged discount rate

The Company/Group remeasures the lease liability by discounting the revised lease payments using the original incremental borrowing rate, if either:

- there is a change in the amounts expected to be payable by the Company/Group under a residual value guarantee. The Company/Group determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The Company/Group remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect).

The Company/Group determines the revised lease payments for the remainder of the lease term based on the revised contractual payments.

The Company/Group uses an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the Company/Group uses a revised discount rate that reflects changes in the interest rate.

Lease modifications

The Company/Group accounts for a lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Company/Group performs the following:

- allocates the consideration in the modified contract;
- determines the lease term of the modified lease; and
- remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

For a lease modification that is not accounted for as a separate lease, the Company/Group accounts for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Company/Group recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company/Group presents lease liabilities in the statement of financial position separately from other liabilities. Interest expense on the lease liability are presented separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which is presented in the statement of profit or loss and other comprehensive income.

All amounts are in EUR thousand unless otherwise stated

b) *The Group and the Company as Lessees accounting policy applicable before 1 January 2019*

In the comparative period, the Group and the Company as a lessee classified leases that transfer substantially all of the risks and rewards of ownership as finance leases and all other leases as operating leases. For the purpose of a finance lease, upon initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under operating leases were not recognized in the Group and the Company statement of financial position. Instead, payments made under such leases were recognized in profit or loss on a straight-line basis over the term of the lease.

The Group and the Company are lessors

At inception of a contract, the Group and the Company, as a lessor, determines whether the lease is a finance lease or an operating lease. If Group and the Company determines that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Group and the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Lease payments are accounted for on a straight-line basis over the lease term and recognised as revenue in the statement of profit or loss and other comprehensive income based on its lease nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent payments are recognised as revenue in the period in which they are earned.

The accounting policies applied by the Group and the Company as a lessor in the comparative period were similar to those in IFRS 16.

2.19 Current 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.

Standard corporate income tax rate of 15 per cent was applicable to the companies in Lithuania, in Poland – 19 per cent, in Latvia and Estonia – 20 per cent on the gross amount of the distribution.

In Lithuania tax losses can be carried forward for an 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/Group changes its activities due to which these losses incurred except when the Company/Group does not continue its activities due to reasons which do not depend on Company/Group itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature. In terms of utilizing tax losses carried-forward the amount may not exceed 70% of the taxpayer's taxable profits in a given year.

The prepaid income tax and recognized income tax liabilities are offset in the statement of financial position of the Company/Group when they relate to the same taxation authority.

Deferred income tax

Deferred income tax is accounted for using the liability method. Deferred tax assets and deferred tax liability are recognised for future tax purposes to reflect differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent that is probable to reduce the taxable profit in future. These 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 for the reporting period

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.

Intra-group transfer of accrued tax losses

Upon transfer of the accumulated tax losses to other companies of the Group the transferor derecognises deferred tax attributable to transferred tax loss carried forward and recognizes the consideration receivable in the statement of profit or loss and other comprehensive income under 'Deferred income tax expense' caption. The consideration received is presented in the cash flow statement under 'Income tax (paid)'.

2.20 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 and the Company's other comprehensive income. All past service costs are recognised immediately.

Non-current 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.

2.21 Provisions

Provisions are recognised when the Group and the Company have 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 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. When discounting is applied, increase in the provisions reflecting the period of past time is accounted for as finance expense.

Provisions for servitudes

Provisions for servitudes are recognised only when the Group has a legal obligation or irrevocable commitment as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenditures related to provision for servitudes are recognised as non-current intangible assets in view of amounts to be compensated. 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 obligation. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance expense.

Payments of compensations to land owners are recorded as decreases of provision, while remeasurement of provision due to changes in underlying assumptions is recorded as change in respective intangible asset (Note 2.7).

Provisions for registration of protection zones

Provisions for registration of protection zones, compensations are recognised only when the Group has a legal obligation or irrevocable commitment as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenditures related to provision for registration of protection zones and compensations are recognised as intangible assets based on the amounts to be compensated. 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 obligation. When discounting is applied, increase in the provisions reflecting the period of past time is accounted for as finance expense.

Payments related to registration of protection zones are recorded as decreases of provision, while remeasurement of provision due to changes in underlying assumptions is recorded as change in respective intangible asset (Note 2.7).

Provisions for onerous contracts

Provisions for onerous contracts 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.

Recognition of provision regarding the electricity services related to Public Service Obligation is described in Note 2.22 under heading "Regulation of tariffs and profitability".

2.22 Revenue and expense recognition

Revenue from contracts with customers

The Group and the Company in the contracts with customers identifies performance obligations (stated either explicitly or implied) to transfer either distinct goods or services or series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Promised goods or services represent separate performance obligation if the goods or services are distinct. A promised good or service is considered distinct if both of the following criteria are met:

- (i) customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and
- (ii) the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract).

Group's major legal performance obligations identified in the contracts with customers are: sale of electricity and gas, supply, transmission, distribution, new customers connection, provision of Public Service Obligations (hereinafter "PSO services") and provision of Liquefied Natural Gas Terminal Security Component Obligations (hereinafter "LNGT services"). PSO services are described in this Note under heading "Public Service Obligations", LNGT services – under heading "LNGT security component".

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

All amounts are in EUR thousand unless otherwise stated

For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. When recognising revenue, the Group and the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

Revenue from sale of electricity

The Group's sale of electricity to end customers includes sale of electricity, distribution, supply, electricity-related services, Public Service Obligations Fee (hereinafter "PSO fee") and other services rendered in the process of sale of electricity.

Revenue from sale of electricity to household customers is recognised in each reporting period according to invoices issued, in which the volume of electricity consumed is calculated. The volume of electricity consumed is calculated on the basis of declared or actual readings. If the Group doesn't receive the data of electricity consumed according to the readings of meters due to specific reasons (customer's delays to present readings, fails of the remote meter's scanner or other agreements with the customer) the revenue from sale of electricity is recognised based on the average usage estimation method. By applying the average usage estimation method consumption of the electricity is calculated according to the historical 12 months data of electricity consumption, i.e. the average consumption for the certain period is calculated, and at the end of year is adjusted according to the actual readings. Revenue from sale of electricity to business customers is recognised upon sale of electricity based on the actual consumption of electricity which is determined according to the readings of electricity meters. Revenue from electricity distribution services is recognised on a monthly basis referring to the readings of measuring devices as submitted by customers.

Electricity tariff

Final electricity tariff to end customers comprise of the following components:

- (a) Electricity price itself (import or price of manufactured)
- (b) Electricity supply services' price
- (c) Electricity transfer services' price, which include two components: transmission over high voltage grid and distribution over medium and low voltage grid
- (d) PSO fee

Tariffs for electricity transmission, distribution and PSO fee are regulated by National Energy Regulatory Council (hereinafter 'NERC') by establishing the upper limit for tariffs of the transmission and distribution services and PSO fee. Specific prices for the transmission and distribution and PSO fee are established by the supplier of the service within the limits approved by NERC.

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

Electricity supply is provided by the Group and the revenue from them is recognised over time based on the actual electricity supplied. Electricity transmission services are provided by transmission system operator which is not a part of Group. The Group collects electricity transmission fees from business customers and private individuals and transfer them to transmission system operator. In Lithuania, the

Group having contracts with end users, where it is clearly stated that for operations of electricity transfer services (includes transmission and distribution) and meters is responsibility of the Group, consider itself as a Principal and therefore the revenue from transmission services is recognized on a gross basis (see Note 4.13). In Latvia the electricity transmission and distribution services is responsibility of the transmission/distribution system operator which is not a part of the Group, therefore in relation of these services the Group consider itself as an Agent (see Note 4.13). In Lithuania electricity distribution services are provided by the Group.

Public Service Obligations (PSO)

The purpose of PSO services' provision is to implement the strategic objectives of the energy, economic and environmental policy of the Republic of Lithuania, ensuring the implementation of the interests of all electricity consumers. Under the public service obligation scheme approved by Ministry of Energy PSO fees are collected by electricity suppliers from end users through the electricity tariff and transferred then to the budget, from which the Public Service Obligation Funds (hereinafter "PSO funds") are distributed (i.e. disbursed) to PSO service providers. The list of services supported by PSO is determined by the Government of the Republic of Lithuania.

Collection of PSO fees

PSO fee is an integral part of electricity tariff to the customer. As well as transmission service fees the Group collects PSO fees from business customers and private individuals, connected to electricity distribution grid, and transfer them to the operator of energy exchange Baltpool UAB, which also acts as the administrator of PSO services and is engaged in the collection of PSO fees, payments and administration of PSO funds.

The Group acting as an electricity supplier, who collects PSO fees through the electricity tariff from end users and then transfers them to operator of electricity exchange, consider itself as an Agent due to lack of control over PSO fees and therefore the income of PSO fees is recognized on a net basis (Note 4.14, 4.27), i.e. an income and disbursements of PSO fees (regardless of whether the net of them is positive or negative) are recognized under the "Purchases of electricity, gas for trade and related services" item in a statement of profit or loss and other comprehensive income.

Revenue from PSO funds

The Group is entitled to the PSO funds due to provision of PSO services that are approved by the Government of the Republic of Lithuania. PSO funds are recognized as revenue under the "Revenue from contracts with customers" item in a statement of profit or loss and other comprehensive income. The Group obtains an income of the following PSO funds:

- (i) The Group is entitled to the PSO funds due to provision of PSO services, related to predetermined power plants ensuring power system reserves, in previous years. From 1 January 2019 the Group does not render such PSO service, but as at 31 December 2019 the Group has an irrevocable obligation to receive the resulting difference in accordance with applicable laws regarding the PSO funds related to PSO services that were rendered in previous years. Given that the allocated amount of PSO funds was determined for the next calendar year by NERC in view of the projected costs of the Group, the difference in PSO funds raised due to that the projected costs differ from that factually incurred in the coming years. A part of this resulting difference regarding the PSO funds is refunded during the year 2019 and is recognised in the statement of profit or loss and other comprehensive income under the item "Revenue from contracts with customers".

A part of PSO funds to be refunded by the state during the next 12 calendar months is recognised in the statement of financial position under the current assets item "Other receivables", accordingly

All amounts are in EUR thousand unless otherwise stated

another part of PSO funds to be refunded after 12 months is recognised under the non-current assets' item "Non-current receivables" (Note 4.20).

- (ii) the Group produces electricity from renewable energy sources which are public interest services and is qualified for subsidies financed by the PSO fund budget. The support is granted over a period of 12 years at a premium to the market price. The revenue of PSO funds is calculated according to factual produced volume of electricity. PSO funds are paid under a public service obligations scheme based on pre-determined annual quantities and prices of services set by NERC. The tariff is established by NERC based on the estimates of variable electricity production costs provided by the producers.

Revenue from sales of electricity

Sales of self-generated electricity

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

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

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

Electricity trading on stock exchange

An income and costs from the sale of electricity on stock exchanges are recognized in accordance with IFRS 9 and presented as the balance within the item of "Purchases of electricity, gas for trade and related services" in a statement of profit or loss and other comprehensive income.

The Group participates in electricity trading exchange market through forward and future contracts. The purpose of these deals is to earn profits from short-term fluctuations in electricity prices on the exchange. In such deals the Group does not provide supply of electricity to final customers. Settlements are made by settling liabilities between the Group and the other party to the exchange transaction, and by making a cash payment for the remaining outstanding debt. The Group accounts for contract balances in the financial statements at fair value, and income and costs are presented in one item "Purchases of electricity, gas for trade and related services" in the statement of profit or loss and other comprehensive income as profit or loss. Presentation of income and costs in this one item based on the fact that, under IFRS 9, transactions made by the Group cannot be classified under the own use' exception, and therefore only the result of those transactions should be recognized in profit or loss (Note 4.26).

Revenue from electricity-related services

Other revenue from the services related to energy supply comprises the following:

- 1) revenue from generation of electricity of the active capacity reserve,
- 2) revenue from assurance of the capacity reserve,
- 3) revenue from reactive power and voltage management services,
- 4) system recovery after the total accident, including isolated operation testing (hereinafter 'the Services').

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

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

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

Revenue from supply and transfer of electricity

Revenue from supply and transfer (includes both transmission and distribution) of electricity to household customers is recognised in each reporting period according to invoices issued, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters. If declared or actual meter readings are not available, revenue from supply and transfer of electricity is recognised based on the average usage estimation method.

Revenue from supply and transfer of electricity to business customers is recognised over time based on the actual electricity supplied which is determined according to the readings of electricity meters.

The Group has concluded that it is acting as an Agent in the provision of (i) electricity transfer, which includes both transmission and distribution and (ii) gas distribution services, provided in Latvia because the Group has no control over these service obligations (Note 4.13, 4.27).

Tariffs for electricity transmission, distribution and supply (both public and guaranteed) are regulated

All amounts are in EUR thousand unless otherwise stated

by regulation institutions by establishing the upper limit for tariffs of the transmission, distribution and supply services. Specific prices for the transmission, distribution and supply services are established by the supplier of the service within the limits approved by regulation institution.

Revenue from electricity-related services: electricity balancing services

Revenue from electricity balancing services is recognized when the services are provided. In order to balance the electricity supply schedule, the Group provides service of electricity balancing: provides the missing electricity to or accept the excess from electricity transmission system, thus ensuring the optimal amount of electricity in the transmission system.

Revenue from electricity balancing services is recognized as income in the statement of profit or loss and other comprehensive income on a monthly basis based on monthly reported amounts of electricity received / supplied.

Revenue from supply of thermal energy

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

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

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

Revenue from sale of natural gas

The Group's tariff of natural gas to end customers includes sale of natural gas, distribution, supply, LNGT security component and other services rendered in the process of sale of natural gas.

Natural gas tariff

Final natural gas tariff to end customers comprise of the following components:

- (a) Cost of gas import
- (b) Natural gas transfer cost, which includes transmission over high-pressure and distribution over medium and low pressure grids costs
- (c) LNGT security component

In Lithuania natural gas distribution services are provided by the Group and the revenue from them is recognised over time based on the actual natural gas supplied. In Latvia natural gas distribution services are provided by the operator of distribution system which is not a part of the Group. Natural gas transmission services are provided by the gas transmission system operator.

LNGT security component

The Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania (Article 5.2) provides that contribution so-called security component related to the following securities of natural gas supply shall be collected from end users and added to the natural gas transmission price:

- for the installation of LNGT, its infrastructure and connection and all fixed operating costs that are not included in other state regulated prices, and
- to compensate for the reasonable costs of supplying the minimum quantity required to ensure the necessary operation of the LNGT

Similarly to PSO fees, LNGT security component is collected by natural gas suppliers from end users through the natural gas tariff and transferred then to the budget, from which the LNGT funds are distributed (i.e. disbursed) to LNGT service providers.

The Group company Ignitis UAB acts as a natural gas supplier that collects LNGT security component from end users and as designated liquefied natural gas supplier (hereinafter "designated supplier") the function of which is to ensure the necessary operation of the LNGT by supplying the minimum quantity of natural gas.

Ignitis UAB action as natural gas supplier to end users

LNGT security component and natural gas transmission services are an integral part of natural gas tariff to the customer. Payments for LNGT security component and gas transmission services are collected directly from customers or natural gas suppliers, if the customers don't have a direct contract with the operator of transmission system. Collected amounts of LNGT security component are transferred to operator of transmission system AB Amber Grid (doesn't belong to the Group) which is appointed to perform the function of administering the LNGT security component. In accordance of IFRS 15 the Group in providing these services consider itself by acting as an Agent and recognises the revenue on a net basis, because the Group is not exposed to any inventory risk, as well as the Group has no legal power to establish pricing of this component. The income of LNGT security component is recognized on a net basis (Note 4.14, 4.27), i.e. an income and disbursements of LNGT security component (regardless whether the net of it is positive or negative) are recognized under the one item "Purchases of electricity, gas for trade and related services" in a statement of profit or loss and other comprehensive income.

Ignitis UAB action as designated LNG supplier to gas market

Since 2019, Ignitis UAB is providing dedicated LNG supply function. The company took over these activities after the acquisition of another company of the Group – LitGas UAB.

In order to maintain the LNG Terminal infrastructure in minimum mode, a certain amount of natural gas, which is to be supplied through the LNG Terminal, is required for filling, regasification or transshipment and supply to the Lithuanian natural gas system or the international LNG market.

The Law on the LNG Terminal and the Description of the Natural Gas Supply Diversification Procedure determines that the required quantity shall be supplied by the designated supplier (nominated by the Ministry of Energy for 10 years) by concluding a contract with the LNG supplier.

To ensure the operation of LNG terminal the designated supplier shall sell the required quantity on a competitive market and therefore its costs which due to the nature of its activities are exclusively borne (whereas other suppliers don't incur) are compensated by operator of transmission system paying LNGT funds that are paid from the budget of LNGT security component collected by natural gas suppliers from end customers. Therefore the Group receives the revenue of these LNGT funds. LNGT

All amounts are in EUR thousand unless otherwise stated

funds are recognized as revenue under the "Revenue from contracts with customers" item in a statement of profit or loss and other comprehensive income.

Revenue from distribution of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised over time based on the readings of measuring devices provided by users or, if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, as agreed with NERC (an accrual basis).

Revenue from household customers is recognised over time based on the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas distributed to them (an accrual basis). Revenue from household consumers does not form a significant part of revenue from natural gas distribution activities.

In relation of distribution services provided in Latvia the Group considers itself as an Agent. The Group is not responsible for development/maintenance of gas distribution network in Latvia, accordingly not responsible that these funds are used for their intended purpose. The Company is not exposed to any inventory risk, as well as the Group has no legal power to establish the pricing of gas distribution services provided in Latvia (Note 4.13, 4.27).

Revenue from supply of natural gas

Revenue from supply of natural gas to non-household customers is recognised on a monthly basis referring to the readings of measuring devices provided by them and verified by the distribution system operator (an accrual basis).

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

Revenue from gas-related services: gas balancing services

The transaction of the balancing of natural gas provides two parts: the transmission of liquefied natural gas at the fixed value of natural gas as established in the agreement with an obligation to repurchase it, and the balancing service, which comprises the supplied/accepted quantity of natural gas at the fee established in the agreement. The recipient of the service assumes the natural gas price risk.

Since the Group has an obligation to repurchase the transmitted quantity of gas or to return the accepted quantity of gas, such a transaction is not regarded as a sale of goods, and revenue is recognised only for the balancing service rendered.

Revenue from sale of services for the quantity of natural gas supplied/accepted, i.e. the balancing service, is recognised as sales revenue in the statement of profit or loss and other comprehensive income each month with reference to the data on the quantity of natural gas accepted/supplied each month submitted on a monthly basis.

Natural gas price risk is recognised as revenue or cost in the statement of profit or loss and other comprehensive income by each time accepting the returned quantity of natural gas. The change in price is assessed on the basis of the fixed value of natural gas as established in the agreement and the actual gas price prevailing in the market at the moment of the return.

Revenue from gas-related services: gas reload and storage services

The Group, acting as an intermediary in the provision of LNG reloading and storage services, is not exposed to the risk of stock price fluctuations, and therefore does not register LNG gas purchased for reloading purposes as its own inventory, and recognizes the service income in profit or loss and other comprehensive income.

Regulation of tariffs and profitability

Profitability of some individual Group companies and their individual activities is regulated by NERC 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 only through the provision of services in the future.

Tariffs for electricity and gas distribution are regulated by NERC 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 NERC.

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

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

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 NERC.

Tariffs for import and export of electricity are not regulated.

Revenue from new customers connection fees

The Group obtains revenue from services of new customers connection to the electricity and natural gas distribution networks. Connection fees obtained by the Group are non-refundable upfront fees paid by the customers for the connection to electricity and gas distribution network. The Group signs separate agreements with customers for connection services. The Group also signs agreement with private customers and business customers for electricity and gas distribution. Connection fees do not represent a separate performance obligation from the sale of ongoing distribution of electricity or gas services as they are highly interrelated (see Note 4.15). Therefore, revenue from connection fees is deferred and recognized as revenue over the estimated average useful life of assets providing the connection service, being 27 years for electricity grid and 46-55 years on for gas grid (Note 4.27).

All amounts are in EUR thousand unless otherwise stated

Connection fees received from customers which are deferred are accounted as liabilities under connection contracts with customers in the statement of financial position.

Construction contracts

Construction and contractual services comprise a number of interrelated works. Accordingly, the promise of the seller to render construction services to the customer is identified as a performance obligation in the agreement concluded with the customer. The performance obligation under the agreement concluded with the customer is to be carried out throughout the period of validity of the agreement. The progress of completion of the performance obligation is measured using the input method. The Group have determined that the input method, on the basis of costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation.

After the completion of construction and contractual works, the seller grants a warranty period for these works and goods used. Pursuant to paragraph B31 of IFRS 15, whether the warranty is required by law, the warranty is aimed at protecting customers from the risk of purchasing defective products, therefore, it is not deemed a separate performance obligation of the seller.

The agreement concluded with the customer indicates the total price that the seller will recognise as revenue upon execution of the performance obligation over the validity period of the agreement. The seller and the customer may agree that the consideration for contractual works might increase due to additional works or other costs, but no variable consideration arises in the agreement concluded with the customer as a result of this condition.

Revenue under the agreement concluded is recognised as at a certain date on a stage of completion basis expressed in terms of percent. At the date of preparation of the financial statements, the seller assesses the ratio between the actually incurred expenses and the expenses projected in the estimate to the agreement and accounts for the amount of revenue as the product of the price of the agreement and the established stage of completion ratio.

Other revenue sources

Interest income

Interest income is recognised on amortised cost basis. For the purpose of the cash flow statement, interest received (excl. value added tax) is attributed to investing activities, whereas for the purpose of the statement of profit or loss and other comprehensive income, interest received is recognised as finance income.

Operating lease income

Operating lease income is recognised on a proportionate basis over the lease period.

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.

Expense recognition

Expenses are recognised in the statement of profit or loss and other comprehensive income as incurred applying accrual basis.

2.23 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 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 (see in this note under the heading 'Government grant') 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 in the statement of profit or loss and other comprehensive income. Upon the realisation of emission units, the positive balance in the revaluation reserve is recognised directly within 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 are disposed and the right to receive emission allowances is acquired. The right to receive emission allowances is recognised as

All amounts are in EUR thousand unless otherwise stated

other non-current assets. Such assets are initially recognised at acquisition cost, and subsequently such assets are tested for impairment as described in Note 2.9.

2.24 Grants and subsidies

Asset-related grants

The Group for presentation in financial statements of grants related to asset uses the method which recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. 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. Liability related to received asset-related grants is presented in the statement of financial position under the non-current liabilities' item "Grants and subsidies" (Note 26).

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 in a respective proportion.

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. Grants related to income are presented as part of profit or loss.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group 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 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 Operating segments

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 to subsidiaries in relation to loans taken from banks or other liabilities for consideration, which is recognised in profit or loss on an accrual basis. The fair value of financial guarantee is determined based on present value of reduction of subsidiaries' interest payments to bank. The consideration that subsidiaries pay to Company for the given financial guarantee corresponds to that reduction. When the consideration corresponds to the reduction of subsidiaries' interests payments to the bank the Company doesn't recognise the fair value of financial guarantee as 'Investment in subsidiary' and accordingly 'Financial guarantee obligation' in its stand-alone financial statements. All Company's guarantees are provided for the consideration that corresponds to the reduction of subsidiaries' interests payments to the bank, therefore their fair value approximate to 0. Subsidiaries recognise the liability at fair value including the value of the guarantee provided by the Company. If the consideration is at lower price than the reduction of subsidiaries' interest payments, the Company recognise the fair value of financial guarantee as 'Investment in subsidiary' and accordingly 'Financial guarantee obligation' in its separate financial statements and subsidiaries recognise the liability without the guarantee with the difference recognised as a capital contribution. The methods to determine expected credit losses for financial guarantee contracts are used as for financial assets (see in Note 2.12 in heading 'Impairment of financial assets – expected credit losses'. Financial guarantee contracts are measured at the higher of expected credit loss and the amount, that is initially recognised less any cumulative amount of income/amortisation recognised. No expected credit losses were identified as at 31 December 2019.

2.33 Put option arrangements

The Group has a written put option over the equity of subsidiary Kauno Kogeneracinė Jėgainė UAB 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 non-controlling interest in 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 and the Company's financial performance results.

Market risk

Foreign exchange risk

The sale/purchase contracts of the Group and the Company are mainly denominated in the euro. Foreign exchange risk is mainly characteristic to contracts concluded by the Company's subsidiaries for the purchase of natural gas from third parties. Aiming to reduce foreign exchange risk the agreement on natural gas purchase and supply is concluded in the same currency.

In 2017, the Company's subsidiary Ignitis UAB established in Poland a company Ignitis Polska Sp. z o.o. controlled by the Group, whose assets and liabilities are recorded in Polish zloty. The expansion of the subsidiary's activities in the future may expose the Group to foreign exchange risk due to fluctuations in exchange rates of the Polish zloty against the euro. The Group has not entered into the PLN / EUR exchange rate swaps. As the group expands in Poland, management will consider entering into exchange rate swaps.

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 at 31 December 2019. The Company has financial assets measured at amortised costs with fixed interest rates, therefore, it is exposed to interest rate risk.

Interest rate risk is substantially related to the risk that the interest rate of the credits held by the Company and the Group might be subjected to adverse changes.

In assuming debt obligations, it is aimed that non-current liabilities would bear a fixed interest rate. If the fixing of the interest rate is not possible due to objective reasons and the liability assumed comprises a significant amount (in the context of the Company or the Group), interest rate derivatives

are used for the purpose of interest management, including interest rate swaps, interest rate options, interest rate collars, and interest rate swaptions. The aim must be that non-current borrowings with fixed interest rates comprised no less than 50% of the Group's consolidated long-term loan portfolio. The usage of any of the interest rate derivatives requires the expiry date of the derivative to correspond to the maturity date of the debt obligation.

The risk of adverse changes in the interest rate of the investment is not actively insured. Risk management measures are applied only when the market has obvious indications that the interest rate might significantly decrease, resulting in negative investment returns.

Interest rate risk is assessed in relation to sensitivity of the Group's and the Company's profit to potential shift in interest rates. This assessment is given in the table below.

Group	Increase/decrease, percentage points	(Decrease)/increase in profit
2019	0,3/-0,3	(48)/48
2018	0,3/-0,3	(40)/40

Company	Increase/decrease, percentage points	(Decrease)/increase in profit
2019	0,3/-0,3	51/(51)
2018	0,3/-0,3	52/(52)

As at 31 December 2019 and 31 December 2018, the Group and the Company had no significant valid interest rate swaps.

Fair values of financial instruments

The Company and the Group's derivative financial instruments (Levels 1 and 2 of the fair value hierarchy), the Company and the Group's equity instruments (Level 1), the Company and the Group's price premium payable and amounts receivable for disposal of Litgrid AB shares (Level 3) are measured at fair value.

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 and the Company's financial assets and financial liabilities measured at amortised cost approximated their fair value, except for bond issue debts.

The bond issue debt of EUR 590,120 thousand (31 December 2018: EUR 588,999 thousand) (Note 23), the fair value of which was equal to EUR 630,732 thousand as at 31 December 2019 (31 December 2018: EUR 599,261 thousand), was reported in the Group and the Company statement of financial position at 31 December 2019. The fair value was calculated by discounting future cash flows related to the coupon payments with reference to the interest rate observable in the market and the payment of EUR 300,000 thousand on 14 July 2027, as well as the payment of EUR 300,000 thousand on 10 July 2028. The cash flows were discounted using a weighted average discount rate of 1.29% (31 December 2018 – 1.95%). Discount rates for certain bond issues are determined as 120 base points interest rate increased by EUR interest rate swap for tenors that is similar to period left until redemption of issued bonds. The bond issue debt is attributed to Level 2 of the fair value hierarchy.

All amounts are in EUR thousand unless otherwise stated

As at 31 December 2019, the fair value of the Company's amounts receivable related to EUR 416,288 thousand (31 December 2018: EUR 366,288 thousand) green bond amounts receivable of the subsidiary Energijos skirstymo operatorius AB was approximately equal to EUR 445,059 thousand as at 31 December 2019 (31 December 2018: EUR 372,238 thousand). The fair value is estimated by discounting cash flows with reference to the interest rate determined as 120 base points interest rate increased by EUR interest rate swap for tenors that is similar to period left until redemption of issued bonds. The cash flows were discounted using a weighted average discount rates of 1.30% (31 December 2018 – 1.95%). The fair value of amounts receivables is attributed to Level 2 of the fair value hierarchy.

On 8 November 2017, the Company took over debt liabilities of its subsidiary Energijos skirstymo operatorius AB to creditors, i.e. the banks OP Corporate Bank Plc and SEB AB. As at 31 December 2019, the subsidiary's debt to the Company amounted to EUR 82,247 thousand (31 December 2018: EUR 139,649 thousand) (Notes 10, 18). Accordingly, the carrying amount of debt liabilities to OP Corporate Bank Plc and SEB Bankas AB that were taken over by the Company was equal to EUR 82,246 thousand as at 31 December 2019 (31 December 2018: EUR 139,649 thousand) (Note 23). The fair value of financial assets and financial liabilities related to the debts taken over, which is calculated by discounting future cash flows with reference to the interest rate observable in the market, is equal to EUR 80,936 thousand (31 December 2018 – EUR 141,881 thousand). The cash flows were discounted using a discount rate of 0.973% (31 December 2018 – 0.809%). The measurement of financial assets and financial liabilities related to the debts taken over is attributed to Level 2 of the fair value hierarchy.

The carrying amount of the loans of Ignitis gamyba AB was equal to EUR 25,734 thousand (31 December 2018 – EUR 38,036 thousand). The fair value of these borrowings was approx. EUR 24,101 thousand as at 31 December 2019 (31 December 2018 – EUR 34,655 thousand). The fair value was measured as present value of discounted cash flows at a discount rate of 3.00% (31 December 2018 – 3.22%).

As at 31 December 2019, the Group and the Company accounted for an amount receivable for the sale of LitGrid AB at fair value through profit or loss. The carrying amount of the amount receivable was equal to EUR 158,658 thousand (31 December 2018 – EUR 158,658 thousand). Their fair value is attributed to Level 3 in the fair value hierarchy. Fair value was estimated on the basis of discounted cash flows using the rate of 0.614% (31 December 2018 – 0.614%).

The table below presents allocation between the fair value hierarchy levels of the Group's financial instruments as at 31 December 2019 (refer to Note 2.30 for the description of the fair value hierarchy levels):

Group	Note	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Measured at fair value through profit (loss)						
Assets						
Receivable for the sale of LitGrid AB	10	158,658	-	-	158,658	158,658
Derivative financial instruments	31	5,788	13	5,775	-	5,788
Liabilities						
Put option redemption liability	4.8, 31	16,660	-	16,660	-	16,660
Derivative financial instruments	31	2,528	500	2,028	-	2,528
Measured at amortized costs						
Liabilities						
Bonds issued	23	590,120	-	630,732	-	616,057
Debt liabilities to OP Corporate Bank Plc and SEB Bankas AB	23	82,247	-	80,936	-	80,936
Loans of Ignitis gamyba AB	23	25,734	-	24,101	-	24,101

The table below presents allocation between the fair value hierarchy levels of the Company's financial instruments as at 31 December 2019 (refer to Note 2.30 for the description of the fair value hierarchy levels):

Company	Carrying amount	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Measured at fair value through profit (loss)					
Assets					
Receivable for the sale of LitGrid AB	10	158,658	-	-	158,658
Measured at amortized costs					
Assets					
Green bond receivables from subsidiary Energijos skirstymo operatorius AB	10	416,288	-	445,059	445,059
Liabilities					
Bonds issued	23	590,120	-	630,732	616,057
Debt liabilities to OP Corporate Bank Plc and SEB Bankas AB	23	82,247	-	80,936	80,936

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 loans granted, trade receivables and other amounts receivable of the Company are due from related parties (see Note 41). As at 31 December 2019 and 2018, other receivables of the Group principally consisted of the EPSO-G outstanding receivables for the sale of LitGrid AB shares in year 2012 (Note 10).

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 (or subsidiaries of such 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 maximum exposure to credit risk as at 31 December 2019 and 2018 is equal to the carrying amount of financial assets and the nominal value of guarantees issued.

	Note	Group		Company	
		As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Financial assets measured at amortised cost:					
Non-current receivables	10	3,330	489	564,543	520,935
Trade receivables	16	117,867	143,120	-	-
Other receivables	17	24,858	11,814	380	629
Current loans	18	-	-	270,949	189,324
Cash and cash equivalents	19	131,837	127,835	144	231
Amounts receivable under finance lease agreements					
Non-current portion	11	21,057	10,904	-	-
Current portion	11	4,582	3,029	-	-
Financial assets at fair value through profit or loss in the statement of profit or loss and other comprehensive income					
Amount receivable on disposal of LitGrid AB	10	158,658	158,658	158,658	158,658
Investments into convertible bonds	12	500	500	500	500
Derivative financial instruments	31	5,788	2,046	-	-
In total		468,477	458,395	995,174	870,277
Off-balance sheet commitments:					
Open guarantees issued	40	-	-	199,322	98,845
In total		468,477	458,395	1,194,496	969,122

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 Group's ordinary 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 2019, the Group's current liquidity ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 0.857 and 0.763 respectively (31 December 2018: 1.157 and 1.045 respectively). As at 31 December 2019, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 283,593 thousand (31 December 2018: EUR 469,939 thousand).

As at 31 December 2019, the Company's current ratio (total current assets/total current liabilities) was 1.142 (31 December 2018 – 1.823). As at 31 December 2019, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 108,709 thousand (31 December 2018 – EUR 157,740 thousand).

To support the fulfilment of obligation of the Group companies to credit institutions and other creditors, the Company issued guarantees in the amount of EUR 199,322 thousand as at 31 December 2019 (31 December 2018 – EUR 98,845 thousand) (Note 40).

The table below summarises the Group and the Company's financial liabilities by category:

	Note	Group		Company	
		As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Amounts payable measured at amortised cost					
Borrowings	23	1,056,120	844,956	869,103	776,367
Lease liabilities	24	42,218	19,554	-	-
Non-current trade payables	29	550	729	-	-
Trade payables	30	78,567	93,236	259	947
Other current amounts payable and liabilities	31	33,327	56,915	1,316	1,045
Financial liabilities at fair value through profit or loss in the statement of profit or loss and other comprehensive income					
Derivative financial instruments	31	3,047	35	-	-
Put option redemption liability	31	16,660	16,660	-	-
Off-balance sheet commitments:					
Open guarantees issued	40	-	-	199,322	98,845
In total		1,230,489	1,032,085	1,070,000	877,204

The table below summarises the maturity profile of the Group 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	2019				In total
		Less than 3 months	3 months to 1 year	1 and 5 years	After 5 years	
Borrowings and lease liabilities		63,447	195,787	205,307	773,628	1,238,169
Trade payables and non-current amounts payable to suppliers		19,642	58,925	550	-	79,117
Other payables		12,497	37,490	-	-	49,987
Derivative financial instruments		3,047	-	-	-	3,047
As at 31 December 2019		98,633	292,202	205,857	773,628	1,370,320

Group	2018				In total
	Less than 3 months	3 months to 1 year	1 and 5 years	After 5 years	
Borrowings and finance lease liabilities	31,112	98,796	162,130	703,095	995,133
Trade payables and non-current amounts payable to suppliers	23,309	69,928	729	-	93,966
Other payables	18,489	55,468	-	-	73,957
Derivative financial instruments	35	-	-	-	35
As at 31 December 2018	72,945	224,192	162,859	703,095	1,163,091

Company	2019				In total
	Less than 3 months	3 months to 1 year	1 and 5 years	After 5 years	
Borrowings and lease liabilities	59,366	183,545	76,014	651,556	970,481
Trade payables and non-current amounts payable to suppliers	259	-	-	-	259
Open guarantees issued	13,526	40,580	45,335	99,881	199,322
As at 31 December 2019	73,151	224,125	121,349	751,437	1,170,062

Company	2018				In total
	Less than 3 months	3 months to 1 year	1 and 5 years	After 5 years	
Borrowings and finance lease liabilities	28,411	90,694	106,245	675,111	900,461
Trade payables and non-current amounts payable to suppliers	947	-	378	-	1,325
Open guarantees issued	18,475	55,426	5,147	19,796	98,844
As at 31 December 2018	47,833	146,120	111,770	694,907	1,000,630

3.2 Capital risk management

Pursuant to the Lithuanian Republic Law on Companies, the issued capital of a public limited liability company must be not less than EUR 40 thousand, the issued 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 issued capital. Foreign subsidiaries are subject for compliance with capital requirement according to regulation adopted in those foreign countries. As at 31 December 2019, the Company and all the companies of the Group, except for Ignitis Latvija SIA, complied with these requirements. On 31 December 2019, Ignitis Latvija SIA 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.

The Board of Ignitis UAB Group approved a 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 (loss)

earned. According to dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for payment of dividends, implementation of economic projects important for the State and other significant circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period.

- A company is not obliged to distribute dividends only when it incurs net loss. A company will not pay any dividends when its financial debts at the end of the reporting period are equal to or exceed four times Earnings Before Interest, Taxes, Depreciation, and Amortization (EBIDTA – a non-IFRS alternative performance measure) amount for the last twelve months as from the end of the reporting period.
- Dividends will not be paid if the Group company's equity (after the payment of dividends) becomes lower than the sum of its issued capital, legal reserve, revaluation reserve and reserve for acquisition of own shares, and also if a company becomes insolvent or would become insolvent upon payment of dividends. The Company will also be able not to pay dividends if its ratio of borrowings to equity becomes equal to or exceeds 1.0.

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 stand-alone financial statements of the Company and consolidated financial statements of the Group in the future.

4.1 Revaluation of property, plant and equipment

The Group accounts for Land, Buildings, Structures and machinery, Vehicles, Other property, plant and equipment and Construction-in-progress at revalued amount in accordance with IAS 16 Property, Plant and Equipment.

Revaluation of Property, plant and equipment (hereinafter "PPE") 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.

Most recent revaluations by the group of assets were performed:

Group	Recent revaluations performed
Land	2018
Buildings	2019
Structures and machinery	2018
Vehicles	2019
Other property, plant and equipment:	2018

All amounts are in EUR thousand unless otherwise stated

During 2019 additions to construction-in-progress amounts to EUR 398,049 thousand while carrying amount as at 31 December 2019 of construction-in-progress is EUR 373,912 thousand. As additions to construction-in-progress during 2019 were conducted at market values and accounted for at 31 December 2019 within carrying value of construction-in-progress the Group concludes that there is no indications of a significant difference between the net book amount and market value of construction-in-progress. Detailed information disclosed in Note 6.

The vehicles revaluation was conducted in December 2019 based on published market prices (third level in the fair value hierarchy). Review of revaluation results indicated that carrying value of Vehicles accounted for in PPE does not differ significantly as compared to market prices of similar assets. As at 31 December 2019 only assets accounted for as held for sale were updated with revaluation results as management considered the amount to be significant. Detailed revaluation results are disclosed in Note 20.

As at 31 December 2019, 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 2018, the Group performed the revaluation of Buildings and Structures and machinery stated at revalued amount. Revaluations were performed by independent valuers using the cost approach and the income approach. Based on the revaluation results, increase in value in the amount of EUR 45,669 thousand was recognised. Detailed revaluation results are disclosed in Note 6.

4.2 Impairment of property, plant and equipment

At least once a year the Group assesses whether there is any indication that the carrying amount of property, plant and equipment “Gas distribution pipelines, gas technological equipment and installations”, “Assets of Hydro Power Plant, Pumped Storage Power Plant” and “Structures and machinery of Thermal Power Plant” recorded at acquisition cost could be impaired and whether the carrying amount of property, plant and equipment “Structures and machinery” recorded at the revalued amount does not differ materially from their fair value (according IAS 16: when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required). The Group performs the impairment test and revaluation of assets, if such indications are found.

4.3 Revaluation of property, plant and equipment, used in electricity business segment and Impairment of property, plant and equipment, used in gas distribution

As at the reporting date of 31 December 2019, the Group performed a test of “Gas distribution pipelines, gas technological equipment and installations” attributable to gas distribution Cash Generating Unit (hereinafter “CGU”) and “Structures and machinery” attributable to electricity CGU respectively for impairment and potential need of revaluation using the discounted cash flow method. Discounted cash flows were calculated in accordance with the legal acts and methodologies regulating the activities of natural gas, electricity distribution and warranty supply activity, effective as at 31 December 2019. The legal acts and methodologies regulating the activities of natural gas and electricity distribution and guaranteed supply in force as at the reporting date are as follows:

1. *Methodology of Setting Price Ceilings of Electricity Transmission, Distribution and Public Supply Services and Public Energy Price Ceilings* (“the Electricity Methodology”) approved by the National Energy Regulatory Council’s Resolution No O3-3 of 15 January 2015 and subsequent amendments;

2. *Description of Requirements for Accounting Separation and Cost Allocation of Electric Power Sector Companies and Requirements Related to Accounting Separation* (“the Electricity Description”) approved by the National Energy Regulatory Council’s Resolution No O3E-468 of 21 December 2018 and subsequent amendments;
3. *Methodology for Setting the Rate of Return on Investments* (“the WACC Methodology”) approved by the National Energy Regulatory Council’s Resolution No O3-510 of 22 September 2015.
4. *Methodology of Setting Regulated Prices in the Natural Gas Sector* (“the Gas Methodology”) approved by the National Energy Regulatory Council’s Resolution No O3-367 of 13 September 2013 and subsequent amendments;
5. *Description of Requirements for Accounting Separation and Cost Allocation of Gas Sector Companies and Requirements Related to Accounting Separation* (“the Gas Description”) approved by the National Energy Regulatory Council’s Resolution No. O3E-464 of 21 December 2018 and subsequent amendments.

Test on the need for revaluation of property, plant and equipment attributed to the electricity business segment as at 31 December 2019

In 2019, the Group performed a separate assessment for “Structures and machinery” used in electricity distribution activities performed by subsidiary Energijos skirstymo operatorius AB. The carrying amount of the assessed assets in the Group accounts was EUR 1,178,943 thousand as at 31 December 2019. The potential change in fair value of these assets was tested by making cash flow forecast for the period until 2059, because the electricity distribution 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).

The following key assumptions were used by the Group in making cash flow forecast:

- As from 2021, the amount of electricity distributed will rise by half of the GDP, e.g. the projected GDP growth in 2021 would be at 2.3%; therefore, the projected growth of the amount of electricity distributed would be at 1.15%.
- When setting the price cap of the electricity distribution service for 2020, the NERC approved by the Certificate of 17 October 2019 the rate of return on investments (hereinafter – WACC) equal to 5.04% for this period. According to the regulatory principles WACC is determined for the five year regulatory period (electricity segment - 2016-2020, natural gas segment – 2019-2023) except for the cost of debt component, which is adjusted annually depending on actual Group company’s funding. The return on investments of 4.78% for the upcoming regulatory period in electricity segment of 2021–2025 is calculated as the average between the rate of return on investments of 3.59% that was newly established by NERC for the gas sector (for 2019–2023) and the rate of pre-tax return on investments of 5.96% that is estimated by the management in the long term for the electricity sector. As from 2026 (in the long term), the pre-tax rate of return on investments of 5.96% has been applied for the cash flow forecast period (as calculated according to:
 - a) the calculation data, which is publicly available on the NERC’s website www.vert.lt;
 - b) the WACC Methodology as approved by NERC, and
 - c) projected market trends).In the long term, an assumption is made that the rate of return on investments (pre-tax equals to 5.96%, after tax – 5.07%) will approximate the discount rate.
- The discount rate was determined using the Capital Asset Pricing Model CAPM. It was assumed that the market player will not apply any unsystematic risk premium due to the following reasons:
 - a) size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania);
 - b) monopolised and securely regulated business;
 - c) model compliance with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.

All amounts are in EUR thousand unless otherwise stated

- Discount rate of 5.07% (after tax) (5.96% - pre-tax) was used to calculate discounted cash flows.
- Forecasted operating expenses for the year 2020 are based according to the approved budget, for the period of 2021-2030 according to subsidiary Energijos skirstymo operatorius AB strategy and expected reduction in operating costs due to implementation of activity excellence initiatives (process review, robotisation, improvements) and data-driven solution that will enable to run business more efficiently. Forecasted operating expenses until 2030 are expected to be approximately lower by 16% comparing to the upper level approved by NERC. Calculations are based on forecasted macroeconomic assumptions (increase of payroll expenses and inflation). Forecasted changes since 2031 are according to the projected average annual consumer price index (CPI) and wage developments.
- A part of operating expenses incurred by the Group is not included in the regulated prices of the electricity distribution and supply activity in accordance with the provisions of the Electricity Description.
- The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Electricity Methodology).
- Investments are forecasted based on the ten-year investment plan for 2019–2028. A similar level to that in 2028 is expected from 2029 until 2030, however, more extensive investing is planned starting from 2031 and until 2036, i.e. all the investments that were not made in prior periods with reference to the amount calculated in accordance with the long-run average incremental cost (LRAIC) model approved by NERC ('the Model') are expected to be implemented. It is planned that all items of technological assets that are currently depreciated or will become depreciated over the period until 2060 will be renewed until 2060.
- The cost of capital (return on investments and depreciation of non-current assets) is calculated and included when determining the prices of the distribution services for other regulatory periods in accordance with the Model approved by NERC and in view of paragraph 7 of the Electricity Methodology.
- The evaluation model foresees that when setting the price caps for distribution services in medium and low voltage networks in the period from 2019 to 2020, the difference in the level of revenue in the amount of 53 million (plus additional interest of EUR 0.567 million), which reduces the Group income, will be refunded (via tariff) in the next regulatory period (from 2021), so the value of the assets will not change due to this NERC's decision No O3E-334 of 17 October 2018. On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2019.

Given that no significant changes have taken place in the regulatory environment for electricity and having assessed all above-mentioned assumptions and having performed the test on fair value assessment, the Group has identified that the carrying amount of property, plant and equipment attributed to the electricity business segment as at the reporting date of 31 December 2019 would increase immaterially (less than 5%), hence the management of the Group decided to withhold from making full revaluation to reflect the mentioned assets at new fair value.

Sensitivity analysis

At the end of 2019, the Group performed the sensitivity analysis on the fair value assessment in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I

If NERC continued to calculate the return on investment based on historical acquisition cost of property, plant and equipment with only limited adjustments to the LRAIC model (as adjusted for the prices set for period from 2019 to 2020), rather than relied on the LRAIC model to its full extent, the value of the Group's property, plant and equipment would decrease approximately by EUR 400 million.

Sensitivity analysis scenario II

If the amount, i.e. EUR 53 million plus additional interest of EUR 0.5 million, by which the Group's distribution income for the years 2019 - 2020 was reduced is not reimbursed by NERC, the Group's revenue during the forecast period (from 2020 to 2059) would decrease by the aforesaid amount of EUR 53 million plus additional interest of EUR and 0.5 million, and the fair value of property, plant and equipment would decrease by EUR 49 million.

Sensitivity analysis scenario III

If NERC established the level of revenue from 2026 and applied 20% lower rate of return on investments, i.e. equal to 4.78% (which is the average rate of return on investments effective for the electricity sector and the gas sector for the new regulatory period from 2026 as established by NERC in respect of the Group), plant and equipment would decrease by EUR 310 million.

Sensitivity analysis scenario IV

If the (pre-tax) discount rate was applied within the interval of +/- 20%, the value of assets would correspondingly decrease or increase.

The sensitivity of the value of assets to the discount rate is presented in the table below:

Measured output	Change in discount rate (after-tax)				
	-20%	-10%	0%	10%	20%
Discount rate (pre-tax), %	4.78	5.36	5.96	6.56	7.15
Discount rate (after-tax), %	4.06	4.56	5.07	5.58	6.08
Change in value of property, plant and equipment (million EUR)	457	213	0	-181	-333

Revaluation of property, plant and equipment attributed to the Electricity Distribution Business Segment as at 31 December 2018

In 2018, the Group performed revaluation for Buildings, Structures and machinery and Construction-in-progress which are used in electricity distribution activities performed by subsidiary Energijos skirstymo operatorius AB. The carrying amount of the assessed assets was EUR 1,206 million as at 31 December 2018. The fair value of these assets was determined using the income approach and the cost approach. The fair value of these assets was tested by making cash flow forecast for the period until 2058, 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).

The **cost approach** relates to Replacement Cost New (RCN) approach at individual asset level. A direct cost method was applied to 98% of PP&E (percentage calculated based on the fair value as at 31 August 2018), whereby RCN was estimated for new assets. RCN includes the cost of materials, installation works, labour, transportation and handling fees, overall costs of contractor, also indirect costs, such as engineering and design costs, at 2018 market prices.

The main assumptions of the cost approach used for the valuation were as follows:

- RCN values, which reflect all costs that are incurred upon creation of new identical assets;
- Depreciation curves, which determine the developments in the value of an asset over its life cycle according to the characteristics of that asset and its useful life;
- Functional obsolescence, which estimates the decrease in the usefulness of an asset due to its existing alternatives and technological progress;
- Hold factor, which establishes the minimum value for an asset, since the Subsidiary can continue to use fully depreciated assets.

All amounts are in EUR thousand unless otherwise stated

Under the income method, the economic obsolescence of assets was assessed. This method was used to estimate economic depreciation.

When estimating economic obsolescence, a cash flow forecast was prepared for the period from September 2018 to 2058. Key assumptions used in the cash flow forecasts to estimate economic depreciation of assets were as follows:

- from 2019, the amount of electricity distributed will rise by half of the GDP, e.g. the projected GDP growth would be at 2,8%; therefore, the projected growth of the amount of electricity distributed would be at 1.4%.
- setting the price cap of the electricity distribution service for 2019, in the Certificate of 17 October 2018, NERC approved the rate of return on investments equal to 5.04% for this period. This rate is used to determine the return on investments for the period of 2019–2020. With regard to the fact that the WACC methodology provides identical WACC calculation principles to be applied to the Electricity and Natural Gas Business Segments, for the upcoming regulatory period of 2021–2025, the return on investments is calculated as the average between the rate of return on investments of 3.59% that was newly established by NERC for the gas sector (for 2019–2023) and the rate of pre-tax return on investments of 5.96% that is estimated by the management in the long term for the electricity sector (i.e. 4.78%). From 2026 (in the long term), the rate of pre-tax return on investments of 5.96% has been applied for the cash flow forecast period (as calculated according to: a) the calculation data, which is publicly available on the NERC website, b) the WACC Methodology as approved by NERC, and c) projected market trends). In the long term, an assumption is made that the rate of return on investments (pre-tax 5.96% equivalent to post-tax 5.07%) will approximate the discount rate;
- The discount rate was determined using the Capital Asset Pricing Model (CAPM). It was assumed that the market player will not apply any unsystematic risk premium due to the following reasons:
 - size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania);
 - monopolised and securely regulated business;
 - model compliance with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.
- the cash flows were discounted using an post-tax discount rate of 5.07%;
- the Subsidiary's operating expenses for 2019 are planned under the budget and its operating expenses for 2020–2030 are planned on the basis of ESO's strategy with respect to planned directions for expense reduction. Starting from 2031 (it is expected that by 2030 the level of operating expenses will be up to 16% lower than the level of expenses permissible by the regulator (calculated on the basis of the projected market macroeconomic assumptions (increase in wages and inflation)) as a result of the implementation of operational excellence measures (process supervision, robotisation, improvements) and data-based solutions that will increase the efficiency of operations), changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
- a part of operating expenses incurred by the Subsidiary is not included in the regulated prices of the electricity distribution and supply activity in accordance with the provisions of the Electricity Description;
- the calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Electricity Methodology);
- investments are shown under the ten-year investment plan for 2018–2027. More extensive investing is planned starting from 2028 and until 2035, i.e. all the investments that were not made in prior periods with reference to the amount calculated in accordance with the long-run average incremental cost (LRAIC) model approved by the NERC ("the Model") are expected to be performed. It is planned that all items of technological assets that are currently depreciated or will become depreciated over the period until 2058 will be recovered until 2058;

- the cost of capital (return on investments and depreciation of non-current assets) is calculated and included when determining the prices of the distribution services for other regulatory periods in accordance with the Model approved by the NERC and in view of paragraph 7 of the Electricity Methodology;
- the valuation model assumes that the difference in the level of revenue in the amount of EUR 26.5 million, calculated in establishing the price caps for electricity distribution services through medium and low voltage networks for 2019 (and the additionally calculated amount of interest equal to EUR 0.567 million) will be returned to the Subsidiary during the upcoming regulatory period (starting from 2021). Therefore, the value of assets will not change as a result of this resolution of NERC.

Based on the discounted cash flow method, the value of the Group's electricity business enterprise was estimated and the value attributable to PPE was determined.

Having assessed all above-mentioned assumptions and having performed the fair value assessment, the Group has identified that the carrying amount of property, plant and equipment attributed to the electricity business segment as at the reporting date of 31 December 2018 would increase materially. Consequently, the Group's management decided to increase by EUR 37,125 thousand carrying value of the assets (Note 6).

The Group performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I

By calculating the level of revenue and performing regular assessment of the adjustments of the return on investments arising between the actual return on investments, as calculated on the basis of the LRAIC model, and the actual (historical) return on investments, as calculated on the basis of the performance of investments, and depreciation, the value of property, plant and equipment would decrease by EUR 339 million;

Sensitivity analysis scenario II

If judicial authorities rejected the complaint concerning NERC's resolution under which the income from distribution services for 2019 of Energijos skirstymo operatorius AB was reduced by EUR 26.5 million and interest in the amount of EUR 0.5 million was additionally charged the income for the forecast period (2019–2058) would decrease by the said amounts of EUR 26.5 million and EUR 0.6 million and the fair value of PP&E would decrease to EUR 1.119 million;

Sensitivity analysis scenario III

Had NERC established the level of revenue starting from 2026 and applied a 20% lower rate of return on investments, i.e. equal to 4.78% (which is the average rate of return on investments effective for the electricity sector and the gas sector for the new regulatory period as established by NERC in respect of Energijos skirstymo operatorius AB), the fair value of property, plant and equipment would decrease by EUR 308 million;

Sensitivity analysis scenario IV

If the (pre-tax) discount rate was applied within the interval of +/- 20%, the value of assets would correspondingly decrease or increase.

All amounts are in EUR thousand unless otherwise stated

The sensitivity of the value of assets to the discount rate is presented in the table below:

Measured output	Change in discount rate (after-tax)				
	-20%	-10%	0%	10%	20%
Discount rate (pre-tax), %	4.78	5.36	5.96	6.56	7.15
Discount rate (after-tax), %	4.06	4.56	5.07	5.58	6.08
Change in value of property, plant and equipment (million EUR)	521	242	0	-205	-376

Review of impairment of assets used in gas distribution in 2019

The carrying amount of assessed assets of “Gas distribution pipelines, gas technological equipment and installations” managed by the Company’s subsidiary Energijos skirstymo operatorius AB and attributable to gas distribution CGU in the Group accounts as at 31 December 2019 amounts to EUR 242,288 thousand. This property, plant and equipment attributable to gas distribution CGU is accounted applying cost model and is stated at acquisition cost less accumulated depreciation and impairment. The recoverable amount of these assets, which is the fair value less costs to sell, has been tested by making cash flow forecast for the period until 2074 for the natural gas operating segment, because the gas distribution activity is regulated on the basis of regulated asset base, which mainly consists of assets with long useful life – gas pipelines (useful life of 55 years).

The following key assumptions were used by the Group in making cash flow forecast:

- In setting the price cap of the gas distribution service for 2019–2023, NERC approved the rate of return on investments equal to 3.59% for this period. In 2020, WACC of 3.84 % (pre-tax) was applied for approving the natural gas distribution price, and, therefore, it was assumed that in the period from 2021 until 2023 the same WACC of 3.84 % (pre-tax) will apply. As from 2024 (in the long term), the rate of return on investments of 5.96%, estimated by the management, has been applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on the NERC’s website, the WACC (pre-tax) Methodology as approved by NERC, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate.
- Discount rate of 5.07% (after tax) (5.96% pre-tax) was used to calculate discounted cash flows.
- Forecasted operating expenses for the year 2020 are based according to the approved budget, for the period of 2021-2030 according to the Company’s subsidiary Energijos skirstymo operatorius AB strategy and expected reduction in operating costs (forecasted operating expenses until 2030 are expected to be approximately lower by 16% compared to the upper level approved by NERC (calculations are based on forecasted macroeconomic assumptions (increase of payroll expenses and inflation))) due to implementation of activity excellence initiatives (process review, robotisation, improvements) and data-driven solution that will enable to run business more efficiently. Forecasted changes since 2031 are according to the projected average annual consumer price index (CPI) and wage developments.
- A part of operating expenses incurred by the ‘s subsidiary not included in the regulated prices of the gas distribution activity in accordance with the provisions of the Gas Description.
- The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Gas Methodology).
- Investments are shown under the ten-year investment plan for 2019–2028. Starting from 2029 and until 2074, gradual decrease is expected to occur with each year.

Having assessed all above-mentioned assumptions and having performed an impairment test, the Group has identified that the carrying amount of property, plant and equipment attributed to the gas business segment as at the reporting date of 31 December 2019 would decrease immaterially (less

than 5%), hence the management of the Group decided to withhold from making adjustments to the value of gas assets.

Sensitivity analysis

The Group performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I

Had NERC established the level of revenue for the gas CGU starting from 2023 and applied a 5% lower rate of return on investments, i.e. equal to 5.66% (pre-tax), and determined that no additional impairment would be calculated.

Sensitivity analysis scenario II

If the estimated after-tax discount rate was at 5.58% (which is 10% higher than the discount rate of 5.07% used in the long-term model), an impairment of EUR 35 million would be recorded.

The sensitivity of the value of assets to the discount rate is presented in the table below:

Measured output	Change in discount rate (after-tax)				
	-20%	-10%	0%	10%	20%
Discount rate (pre-tax), %	4,78	5,36	5,96	6,56	7,15
Discount rate (after-tax), %	4,06	4,56	5,07	5,58	6,08
Change in value of property, plant and equipment (million EUR)	150	104	0	28	-1

Previous assessment of impairment of assets used in gas distribution (restated as disclosed in Note 4.27)

The Group property, plant and equipment of Gas distribution pipelines, Gas technological equipment and installations with the carrying amount of EUR 201,249 thousand as at 31 December 2018 are owned by the Company’s subsidiary Energijos skirstymo operatorius AB. This property, plant and equipment is stated at acquisition cost, less depreciation and impairment. The recoverable value (being fair value less cost of disposal) of these assets were assessed by forecasting cash flows until 2073, because the gas distribution activity is regulated with reference to the regulated asset base, which mainly consists of assets with long-term useful life, e.g. gas distribution pipelines (55 years).

The main assumptions used in the cash flow forecast were as follows:

1. In setting the price cap of the gas distribution service for 2019–2023, NERC approved the rate of return on investments equal to 3.59% for this period; From 2024 (in the long term), the rate of return on investments of 5.96%, estimated by the management, has been applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on the NERC’s website, the WACC Methodology as approved by NERC, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate;
2. The cash flows were discounted using a post-tax discount rate of 5.07%;
3. The Group’s operating expenses for 2019 are planned under the budget and its operating expenses for 2020–2030 are planned on the basis of the Company’s subsidiary’s strategy with respect to planned directions for expense reduction. Starting from 2031 changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation. It is expected that by 2030 the level of operating expenses will be up to 16% lower than the level of expenses permissible by the regulator (calculated on the basis of the projected market macroeconomic assumptions: increase in wages and inflation) as a result of the implementation of operational excellence measures (process supervision, robotisation, improvements) and data-based solutions that will increase the efficiency of operations;

All amounts are in EUR thousand unless otherwise stated

4. A part of operating expenses incurred by the Group is not included in the regulated prices of the gas distribution activity in accordance with the provisions of the Gas Description;
5. The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Gas Methodology);
6. Investments are shown under the ten-year investment plan for 2018–2027. Starting from 2028 and until 2073, gradual decrease is expected to occur with each year.

Having assessed all above-mentioned assumptions and performed the fair value assessment, the Group has identified that the increase in the value of property, plant and equipment attributed to the gas distribution CGU was equal to EUR 575 thousand as at 31 December 2018. The Management made a decision to reverse the previously recorded impairment of the gas distribution CGU established in prior periods (Note 6).

Impairment test and reversal of impairment for the Gas Business Segment have been performed as at 31 December 2018, as the assumptions of the impairment test have significantly changed and the impairment that had been accounted for as at 31 December 2014 needs to be reversed.

The principal assumptions due to the change in which the reversal of impairment for the gas distribution CGU has been identified are as follows:

1. The estimated increase in investments will consequently result in increasing return on investments and depreciation. The value of regulated assets used in the 2018 impairment test is higher as at the beginning of 2019 than that estimated in the 2014 impairment test model.
2. The assumptions related to the regulatory return and discount rate have changed. In the 2014 impairment test model, return is calculated at 7.09% and the discount rate is set at 6.03% (post-tax). In the 2018 impairment test, regulatory return for 2019–2023 is calculated at 3.59% and after 2023 is calculated at 5.96% pre-tax which is an equivalent of post-tax discount rate of 5.07% which was used in the model.
3. The amount of income tax relief for investments is estimated to be higher.

The Group performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs and applying scenarios when (i) starting from 2023 is applied a 10% lower rate of return on investments, i.e. equal to pre-tax 5.36% (ii) estimated post-tax discount rate was at 5.32% (which is 5% higher than the discount rate of 5.07% used in the long-term model) and determined that no additional impairment would be calculated in tested scenarios.

4.4 Review of power plants impairment

The carrying amount of assessed assets of “*Assets of Hydro Power Plant, Pumped Storage Power Plant*” and “*Structures and machinery of Thermal Power Plant*” managed by subsidiary Ignitis gamyba AB in the Group accounts as at 31 December 2019 amounts to EUR 446,553 thousand.

Thermal Power Plant consists of Elektrėnai Complex and Vilnius Thermal Power Plant No 3. Elektrėnai Complex consists of the Reserve Power Plant, Combined-Cycle Unit and new Biofuel and Steam Boiler Plants.

As at 31 December 2019, the Group management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in the purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets. In view of this, it was decided to carry out an impairment test of the Elektrėnai Complex as a cash-generating unit. Following the Elektrėnai Complex impairment test and after deducting grants, the recoverable amount exceeded the carrying amount of Elektrėnai Complex. The main aspects of testing are described below. No impairment indications were identified for the remaining property, plant and equipment.

In line with the decisions of NERC on the regulated prices of Elektrėnai Complex services in 2020 and volume of services of Elektrėnai Complex for future periods, the Group management treated the Elektrėnai Complex as a single cash generating unit.

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

- Elektrėnai Complex commonly shared infrastructure, which is necessary for electricity generation facilities: For Units 7 and 8 and a combined cycle unit, (hereinafter “the CCU”).
- The electricity transmission system operator informed that all Elektrėnai Complex units owned by the Group, which do not provide tertiary active power reserve service (hereinafter - the Reserve), will be used to provide services ensuring isolated operation of the power system in 2020.
- One of the Elektrėnai Complex electricity generation facilities provides both services at a partial capacity, i.e. services ensuring isolated operation of the power system is provided by using the capacity not allocated to the Reserve service.
- The Reserve Service Agreement provides for the possibility of exchanging the reserve service equipment with other equipment managed by the Group that meets the technical requirements.
- The electricity and thermal power generation, capacity reserve services, as well as services ensuring isolated operation of the power system at the Elektrėnai Complex are considered to be regulated activities.
- The Biofuel and Steam Boiler Plants share the same infrastructure with other facilities of the Elektrėnai Complex (electricity connections, thermal power networks, other pipelines, pumps, chemical bar, etc.), which represents the major part of all assets operated by the Elektrėnai Complex. The steam boilers have been mounted in the same building, which is used for the services provided by Combined-Cycle Unit, and the main purpose of use of the boilers (99.9% 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 Biofuel and Steam Boiler Plants also supply thermal power that is necessary to support the infrastructure of the Elektrėnai Complex and to activate the electricity generation units of the Elektrėnai Complex.

The recoverable amount of cash generating unit was estimated with reference to the value in use calculations. These calculations take into account the forecasts of financial performance results prepared by the management for the period of five years. Continuous cash flow is estimated using the discounted cash flow in the fifth year.

The management estimated the projected operating profit in view of historical data, forecasts of market position and the legal acts in effect, as well as based on the relevant resolutions of NERC, the Ministry of Energy, and the Government.

Key assumptions used in performing the impairment test as at 31 December 2019 were as follows:

1. The value in use was estimated with reference to the most up-to-date budget for the year 2020 and the management’s forecast covering the period 2021-2024, the projected pre-tax discounted cash flows using a pre-tax weighted average capital cost (WACC) of 5.18%. The WACC was estimated with reference to risk-free borrowing cost, the risk premium for the equity and the relative risk rate for the sector, calculated using publicly available market data and based on the terms and conditions of the new credit agreement.
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 forecast 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 a proportion of the value of the assets used in the regulated activities. When estimating return on investments for 2020, the management used the rate of return on investments set by NERC for this year, which

All amounts are in EUR thousand unless otherwise stated

was 5.07%. The rate of return on investment for 2021–2024 was calculated in accordance with The Methodology of Determination of the Rate of Return on Investments approved by the Order No O3-510 of NERC of 22 September 2015 has been approved by the Methodology for Determining the Rate of Return on Investments, taking into account the most current market information and long-term forecasts and amounts to 3.20–3.40%. Long-term cash flow forecasts were prepared taking into the account volume of services in 2020 and the legal framework applicable to them.

As a result of the impairment test in Elektrėnai Complex, it was determined that the assets' recoverable amount of EUR 226 million exceeded their carrying amount (less grants) of EUR 185 million as of 31 December 2019. Accordingly, no impairment was recognised. The sensitivity of the recoverable amount to changes in the WACC (discount rate) is presented in the table below. If the WACC increased by 0.5%, the recoverable amount of Elektrėnai Complex would amount to EUR 199 million, or to EUR 179 million if the WACC increased by 1.0%. Another table below also reveals the dependence of recoverable amount on the long-term cash flow growth assumption. The impairment test was based on a long-term cash flow growth assumption of 2%.

Analysis of the recoverable amount sensitivity to changes in WACC:

Measured output	WACC change, %						
	-0.50%	0.00%	0.50%	1.00%	1.50%	2.00%	2.50%
WACC, %	4.68	5.18	5.68	6.18	6.68	7.18	7.68
Recoverable amount, EUR million	262	226	199	179	163	150	139
Recoverable amount compared to carrying amount, EUR million	73	36	10	-11	-27	-40	-51

Analysis of the recoverable amount sensitivity to the changes of the long-term cash flow growth assumption, other assumptions remain constant.

Measured output	Change of the long-term cash flow growth assumption, %						
	-2.0%	-1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%
Long term cash flow forecast, %	0%	0,5%	1,0%	1,5%	2,0%	2,5%	3,0%
Recoverable amount, EUR million	160	171	185	202	226	258	304
Recoverable amount compared to carrying amount, EUR million	-30	-19	-5	13	36	68	115

Previous review of power plants impairment

As at 31 December 2018, 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 identified impairment indications for the Group's property, plant and equipment category 'Structures and machinery of Thermal Power Plant' consisting of the Reserve Power Plant, Combined-Cycle Unit and new Biofuel and Steam Boiler Plants (hereinafter 'the Elektrėnai Complex').

No impairment indications were identified for the Group's property, plant and equipment category 'Structures and machinery of Hydro Power Plant and Pumped Storage Power Plant' consisting of Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant.

4.5 Impairment of investments into subsidiaries

Although the shares of the Company's subsidiaries Energijos skirstymo operatorius AB and Ignitis gamyba AB are traded on Nasdaq Vilnius Stock Exchange, the Group's management believes this market is not active enough so that the quoted stock price could be treated as equivalent to the fair value of investments in subsidiaries at the reporting date.

As at 31 December 2019, the Company's management performed an assessment to identify any indicators of impairment for investments into subsidiaries and amounts receivable with reference to the external factors (changes in economic and regulatory environment, market composition, interest rate, etc.) and internal factors (return on investments, results of operations, etc.) that might have impact on impairment of investments into subsidiaries and amounts receivable.

Having identified impairment indications for investments in subsidiaries and amounts receivable as at 31 December 2019, the Company performed impairment testing for the following subsidiaries: Energijos skirstymo operatorius AB, Ignitis UAB, Ignitis renewables UAB, Eurakras UAB, Vėjo vatas UAB, Vėjo gūsis UAB, Tuuleenergia OÜ, NT Valdos UAB and Elektroninių mokėjimų agentūra UAB. Impairment indication is determined when at least one of the following indicators are met (except for early stage companies):

1. Actual adjusted EBITDA is less than budgeted adjusted EBITDA
2. Actual adjusted net profit is less than actual dividends paid
3. Book value of Investment is higher than book value of equity

Energijos skirstymo operatorius AB

The Company performed an impairment test for investment into subsidiary Energijos skirstymo operatorius AB. There is no impairment loss for investment into Energijos skirstymo operatorius AB as at 31 December 2019.

The main assumptions used in impairment test were as follows:

1. The cash flow of gas distribution activity forecast covered the period until the year 2074, with reference to the fact that gas distribution activity is focused on regulated activity property plant and equipment base with a long time useful life assets (55 years); after year 2074 calculated terminal cash flow
2. The cash flow of electricity distribution activity forecast covered the period until the year 2059, with reference to the fact that electricity distribution activity is focused on regulated activity property plant and equipment base with a long time useful life assets (40 years), i.e. electricity lines. A terminal cash flow applied for the period after year 2059.
3. The cash flows forecasted with the return on investment (ROI) of 5.96 % (electricity since year 2026 and gas since year 2024). ROI is calculated according public information and methods, approved by NERC and planned market trends.
4. Discount rate (weighted average cost of capital after tax) of 5.07% was used to calculate discounted cash flows.
5. Forecasted operating expenses for the year 2020 according to approved budget, for the period of year 2021-2030 according to Energijos skirstymo operatorius AB strategy and expected reduction in operating costs (forecasted operating expenses reduction approximately lower by 16% compared to the level approved by regulatory institution until the year 2030 (calculations based on forecasted macroeconomic assumptions (increase of payroll expenses and inflation), as well as performance of activity excellence tools (process review, robotization, improvements) and data-driven solution that will enable to run business more efficiently. Forecasted changes since the year

All amounts are in EUR thousand unless otherwise stated

- 2031 according to the projected average annual consumer price index (CPI) and wage developments.
6. Forecasted revenue level is not affected by the additional profit generated due to the planned efficiency of the Energijos skirstymo operatorius AB.
 7. Capital investments forecasted using approved 10 year capital investments plan, after 10 years using management assumptions provided.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The discount rate change has a significant impact for the result of impairment test. The sensitivity analysis showed that a 0.5 p.p. change in the discount rate would result in a decrease of the investment by up to EUR 34.1 million (at discount rate of 5.57%) or would have no impact for the value of investments (at discount rate of 4.57%).
2. The ROI change has a significant impact for the result of impairment test. The sensitivity analysis showed that a 0.5 p.p. change in the ROI would result in a decrease of the investment by up to EUR 60.0 million (at ROI of 5.46%) or would have no impact for the value of investments (at ROI of 6.46%).

Ignitis UAB

The Company performed an impairment test for investment into subsidiary Ignitis UAB. There is no impairment loss for investments as at 31 December 2019. The Company determined that carrying value of investment is lower than its estimated recoverable value and reversed EUR 4,010 thousand impairment losses. Detailed information disclosed in Note 9.

As at 31 December 2019, the Company tested for impairment its investment in subsidiary Ignitis UAB using the discounted cash flow method. Discount rate (weighted average cost of capital after tax) of 8.3% was applied to calculate discounted cash flows.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Ignitis UAB.

Ignitis renewables UAB

The Company performed an impairment test for investment into subsidiary Ignitis renewables UAB. There is no impairment loss for investments into Ignitis renewables UAB as at 31 December 2019. The scope of impairment test of Ignitis renewables UAB includes impairment test of subsidiaries (Eurakras UAB, Vėjo vatas UAB, Vėjo gūsis UAB) directly controlled by Ignitis renewables UAB that develop and manage wind farm parks.

The impairment test was performed using the discounted cash flow method and using the following key assumptions:

1. The cash flow forecast covered the period until the year 2045 as usual period of wind farm parks operations lasts for 25 – 30 years;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party or actual volume of production (depends on wind farm park).
3. During the first twelve months of operation, the price of electricity is equal to agreed tariff. After end of period when agreed tariff is applied there is used projection of electricity prices prepared by third party;
4. The cash flows were discounted using a discount rate (weighted average cost of capital after tax) of 4.7%.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Ignitis renewables UAB.

Tuuleenergia OÜ

The Company performed an impairment test for investment into subsidiary Tuuleenergia OÜ. There is no impairment loss for investments into Tuuleenergia OÜ as at 31 December 2019.

The impairment test was performed using the discounted cash flow method and using the following key assumptions:

1. The cash flow forecast covered the period until the year 2038;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party.
3. During the first twelve months of operation, the price of electricity is the market price plus 54.00 EUR/MWh feed-in premium.
4. The cash flows were discounted using a discount rate (weighted average cost of capital after tax) of 4.3%.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Tuuleenergia OÜ.

NT Valdos UAB

The Company performed an impairment test for investment into subsidiary NT Valdos UAB. There is no impairment loss for investments into Ignitis UAB as at 31 December 2019. The Company determined that carrying value of investment is lower than its estimated recoverable value and reversed previously recorded impairment loss EUR 9,035 thousand impairment losses. Detailed information disclosed in Note 9.

As at 31 December 2019, the Company tested for impairment its investment in subsidiary NT Valdos UAB using the net assets method. For the purposes of determining the net asset value of an investment, all assets (long-term and short-term) of the subsidiary were valued at market value, less any debts and liabilities of the subsidiary.

Elektroninių mokėjimų agentūra UAB

The Company performed an impairment test for investment into subsidiary Elektroninių mokėjimų agentūra UAB. There is no impairment loss for investments into Elektroninių mokėjimų agentūra UAB as at 31 December 2019.

As at 31 December 2019, the Company tested for impairment its investment in subsidiary using the discounted cash flow method. Discount rate (weighted average cost of capital after tax) of 5,6% was applied to calculate discounted cash flows.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Elektroninių mokėjimų agentūra UAB.

The Company's other investments in subsidiaries

As at 31 December 2019, there were no indications of impairment in respect of other investments in the subsidiaries of the Company.

Previous year Impairment of investments into subsidiaries and amounts receivable

As at 31 December 2018, the Company's management carried out an impairment test to determine existence of indications of impairment for investments into subsidiaries and amounts receivable with reference to the external factors (changes in economic and regulatory environment, market composition, interest rate, etc.) and internal factors (return on investments, results of operations, etc.) that might have impact on impairment of investments into subsidiaries and amounts receivable.

Having identified impairment indications for investments in subsidiaries and amounts receivable as at 31 December 2018, the Company performed impairment testing for the following subsidiaries: Energijos skirstymo operatorius AB, Ignitis UAB (former name – Energijos tiekimas UAB), Eurakras UAB, Tuuleenergia OÜ, Energetikos paslaugų ir rangos organizacija UAB. There was not identified impairment of investments in subsidiaries except for investments in Energetikos paslaugų ir rangos organizacija UAB.

As at 31 December 2018, the Company determined impairment for investments into Energetikos paslaugų ir rangos organizacija UAB in the amount of EUR 6,723 thousand. Following the recognition of impairment, the investment's recoverable amount (which is equivalent to its fair value) is equal to EUR 0 thousand. Detailed information disclosed in Note 9.

4.6 Impairment of goodwill in consolidated accounts

The Company performed an impairment test of EUR 1,461 thousand goodwill recognized on acquisition of subsidiary Eurakras UAB and impairment test of EUR 2,150 thousand goodwill recognized on acquisition of subsidiary VVP Investment UAB and determined no impairment of goodwill as at 31 December 2019 (Note 43).

4.7 Judgements and accounting estimates pertaining to control over Kauno kogeneracinė jėgainė UAB

As at 31 December 2019, the Company held 51% shareholding in Kauno Kogeneracinė Jėgainė UAB (hereinafter "KKJ"), and the remaining 49% of shares was 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 consists of equal number of representatives 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 and thus, whereas FORTUM has an option to sell (put option) to the Company its shareholding in KKJ, for the price, the calculation of which is defined in the Shareholders' Agreement. As a result the Management believe the Group exercise control over KKJ, as this can be exercised when decisions need to be made.

In the Group's management view, the call option's exercise price that the Company will have to pay to FORTUM for buyout of KKJ shares owned by FORTUM, in case the Company accepts option executed by Fortum, approximates the fair value of the shares less 15% within the limits of the materiality (materiality threshold is based on the best estimate practice, such as +/- 15% of the market value).

At 31 December 2019, the Group accounted for EUR 16,660 thousand (31 December 2018: EUR 16,660 thousand) put option exercise liability (Note 31) measured as net present value of the single future cash outflow, which would be paid to FORTUM for KKJ shares in a deadlock situation in case the put option is exercised.

4.8 Deferred payment on disposal of shares of LitGrid AB

In 2012, the 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 the shares established by independent valuers. The purchase-sale agreement of shares of LitGrid AB provides for a premium to the final price, the amount of which depends on the return on regulated assets of the electricity transmission activity in year 2014–2018.

At the initial assessment of the price premium the Company concluded that according to the purchase-sale agreement of shares of LitGrid AB, the price premium is negative and amounts to EUR 4,679 thousand at 31 December 2019 (31 December 2018: EUR 4,679 thousand). According to EPSO-G UAB calculations the price premium at 31 December 2019 is negative and amounts to EUR 27,075 thousand (31 December 2018: EUR 27,075 thousand).

The Company disagrees with EPSO-G UAB prepared calculations. There is currently a debate on how to resolve the situation. For the purposes of the statement of financial position, the Company's management has assessed and recognised the negative premium price for amount EUR 15,877 thousand (as at 31 December 2018: EUR 15,877 thousand) on the basis of a scenario, that the possible agreement between the parties would be the average value of the Company's and EPSO-G UAB calculations. After this assumption the gross receivable on disposal of the shares of LitGrid AB amounted to EUR 174,535 thousand was reduced by EUR 15,877 thousand as the sales price will be adjusted by the price premium.

Deferred receivables are assigned to level 3 of the fair value hierarchy.

4.9 The Group's and the Company's non-current assets held for sale and discontinued operations

Non-current assets held for sale

The Group and the Company classify property, plant and equipment and disposal groups as held for sale, if their carrying amount is recovered through a disposal rather than through continuing use, the assets and disposal groups are available for immediate sale, and a sale is considered highly probable in their current condition and under the conditions that are usual for sale of such assets and disposal groups. The Group and the Company are committed to a plan to sell these assets and disposal groups, and initiate an active programme to locate a buyer. The sale of assets is to be performed within one year of classification as held for sale and there are no indications that the plan will be significantly changed or withdrawn.

The Group's non-current assets held for sale consist of property, plant and equipment and disposal groups, that comprise transport business of the subsidiary Transporto valdymas UAB and IT business of the subsidiary Duomenų logistikos centras UAB (Note 20).

The transport business comprises motor vehicles, agreements on lease of motor vehicles that are expected to be disposed all together, as well as other assets and liabilities related to transport business. The transport business is classified in the Group's financial statements as assets held for sale based on the Group's management decision to sell the business and initiation of location of the future investor to enter into sale transaction of transport business.

All amounts are in EUR thousand unless otherwise stated

In November 2016, the Company's shareholder made a decision to launch the sale process of the Company's subsidiary Duomenų logistikos centras UAB. On 7 August 2017, the Company announced it has signed the agreement on the sale and purchase of the company's shares. On 21 June 2018, the Competition Council terminated the procedure for treatment of certain concentrations following the notice of the buyer on the abandonment of concentration. The Company passed the decision to agree with the termination of the agreement with the buyer. The Company does not withdraw from its plans to sell the company and continues to seek for a potential buyer and has renewed the sale process of Duomenų logistikos centras UAB.

The Company statement of financial position at 31 December 2019 includes the investment into Duomenų logistikos centras UAB in amount of EUR 4,705 thousand (31 December 2018: EUR 4,705 thousand) within item 'Non-current assets held for sale'.

The Company statement of financial position at 31 December 2019 includes the investment into Transporto valdymas UAB in amount of EUR 2,359 thousand (31 December 2018: EUR 2,359 thousand) within item 'Non-current assets held for sale'.

In year 2020, the Group's and the Company's management plans to continue active sales of assets and expects the sale transactions started in year 2017–2018 to be finalised in year 2020.

Discontinued operations

As at 31 December 2019 the Group recognized assets of subsidiaries Transporto valdymas UAB and Duomenų logistikos centras UAB in statement of financial position as Assets held for sale (note 20) and liabilities of subsidiaries are accounted for as Liabilities directly associated with the assets held for sale. The Group considered whether results of financial performance attributable to subsidiaries, according to requirement provided in IFRS 5 "Non-current assets held for sale and discontinued operations", comprise the Group discontinued operations. IFRS 5 defines discontinued operations as "a component of an entity that either has been disposed of or is classified as held for sale and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.". The Group management has applied a significant judgment in determining that the operations of individual subsidiaries do not represent a separate major line of the Group business thus results of financial performance attributable to subsidiaries do not meet definition of discontinued operations provided in IFRS 5.

4.10 Provision for statutory servitudes

On 1 November 2017, amendments to the Law on Electricity of the Republic of Lithuania came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Electricity Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensations for damages related with the establishment of statutory servitudes (which came into effect on 10 July 2004). The methodology on the payment of servitudes came into force as of 31 July 2018. Under this methodology, an estimated gross amount of payments for servitudes was assessed and accounted for in 2018. This estimate included a significant assumption on the number of land owners who will approach the Group for compensation, since the law prescribed the Group obligation to compensate those land owners which approached the Group for it. At the date of initial recognition, the Group recognized EUR 28,563 thousand of intangible assets (assets with indefinite useful life carried at cost less impairment) and EUR 28,725 thousand (at discounted value) of non-current liability provision under IAS 37. The amount

of compensations paid in the period from year 2018 until 2019 was EUR 1,674 thousand. Provision for compensation for servitude was reduced accordingly.

At the end of year 2019, the Group assessed the key assumptions used to estimate the provision, i.e. the expected timing of compensation, the number of claimants, the period over which full payment will be made, and the discount rate. On the basis of the historical information available as well as updated assumptions, the following was calculated and accounted: (a) EUR 26,426 thousand of the intangible assets; (b) EUR 23,018 thousand of the provision for non-current obligation; (c) EUR 3,893 thousand of the current portion of the provision for non-current obligation. For the purpose of the calculation of the provision, the discount rate was applied with reference to the lending rate of similar liabilities and was equal to 0.559% (31 December 2018 – 1.135%). In calculating the total amount of compensations, the percentage of customers who are unlikely to apply for compensations used was 15% (5% in 2018) based on the management estimates and the number of clients who actually applied during the period from year 2018 to 2019. The period during which the customers will apply for compensation is 10 years from the effective date of the methodology with additional period of 1 year of the date of the submission of the request to pay the compensation (the terms of the methodology provide for two years from the date of the submission of the request to pay the compensation, but effectively the Group pays within one year). It should be noted that the value of the provision may vary depending on the number of actual applicants, a sensitivity analysis of this significant assumption is provided below:

Measured output	Number of applicants, %				
	80%	85%	90%	95%	100%
Change in provision for compensations of servitudes, thousand EUR	-1,725	-	+1,770	+3,530	+5,280

As at 31 December 2019, the amount of the provision was equal to EUR 26,952 thousand (31 December 2018: EUR 28,023 thousand) (Note 28). The total amount of the provision is included in non-current liabilities pursuant to the provisions of the aforementioned methodology, according to which the one-off compensation for statutory servitudes is to be paid within 2 years from the date of the submission of an eligible application.

4.11 Determining whether statutory and contractual servitudes are a lease

Management of the Group analysed whether statutory and contractual servitudes are in scope of IFRS 16 Lease and concluded that statutory and contractual servitudes are not in scope since both statutory and contractual servitudes are not limited in time and can be used by the Group for an indefinite period of time.

4.12 Determining whether the Group acts as a Principal or an Agent in relation to electricity transfer, which includes both transmission and distribution, and gas distribution services

Electricity transfer services

In providing electricity transfer service (includes both transmission and distribution) to end users, the Group in Lithuania and Latvia acquires electricity transmission services from transmission grid operator (not a part of the Group), and in Latvia acquires electricity distribution services from distribution grid operator which is not a part of the Group. Management of the Group analysed related contracts with electricity transmission and distribution grid operators and contracts with customers, also evaluated applicable regulatory environment for the conclusion whether the Group is acting as a Principal or as an Agent in relation of electricity transmission services in Lithuania and electricity transfer (includes both transmission and distribution) services in Latvia have considered arguments

All amounts are in EUR thousand unless otherwise stated

provided further:

- According to the legislation the electricity transfer service comprises of (i) electricity transmission over high voltage grid and (ii) distribution over low and mid-voltage grid services. Electricity distribution services are provided by the distribution grid operator. In Lithuania the distribution grid operator is the Group, in Latvia – a company which is not a part of the Group. Transmission services are provided by transmission system operator which is not a part of the Group.
- The Group controls transmission services in Lithuania before transferring it to the end customer on the following grounds:
 - The Group is primarily responsible against the end users for electricity transfer service towards end customers.
 - The Group bears a risk of loss in case of outage of electricity, regardless of whether there was transmission or distribution grid failure.
 - The Group has discretion in establishing the final distribution price and transmission component is not re-charged on a pass-through principle.
- The Group doesn't control transmission and distribution services in Latvia before transferring it to the end customer on the following grounds:
 - For all transfer services the Group is not ultimately responsible, since according to the laws and regulations and agreements with customers the owner of the transmission and distribution grid takes full responsibility;
 - The Group also does not bear inventory risk since price of transfer services is determined based on meter readings – i.e. transfer fee is charged to the Group only to the amount of electricity consumed by the end customer;
 - The prices of transfer components are determined by the grid operator, which is not a part of the Group, and approved by regulator.

Following the arguments presented above the Management has applied a significant judgment concluded that the Group acts:

- as an Agent in relation to electricity transmission and distribution services acquired from the Latvian operator of electricity transfer system (Note 4.27),
- as a Principal in relation to electricity transmission services acquired from the Lithuanian operator of transmission system.

Gas distribution services

In providing gas distribution services to customers in Lithuania the Group uses its own distribution network, in Latvia – the Group acquires these services from the company which is not a part of the Group. Management of the Group analysed related contracts with the Latvian gas distribution grid operator and contracts with customers, also evaluated applicable regulatory environment and for the conclusion whether the Group is acting as a Principal or as an Agent in relation to gas distribution services in Latvia have considered arguments provided further:

- For gas distribution services the Group is not ultimately responsible, since according to the laws and regulations and agreements with customers the owner of the distribution grid takes full responsibility;
- The Group also does not bear inventory risk since price of distribution services is determined based on meter readings – i.e. distribution fee is charged to the Group only to the amount of gas consumed by the end customer;
- The price of distribution component is determined by the grid operator, which is not a part of the Group, and approved by regulator.

Following the arguments presented above the Management has applied a significant judgment (see

Note 4.27) and concluded that the Group acts as an Agent in relation to gas distribution services acquired from the Latvian operator of gas distribution system.

4.13 Determining whether the Group acts as a Principal or an Agent in relation to PSO fees and LNGT security component

Management has applied a significant judgment (see Note 4.27) and concluded that the Group acts as an Agent in relation to collection of PSO fees and LNGT security components from customers due to the following argumentation:

- 1) the Group is not responsible for PSO and LNGT projects / initiatives, accordingly it is not responsible that collected PSO fees and LNGT security component are used for their intended purpose,
- 2) the Group is not exposed to any inventory risk,
- 3) the Group has no legal power to establish pricing of these components.

4.14 Determining whether connection of a new customer to the grid is a separate performance obligation from ongoing distribution service

Having considered that the Group has an ongoing distribution service contract with a new customer for both gas and electricity distribution, management of the Group also concluded that connection fees do not represent a separate performance obligation from the sale of ongoing distribution service (Note 4.27), since they are both highly interrelated due to the following:

- Majority of new customers pay the connection fees with the only reason being to get an ongoing access to the grid, so from the perspective of a customer there is one single service the Group is providing to its customers, which is ongoing access to the grid,
- connection fee does not represent 100% of connection costs incurred by the Group and significant part of connection costs is collected by the Group through the distribution tariff,
- connection and ongoing distribution services are highly interdependent, as ongoing access cannot be provided without providing the connection of the customer to the grid first.

4.15 Provision for special conditions on land use (protection zones)

On 6 June 2019 the Lithuanian Republic Law on Special Conditions on Land Use introducing obligation for the Group to register special protection conditions (protection zones) of a land owned or near the Group infrastructure in the state real estate registry and pay compensations to land owners for the land covered by the protection zones. This Law defines the procedure and principles for registration of these special land areas and requires to pay compensations for the use of special land areas under the procedure approved by the Government of the Republic of Lithuania.

When providing information to NERC on the price caps for electricity and gas for the year 2020, the Group assessed that the Lithuanian Republic Law on Special Conditions on Land Use will come into force on 1 January 2020 and that all special conditions on land use must be registered within 3 years period and compensation paid accordingly. Accordingly, NERC has included the cost of the registration of protection zones in the revenue cap for electricity and gas distribution effective for the year 2020. Costs of compensation to land owners for protection zones were excluded from the price cap for distribution for the year 2020. Electricity distribution price for the year 2020 includes EUR 8,059 thousand of protection zone registration costs, while gas distribution price – EUR 269 thousand. The provision of EUR 8,328 thousand was therefore recognized as the best management estimate (Note 28).

All amounts are in EUR thousand unless otherwise stated

No provision is accounted for protection zone registration costs expected to be incurred in year 2021 and 2022, as the new wording of the regulation on Real Property Register is not yet approved by the relevant authorities and there is an uncertainty over the exact scope of work needed to register the protection zones. The management estimates that the compensation costs for the registration of protection zones in year 2021 and 2022 could be similar to those of year 2020 and amount to EUR 8.3 million annually, and EUR 24.9 million in the period from year 2020 to 2022, taking into account that the registration process will require the assistance of surveyors and/or other qualified professionals to develop plans/maps for special land use conditions. In case the Government of the Republic of Lithuania approves the new wording of the Regulations of the Real Estate Register and services of surveyors and/or other qualified professionals are not needed to develop plans/maps for special land use conditions, additional service costs for the registration of protection zones (registration, customer information, communication and other costs) associated with this obligation would amount to EUR 3.6 million.

No provision is accounted for compensation of land owners for the protection zones since the Government has not yet passed a methodology for payment of compensations for special protection zones that would describe the compensation mechanism and terms and therefore the Group is not able to determine reliably the amount of expenditures expected to be incurred for it.

4.16 Leases – determining the lease term and estimating the incremental borrowing rate

Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group included the renewal period as part of the lease term for leases of shorter non-cancellable period (i.e., one to three, three to five, five to seven years, etc.). The Group usually exercises its option to renew for these leases. Lease of the state-owned land is not subject to an extension clause, after which the lessee has a pre-emptive right to extend the lease. The periods covered by termination options are included as part of the lease term only when they are reasonably certain to be exercised.

Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities (Note 24). The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

4.17 Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate expected credit losses for trade receivables. The Group accounts for expected credit losses (ECLs) assessing amounts receivable on an individual basis or on a collective basis applying provision matrixes adopted by the Group companies in respect of their clients / borrowers.

Collective assessment of ECLs applying provision matrix

The Company and the Group companies use a provision matrixes to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by customer type).

The provision matrixes are initially based on the Company and the Group companies historical observed default rates. The Company and the Group companies calibrates the matrixes to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., changes in gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group trade receivables is disclosed in Note 16.

Individual assessment of ECLs

Decision to assess amounts receivable on an individual basis depends on the possibility to obtaining information on the credit history of a particular client / borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular client, thus enabling making judgement on the recognition of lifetime expected credit losses in respect of that particular client / borrower. These accounting estimates require significant judgement. Judgement is based on information about substantial financial difficulties experienced by the debtor, probability that the debtor will enter bankruptcy or any other reorganisation, default of delinquency in payments.

In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company/Group assesses the debt on a collective basis.

4.18 Estimation of over declaration of electricity usage by private customers and accounting for deferred revenue

In the circumstances when the tariff in subsequent period is higher than in current period according to the historical evidence of the Group it has been identified that private customers tend to overdeclare the consumption of electricity in the last months of the year. Since Group electricity distribution revenue depends on declarations of electricity consumed by the customers, overdeclaration increase Group revenue and therefore the Group needs to estimate the amount of the overdeclared (Note 17) consumption to evaluate the amount of deferred revenue. Estimation is based on historical consumption by the customers as well as Group assessment of technological losses in the electricity grid. All assumptions are reviewed at each reporting date For more information refer to Note 31.

All amounts are in EUR thousand unless otherwise stated

4.19 Tax audits

If the Group determines that the tax treatment involves uncertainty that affects the application of IAS 12, the Group applies IFRIC Interpretation 23. This Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

If the Group identifies the matters for which the tax determination is uncertain a provision is recognised for those matters considering that there will be a future outflow of funds to a tax authority due to rejection to accept an uncertain law treatment when making the examination of all relevant information. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

The Group in identifying whether it has any uncertain tax positions assess whether there is a possibility that the taxation authority may challenge those tax treatments. The Group determined, based on its tax compliance, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authority in case of examination of those treatments.

In accordance of legislation Tax Authorities may at any time during 3 successive years after the end of the reporting tax year inspect the Group books and accounting records and impose additional taxes or fines.

The Group management is not aware of any circumstances that the examination might result in a potential material liability in this respect.

4.20 Useful lives of property, plant and equipment and intangible assets

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 (Note 5, 6).

4.21 Provisions related to Emission allowances and dismantling of units in Elektrenai Complex

Emission allowances

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability falls within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The liability is estimated at the market price multiplied by the number of allowances required to cover emissions made up to the reporting date. The Group estimates the provisions for emission allowances based on actual quantity of emission

during the reporting period multiplied by the market price of one emission allowance. The quantity of actual emissions is approved by a responsible state authority during four months after the end of the year. The provision accounted for as at 31 December 2018 was consistent with actual quantities of emissions that were confirmed in year 2019. The Group management, based on its own experience, does not expect any significant differences to arise between the estimated provision at 31 December 2019 (Note 28) and the quantity of emissions which will be approved in year 2020.

Dismantling of units in Elektrenai Complex

At each reporting date, the Group estimates the provision for the dismantling of units 5–6 (i.e. blocks that consist of assets related to electricity generation) and chimneys at the Elektrenai Complex taking into account the expected economic outflows, which will be incurred in the future, when dismantling works will be actually performed. The dismantling of units 5, 6 and chimneys was initiated mainly due to health and safety reasons. The Group publicly announced its intention to carry out the works, currently a public call for tender was launched. For such reasons, the Company has an irrevocable obligation, therefore, provision was recognised under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

4.22 Accrued revenue from PSO funds

The Group rendered PSO services until 31 December 2018. PSO funds were allocated to the maintenance of the infrastructure of the Elektrėnai Complex (Elektrenai Complex is predetermined power plants ensuring power system reserves of the state), to cover expenses related to the testing of the necessary electricity generation facilities and relatively fixed costs of equipment used for provision of services. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes.

Allocated amount of PSO funds is determined for the next calendar year by NERC, in view of the projected costs of the Group. According to the Group management assessment, the Group has an irrevocable obligation to receive or pay the resulting difference in accordance with applicable laws regarding the PSO funds.

As at 31 December 2019, the Group recognised PSO funds to be refunded by the state during next 12 calendar months in the amount of EUR 1,039 thousand. As at 31 December 2018: the Group accounted for EUR 2,765 thousand a payable amount for the same service in current liabilities under the caption 'Provisions'.

Additionally, EUR 4,875 thousand of PSO funds to be refunded to the state were recognized in the non-current liabilities under the caption 'Provisions' as of 31 December 2018. As at 31 December 2019, no non-current PSO funds receivable or payable were recognised.

As at 31 December 2018, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 0.92% was used, and discounting effect of EUR 86 thousand as at 31 December 2018, excluded from the above amounts, was recognised within 'Other financial income'.

As at 31 December 2019, the discounting effect was recalculated for both - amounts receivable and payable of PSO services, capacity reserve services and system maintenance services, and the overall discounting effect, excluded from the above mentioned amounts, amounted to EUR 151 thousand as at 31 December 2019.

All amounts are in EUR thousand unless otherwise stated

At the end of year 2019, the Group updated its estimate associated with the PSO funds receivable and payable for year 2018 pursuant to the NERC's decisions on setting prices. The adjusted estimate was largely due to the regulator's evaluation of accounts receivable and payable, included in the PSO funds for year 2018, made when setting the prices for regulated services in year 2020 and its decision to evaluate the difference between planned and factual expenses in year 2018 by reference to services rather than equipment.

4.23 Regulated activity: Accrual of income and regulatory provisions from capacity reserve and system services

Profitability of the Group is regulated by NERC 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 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, the actual earnings of the Group may be at variance with the regulated level, and the resulting difference will affect the future tariffs of services.

On 14 November 2019, NERC adopted a resolution No O3E-715 'On Approval of the Methodology for Establishing the Prices for Electricity, Capacity Reserve Services and Services Ensuring Isolated Operation of the Power System' (hereinafter "the Methodology"). This Resolution stipulates that Companies that discontinue capacity reserve services shall reimburse any discrepancies between the projected and actual costs of providing these services to the transmission system operator if the costs actually incurred by the Group were less than the revenues received from the transmission system operator. If the actual costs incurred by the Group were higher than the income of the transmission system operator, the transmission system operator shall reimburse this amount to the Group.

With regard to the resolution above, the Group recognises assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level regardless the difference under the provision of services in the future. Due to the change in legislation, the management of the Group accounted for EUR 7,630 thousand to be refunded to the Transmission system operator for tertiary capacity reserve and system services in the non-current liabilities under the caption 'Provisions', while EUR 475 thousand of receivables related to secondary active capacity reserve were accounted for in the Non-current receivables (note 10) as at 31 December 2019. As at 31 December 2019, EUR 5,060 thousand of funds receivable for system services were accounted for in the Other receivables (note 17). As at 31 December 2018, and before adoption of resolution No O3E-715, such regulatory assets and liabilities did not qualify for recognition under IFRS, as disclosed in Note 4.26 below.

4.24 Legal disputes over the NERC's decisions related to regulated revenue

In year 2014, NERC adopted a resolution, by which the Group was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Group hydroelectric plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Group. On 17 October 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of NERC was repealed. As at 31 December 2019, the amount of the Group contingent assets (these contingent assets are not recognised in the financial statements) related to the legal dispute concerning the NERC's decision, by which the Group was declared as an undertaking with significant power in the electricity generation market and thus the amount of the payable PSO funds was additionally reduced by EUR 2.51 million, amounted to EUR 2.51 million and remains unchanged from 31 December 2018.

4.25 Collection of cash on suspense account

The Group's Subsidiary Elektroninių mokėjimų agentūra UAB (hereinafter "EMA") made a significant decision regarding cash amounts collected from the customers which are held in EMA's deposit account for one business day before transferring it to the service providers. These funds are held in separate and special purpose banks deposit accounts, their purpose is clearly defined in agreements with the banks. Moreover, EMA is not allowed to invest does not invest these cash funds and does not receive any interest or similar income from them. The principle of such cash holding and handling is disclosed to EMA's customers and EMA is able to identify the owners of the cash at any time. Additionally the clients as the real cash owners participate in deposit insurance scheme as well. For this reason, EMA assesses the risk that a customer will sue EMA for funds in the event of banks bankruptcy. Therefore, it is considered that Elektroninių mokėjimų agentūra UAB does not have credit risk. Due to that the Group does not recognise clients cash in statement of financial position. Clients funds held in deposit account composed EUR 2,752 thousand as at 31 December 2019 (EUR 6,428 thousand as at 31 December 2018).

4.26 Corrections of errors

In preparing these financial statements, the Group has made adjustments to prior periods due to identified errors:

- i) The Group corrected the identified errors from the previous financial periods during the preparation of these annual financial statement. In 2019, the subsidiary Ignitis gamyba AB reviewed financial statements accounting principles for revenues, receivables, and payables related to capacity reserve (secondary and tertiary power reserves) and system restoration services (hereinafter – regulated activities), which are regulated by NERC. Tariffs for these regulated activities for the next calendar year are set by NERC based on Group and Ignitis gamyba AB forecasted expenses taking into account planned and factual revenue and expense variance in the prior financial year. In the financial statements prepared for the year ended 31 December 2018, the Group and Ignitis gamyba AB reported regulated activities revenues using the accrual principle based on factual expenses incurred, i.e. regulatory activities revenues were recognized by the Group and Ignitis gamyba AB in such volume, which under NERC's methodology, is permissible taking into consideration permissible return on investment and factual expenses for services provided incurred during the period. Due to variance between planned and factual revenues and expenses set by NERC, regulatory activities revenues and corresponding payables and other payables were corrected. Until 2019, revenues were recognized following the assumption about NERC's ability to promptly and based on unilateral decision initiate legal act amendments, that would be necessary in order to establish an obligation for the Group to refund the difference between mentioned regulatory planned and actual service estimates even if the Group and Ignitis gamyba AB is no longer providing regulatory services mentioned above. In year 2019, by reviewing accounting of previously mentioned operations, it was noted that payable or refundable amounts in the future periods depend on whether or not the Group and Ignitis gamyba AB will provide these services and will carry them out in the future, i.e. these amounts are related to currently uncompleted agreements, and in such case, provision, contingent liabilities and contingent assets should not be accounted (under IAS 37 "Provision, Contingent Liabilities and Contingent Assets"). See these restatements in columns 1 – 3 of Group's Statement of Profit or Loss and other Comprehensive Income for 2018 in table below.
- ii) The Group company Ignitis Polska Sp. z o. o. based in Poland, participates in electricity trading exchange market through forward and futures contracts. The purpose of these deals is to earn profits from short-term fluctuations in electricity prices on the exchange. Ignitis Polska Sp. z o. o.

All amounts are in EUR thousand unless otherwise stated

does not provide supply of electricity to final customers. Settlements are made by settling liabilities between the company and the other party to the exchange transaction, and by making a cash payment for the remaining outstanding debt. Ignitis Polska Sp. z o. o. account for contract balances in the financial statements at fair value, and income and expenses are presented in the separate items in the statement of profit or loss and other comprehensive income. After reviewing contracts of Ignitis Polska Sp. z o. o. the Group has determined that income and expense should be reported in the item of costs in the statement of profit or loss and other comprehensive income as profit or loss. Management's decision to amend presentation of revenue and costs is based on the fact that, under IFRS 9, transactions made by Ignitis Polska Sp. z o. o. cannot be classified under the "own use" exception, and therefore only the result of those transactions should be recognized in profit or loss. See these restatements in column 4 of Group's Statement of Profit or Loss and other Comprehensive Income for 2018 in table below.

Retrospectively corrected captions of Group's Statement of Financial Position

Correction of 2018 year

Group	31 December 2017 (previously reported)	Correction of liabilities due to regulated services income	31 December 2017 after corrections of errors*	Effect of IFRS 15 adoption	Effect of IFRS 9 adoption	1 January 2018 after corrections of errors and adoption of IFRS 9 and IFRS 15 adjustments
ASSETS						
Non-current assets						
Intangible assets	36,360	-	36,360	-	-	36,360
Property, plant, and equipment	1,761,082	-	1,761,082	(10,356)	-	1,750,726
Prepayments for non-current assets	21,911	-	21,911	-	-	21,911
Investment property	14,878	-	14,878	-	-	14,878
Non-current receivables	170,488	-	170,488	-	-	170,488
Other financial assets	426	-	426	-	-	426
Other non-current assets	3,239	-	3,239	-	-	3,239
Deferred tax assets	7,084	-	7,084	10,997	-	18,081
Total non-current assets	2,015,468	-	2,015,468	641	-	2,016,109
Current assets						
Inventories	56,866	-	56,866	-	-	56,866
Prepayments and deferred expenses	38,119	-	38,119	-	-	38,119
Trade receivables	112,563	-	112,563	-	(471)	112,092
Other receivables	27,800	-	27,800	-	-	27,800
Other current assets	1,093	-	1,093	-	-	1,093
Prepaid income tax	2,102	-	2,102	-	-	2,102
Cash and cash equivalents	171,756	-	171,756	-	-	171,756
	410,299	-	410,299	-	(471)	409,828
Assets held-for-sale	79,301	-	79,301	-	-	79,301
Total current assets	489,600	-	489,600	-	(471)	489,129
TOTAL ASSETS	2,505,068	-	2,505,068	641	(471)	2,505,238
EQUITY AND LIABILITIES						
Equity						
Issued capital	1,212,156	-	1,212,156	-	-	1,212,156
Reserves	99,380	-	99,380	-	-	99,380
Retained earnings (deficit)	(13,706)	-	(13,706)	(59,194)	(453)	(73,353)
Equity attributable to equity holders of the parent	1,297,830	-	1,297,830	(59,194)	(453)	1,238,183
Non-controlling interests	45,796	-	45,796	(3,127)	(18)	42,651
Total equity	1,343,626	-	1,343,626	(62,321)	(471)	1,280,834
Liabilities						
Non-current liabilities						
Non-current loans and bonds	480,068	-	480,068	-	-	480,068
Lease liabilities	187	-	187	-	-	187
Grants and subsidies	200,311	-	200,311	-	-	200,311
Deferred corporate income tax liabilities	36,049	-	36,049	-	-	36,049
Provisions	1,893	5,474	7,367	-	-	7,367
Deferred income	54,509	-	54,509	63,839	-	118,348
Other non-current amounts payable and liabilities	7,306	(5,474)	1,832	-	-	1,832
Total non-current liabilities	780,323	-	780,323	63,839	-	844,162
Current liabilities						
Current portion of non-current loans	119,599	-	119,599	-	-	119,599
Current loans	14,082	-	14,082	-	-	14,082
Current portion of finance lease liabilities	145	-	145	-	-	145
Trade payables	98,338	-	98,338	-	-	98,338
Contract liabilities	27,765	-	27,765	-	-	27,765
Corporate income tax payable	3,695	-	3,695	-	-	3,695
Provisions	2,498	-	2,498	-	-	2,498
Deferred income	5,242	-	5,242	(877)	-	4,365
Other current amounts payable and liabilities	109,421	-	109,421	-	-	109,421
	380,785	-	380,785	(877)	-	379,908
Liabilities directly associated with the assets held for sale	334	-	334	-	-	334
Total current liabilities	381,119	-	381,119	(877)	-	380,242
Total liabilities	1,161,442	-	1,161,442	62,962	-	1,224,404
TOTAL EQUITY AND LIABILITIES	2,505,068	-	2,505,068	641	(471)	2,505,238

*Corrections affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)

Retrospectively corrected captions of Group's Statement of Financial Position

Correction of year 2018

Group	31 December 2018 as previously reported	Correction of liabilities due to regulated services income	Income taxes related to revenue from regulated activities	Error impact to non-controlling interest	31 December 2018 after corrections of errors*
ASSETS					
Non-current assets					
Intangible assets	106,330	-	-	-	106,330
Property, plant, and equipment	2,091,590	-	-	-	2,091,590
Prepayments for non-current assets	23,621	-	-	-	23,621
Investment property	6,494	-	-	-	6,494
Non-current receivables	160,606	-	-	-	160,606
Other financial assets	2,008	-	-	-	2,008
Other non-current assets	6,094	-	-	-	6,094
Deferred tax assets	14,468	-	-	-	14,468
Total non-current assets	2,411,211	-	-	-	2,411,211
Current assets					
Inventories	43,137	-	-	-	43,137
Prepayments and deferred expenses	30,655	-	-	-	30,655
Trade receivables	143,120	-	-	-	143,120
Other receivables	25,436	-	-	-	25,436
Other current assets	2,147	-	-	-	2,147
Prepaid income tax	4,192	-	-	-	4,192
Other financial assets	656	-	-	-	656
Cash and cash equivalents	127,835	-	-	-	127,835
	377,178	-	-	-	377,178
Assets held-for-sale	65,706	-	-	-	65,706
Total current assets	442,884	-	-	-	442,884
TOTAL ASSETS	2,854,095	-	-	-	2,854,095

Group	31 December 2018 as previously reported	Correction of liabilities due to regulated services income	Income taxes related to revenue from regulated activities	Error impact to non-controlling interest	31 December 2018 after corrections of errors*
EQUITY AND LIABILITIES					
Equity					
Issued capital	1,212,156	-	-	-	1,212,156
Reserves	212,802	-	-	-	212,802
Retained earnings	(147,554)	-	-	-	(147,554)
Result for financial year 2018	(9,209)	7,392	(2,218)	(165)	(4,200)
Equity attributable to equity holders of the parent	1,268,195	7,392	(2,218)	(165)	1,273,204
Non-controlling interests	48,356	-	-	165	48,521
Total equity	1,316,551	7,392	(2,218)	-	1,321,725
Liabilities					
Non-current liabilities					
Non-current loans and bonds	735,410	-	-	-	735,410
Lease liabilities	14,334	-	-	-	14,334
Grants and subsidies	208,874	-	-	-	208,874
Deferred corporate income tax liabilities	38,688	-	1,109	-	39,797
Provisions	30,571	4,784	-	-	35,355
Deferred income	115,261	-	-	-	115,261
Other non-current amounts payable and liabilities	11,274	(9,387)	-	-	1,887
Total non-current liabilities	1,154,412	(4,603)	1,109	-	1,150,918
Current liabilities					
Current portion of non-current loans	61,819	-	-	-	61,819
Current loans	47,727	-	-	-	47,727
Current portion of finance lease liabilities	5,220	-	-	-	5,220
Trade payables	93,237	-	-	-	93,237
Contract liabilities	55,325	(5,559)	-	-	49,766
Corporate income tax payable	3,436	-	1,109	-	4,545
Provisions	2,788	2,770	-	-	5,558
Deferred income	7,912	-	-	-	7,912
Other current amounts payable and liabilities	102,682	-	-	-	102,682
	380,146	(2,789)	1,109	-	378,466
Liabilities directly associated with the assets held for sale	2,986	-	-	-	2,986
Total current liabilities	383,132	(2,789)	1,109	-	381,452
Total liabilities	1,537,544	(7,392)	2,218	-	1,532,370
TOTAL EQUITY AND LIABILITIES	2,854,095	-	-	-	2,854,095

*Corrections affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)

Retrospectively corrected captions of Group's Statement of Profit or Loss and other Comprehensive Income

Correction of year 2018

Group	2018 as previously reported*	Correction of liabilities	Income taxes related to	Error impact to non-	Netting of income and	2018 after corrections of errors*
		due to regulated services income	revenue from regulated activities	controlling interest	expenses of electricity trading in market	
		1	2	3	4	
Revenue from contracts with customers	1,208,444	7,392	-	-	(36,252)	1,179,584
Other income	45,782	-	-	-	-	45,782
	1,254,226	7,392	-	-	(36,252)	1,225,366
Operating expenses						
Purchases of electricity, gas for trade and related services	(947,989)	-	-	-	36,252	(911,737)
Purchases of gas and heavy fuel oil	(26,545)	-	-	-	-	(26,545)
Depreciation and amortisation	(87,460)	-	-	-	-	(87,460)
Salaries and related expenses	(79,741)	-	-	-	-	(79,741)
Repair and maintenance expenses	(21,200)	-	-	-	-	(21,200)
Result of revaluation of non-current assets	(67,671)	-	-	-	-	(67,671)
Reversal of (impairment) of amounts receivable and loans	(9,876)	-	-	-	-	(9,876)
Impairment of property, plant and equipment	7,205	-	-	-	-	7,205
Other expenses	(26,143)	-	-	-	-	(26,143)
Total operating expenses	(1,259,420)	-	-	-	36,252	(1,223,168)
Profit (loss) from operations	(5,194)	7,392	-	-	-	2,198
Finance income	1,621	-	-	-	-	1,621
Finance costs	(14,899)	-	-	-	-	(14,899)
Results of the revaluation and closing of derivative financial instruments	(573)	-	-	-	-	(573)
Profit (loss) before tax	(19,045)	7,392	-	-	-	(11,653)
Current year income tax (expenses)/benefit	(3,495)	-	(1,109)	-	-	(4,604)
Deferred income tax (expenses)/benefit	14,598	-	(1,109)	-	-	13,489
Net profit (loss) from continuing operations	(7,942)	7,392	(2,218)	-	-	(2,768)
Net profit (loss) from discontinued operations	-	-	-	-	-	-
Net profit (loss)	(7,942)	7,392	(2,218)	-	-	(2,768)
Attributable to:						
Equity holders of the parent	(9,209)	-	-	5,009	-	(4,200)
Non-controlling interests	1,267	-	-	165	-	1,432
Other comprehensive income (loss)						
Items that will not be reclassified to profit or loss						
Gain/(loss) on revaluation of property, plant and equipment	123,139	-	-	-	-	123,139
Recalculation of the defined benefit plan obligation, net of deferred income tax	77	-	-	-	-	77
Items that will not be reclassified to profit or loss in subsequent periods, total	123,216	-	-	-	-	123,216
Items that may be reclassified to profit or loss in subsequent periods, total						
Exchange differences on translation of foreign operations into the Group's presentation currency	(26)	-	-	-	-	(26)
Items that may be reclassified to profit or loss in subsequent periods, total	(26)	-	-	-	-	(26)
Total other comprehensive income (loss)	123,190	-	-	-	-	123,190
Total comprehensive income (loss) for the period	115,248	7,392	(2,218)	-	-	120,422
Attributable to:						
Equity holders of the parent	108,195	-	-	5,009	-	113,204
Non-controlling interests	7,053	-	-	165	-	7,218

*Corrections affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)

All amounts are in EUR thousand unless otherwise stated

Retrospectively corrected captions of Group's Statement of Cash Flow

Correction of year 2018

Group	2018 as previously reported	Corrections of errors	2018 after corrections of errors *	Group	2018 as previously reported	Corrections of errors	2018 after corrections of errors *
Cash flows from (to) operating activities				Cash flows from/(used in) financing activities			
Net profit (loss)	(7,942)	5,174	(2,768)	(Purchase) of property, plant and equipment and intangible assets	(416,205)	-	(416,205)
Adjustments to non-cash items:				Proceeds from sale of property, plant and equipment and intangible assets	48,162	-	48,162
Depreciation and amortisation expenses	96,730	-	96,730	Acquisition of investments in subsidiaries	(23,509)	-	(23,509)
Impairment of property, plant and equipment	(7,205)	-	(7,205)	Disposal of investments in subsidiaries	-	-	-
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	(10,003)	-	(10,003)	Grants received	25,523	-	25,523
Revaluation of property, plant and equipment	76,617	-	76,617	Interest received	1,105	-	1,105
Revaluation of investment property	(18)	-	(18)	Other increases (decreases) in cash flows from investing activities	(1,582)	-	(1,582)
Revaluation of derivatives	(354)	-	(354)	Net cash flows used in investing activities	(366,506)	-	(366,506)
Impairment/(reversal of impairment) of financial assets	9,876	-	9,876	Cash flows from/(used in) financing activities			
Corporate income tax expenses	(11,103)	2,218	(8,885)	Loans received	57,810	-	57,810
(Depreciation) of grants	(9,270)	-	(9,270)	Issue of bonds	294,346	-	294,346
Increase (decrease) in provisions	404	2,080	2,484	Repayments of borrowings	(155,421)	-	(155,421)
Inventory write-down allowance/(reversal)	(718)	-	(718)	Lease payments	(544)	-	(544)
Expenses/(income) of revaluation of emission allowances	(8,933)	-	(8,933)	Interest paid	(10,402)	-	(10,402)
Emission allowances utilised	908	-	908	Dividends paid	(80,608)	-	(80,608)
Elimination of results of investing activities:				Increase in issued capital of Kauno Kogeneracinė Jėgainė UAB	7,840	-	7,840
- (Gain)/loss on disposal and/or write-off of property, plant and equipment	477	-	477	Result of the closing of derivative financial instruments	(573)	-	(573)
Other (income)/expenses of investing activities	82	-	82	Net cash flows from (used in) financing activities	112,448	-	112,448
Elimination of results of financing activities:				Increase (decrease) in cash and cash equivalents (including overdraft)	(75,526)	-	(75,526)
- Interest received	(1,427)	-	(1,427)	Cash and cash equivalents (including overdraft) at the beginning of the period	161,101	-	161,101
- Interest paid	12,442	-	12,442	Cash and cash equivalents (including overdraft) at the end of period	85,575	-	85,575
- Other (income)/expenses of financing activities	2,263	-	2,263				
Changes in working capital:							
(Increase) decrease in trade receivables and other amounts receivable	(21,603)	-	(21,603)				
(Increase) decrease in inventories, prepayments and other current assets	18,896	-	18,896				
Increase (decrease) in amounts payable, deferred income and advance amounts received	44,722	(9,472)	35,250				
Corporate income tax (paid)	(6,309)	-	(6,309)				
Net cash flows from (to) operating activities	178,532	-	178,532				

*Corrections affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)

4.27 Change in management judgment on applying accounting methods

In preparing these financial statements, the Group has adopted changes in accounting methods

Connection fees

On 1 January 2018, the Group adopted IFRS 15 Revenue from Contracts with Customers and its amendments for the first time and they had a significant impact on the Group's financial statements. The Group accounted for the impact of the first-time adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach.

Upon initial application of IFRS 15 with respect to revenue from new customer connection the Group assessed the existence of separate performance obligation through the legal point of view, i.e. if the Group had a new connection contract with the customer and the distribution as a service was provided to the end customer through the customer's contract for supply services, the new connection contract was treated as separate performance obligation, accordingly revenue received from the customer was recognized as income, when the connection service was provided. In case the Group signed two separate agreements with the customer – one for connection service, another one for distribution service, these two were treated as a single performance obligation, accordingly the connection fees paid by the customers were recognized as revenue through the useful life of new infrastructure created.

Following this judgment starting from year 2018 the connection fees in gas segment were recognized when connection service was provided. In electricity segment from 1 January 2018 to 1 October 2018 connection fees were deferred over the period of estimated customer relationship, which is determined based on the useful life of the related newly created property, plant and the equipment (the connection infrastructure).

During the implementation of the project initiated by the Company, the purpose of which is to optimise the activities of the Group and concentrate the function of energy supply to a single company, the activity of public electricity supply was unbundled from the Group company Energijos skirstymo operatorius AB and transferred to another Group company Ignitis UAB, which was a supplier of natural gas to household and business customers. Following the transfer of electricity public supply activities as of 1 October 2018, new customer connection in electricity segment was reconsidered as a separate performance obligation under IFRS 15, accordingly related revenue from 1 October 2018 was recognized when connection service was fully provided.

Management of the Group has extensively analysed IFRS 15 accounting policies, which were also reviewed by the Bank of Lithuania as an oversight body of listed entities, also auditors were involved in the discussions. The accounting policies applied upon initial adoption of IFRS 15 were assessed as appropriate after evaluating management judgement made in a number of areas. However, one year after mandatory implementation of the new standard, the Group observed the development of relevant industry practice, referred to

the developing authoritative guidance on IFRS 15 application, analysed "implied contract" concept (as per IFRS 15 requirements), and consulted with its auditors, and as a result the Group has reconsidered its accounting treatment.

The Group changed the accounting treatment of new customer connection fees by deferring all gas and electricity fees over the useful lives of the related assets (which represents the best management estimate for customer relationship period). According to the management such accounting treatment

would more fairly reflect the Group's financial performance and ongoing provision of access to distribution service to the customer, as well as will allow the Group to be better comparable to its peers within the industry. This change in accounting treatment is accounted for retrospectively and comparative information is restated (see the table below).

Public Service Obligations

PSO fee is an integral part of electricity tariff to the customer. Final electricity tariff to end customers comprise of the following components:

- (a) Electricity price itself (import or price of manufactured)
- (b) Electricity supply services' price
- (c) Electricity transfer services' price, which include two components: transmission over high voltage grid and distribution over medium and low voltage grid
- (d) PSO fee

The Group acting as an electricity supplier collects PSO fees from business customers and private individuals, connected to electricity distribution grid, and transfer them to the operator of energy exchange Baltpool UAB, which also acts as the administrator of PSO services and is engaged in the collection of PSO fees, payments and administration of PSO funds. PSO funds are used to support and promote local production from renewable energy sources, to secure reserves of the electricity system at designated power plants, which is necessary for ensuring the state's energy security and to ensure other services related to public interest. The list of services supported by PSO is determined by the Government of the Republic of Lithuania.

In 2018 PSO fee as integral part of distribution service tariff was not identified as a separate performance obligation. The distribution service as a whole, including transmission, distribution and PSO fee was treated as one performance obligation (PSO fee cannot be separated). PSO fee generally is treated as a tax collected from customers, however this tax cannot be treated as sales tax, or value-added tax (VAT), since: (1) PSO fee is charged based on production or distributed energy unit, rather than sales amount, as is applied in VAT case; (2) the Group cannot claim a refund of PSO fees in the event the related customer fails to pay for the services being sold; (3) the Group is exposed to price risk - in case of illegal consumption, the Group's settlement amount as PSO fee to Baltpool UAB will be determined based on current period's prices, however, the customer will be charged based on historical prices. Following the above, the Management treated the Group as Principal in relation to PSO fee in 2018.

During the year 2019 the Group changed the method of accounting for PSO fee by treating the Group as an Agent in relation to the PSO fee. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the facts, that the Group is not responsible for PSO projects / initiatives, accordingly not responsible that collected PSO fees are used for their intended purpose. The Group is not exposed to any inventory risk, as well as the Group has no legal power to establish pricing of this component.

The changed accounting methods allows the Group to be better comparable to its peers within the electricity industry (especially, where such PSO fee is excluded from the final electricity tariff). This change in accounting treatment is applied retrospectively with corrections in comparative information presented in the tables below.

All amounts are in EUR thousand unless otherwise stated

Liquefied natural gas terminal (hereinafter “LNGT”) security component

The Group acts (i) as a natural gas supplier which collects LNGT security component from the users and (ii) as a designated liquefied natural gas supplier, which ensures the operation of LNGT. In relation to provision of designated supplier's function the Group's costs due to the nature of its activities are exclusively borne whereas other natural gas suppliers don't incur. These costs are compensated by gas transmission system operator paying LNGT funds from the budget of collected LNGT security component by suppliers that supply natural gas to end customers.

LNGT security component is an integral part of natural gas tariff to the customer. Final natural gas tariff to end customers comprise of the following components:

- (a) Cost of gas import
- (b) Natural gas transfer cost, which includes transmission over high-pressure and distribution over medium and low-pressure grids costs
- (c) LNGT security component

Pursuant to Article 5.2 of the Law on the LNGT, all users of the natural gas distribution system, including end-users, have to pay an additional security component along with other payments for natural gas distribution services. As a natural gas supplier to end users the Group collects payments for LNGT security component directly from customers or natural gas suppliers, if the customers don't have a direct contract with the transmission system operator. The Group acting as a natural gas supplier collects LNGT security component from the end users and transfers it to transmission system operator.

In 2018, LNGT security component as integral part of natural gas tariff was not identified as a separate performance obligation. The gas distribution service as a whole, including transmission, distribution and LNGT security component was treated as one performance obligation (LNGT security component cannot be separated). LNGT security component generally is treated as a tax collected from customers, however this tax cannot be treated as sales tax, or value-added tax (VAT), since: (1) LNGT security component is charged based on production or distributed energy unit, rather than sales amount, as is applied in VAT case; (2) the Group cannot claim a refund of the tax in the event the related customer fails to pay for the services being sold (i.e. the volume of gas consumption); (3) the Group is exposed to price risk - in case of illegal consumption, the Group's settlement amount as LNGT security component to Amber Grid UAB will be determined based on current period's prices, however, the customer will be charged based on historical prices. Following the above, the Group acting as a natural gas supplier to end users was treated by Management as a Principal in relation to LNGT security component. LNGT security component collected from end users was recognised by the Group in the statement of profit or loss and other comprehensive income under the caption “Revenue from contracts with customers”, and after transfer to the gas transmission system operator – under the caption “Expense”.

In year 2019, the Group changed the method of accounting for the LNGT security component by treating the Group as an Agent in relation to the LNGT security component. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the fact, that the Group is not responsible for LNGT projects/initiatives and is not responsible that LNGT security component is used for its intended purpose. The Group is not exposed to any inventory risk, as well as the Group has no legal power to establish the price of LNGT security component.

The change in accounting treatment allows the Group to be better comparable to its peers within the gas industry (especially, where LNGT security component is excluded from the final gas tariff). The change in accounting treatment is applied retrospectively with correction of comparative information shown in the tables below.

Electricity transfer, which includes both transmission and distribution, and gas distribution services in Latvia

In Latvia electricity transfer, which includes transmission and distribution, and gas distribution services are provided by the company which is not a part of the Group. Electricity transmission and distribution services are an integral part of electricity tariff to end users. Gas distribution services are an integral part of gas tariff to end users. Providing the provision of electricity and gas services as a whole to end users in Latvia, the Group in 2018 did not identify electricity transfer and gas distribution services as a separate performance obligations. The Group considered itself as a Principal which provides one performance obligation by treating that customer cannot benefit alone from supplied electricity without transfer and gas without distribution and vice versa. As well as, the Group considered itself as providing a significant service of integrating the electricity transfer and gas distribution services promised in the contract with customers into a bundle of services that represent the combined output for which the customer has contracted.

In the course of its electricity and gas sales activities in Latvia the Group collects funds from customers for the electricity transfer and gas distribution services and transfers these funds to the operator of electricity transfer network and operator of gas distribution system. The Group recognised these funds in the statement of profit or loss and other comprehensive income under the caption “Revenue”, and after transfer of these funds to the operator, under the caption “Expense”.

In year 2019, in relation of collected funds for electricity transfer, which includes both transmission and distribution, and gas distribution service in Latvia the Group changed the method of these funds' accounting by treating itself as an Agent. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the fact, that the Group is not responsible for development/maintenance of electricity transfer and gas distribution network in Latvia, accordingly not responsible that these funds are used for their intended purpose. Moreover, the Group is not exposed to any inventory risk, as well as the Group has no legal power to establish the pricing of electricity transfer and gas distribution services provided in Latvia.

A change in accounting treatment allows a better comparison of the Group's performance with that of similar entities (especially when the electricity transfer and natural gas distribution components are excluded from the tariff). This change in accounting treatment is applied retrospectively with corrections in comparative information presented in the tables below.

Impact of correction of errors and change of management judgement on the Cash flows item “Increase (decrease) in provisions” and item “Increase (decrease) in amounts payable, deferred income and advance amounts received” for 2018

Cash flows for 2018 before applying correction of errors and change of management judgement showed following items:

1. Increase (decrease) in provisions, EUR 404 thousand and
2. Increase (decrease) in amounts payable, deferred income and advance amounts received, EUR 44.722 thousand.

Impact of correction of error on Increase (decrease) in provisions arise with:

1. Reclassification of EUR 5.474 thousand at 31 December 2017 increasing balance of Provisions and decreasing balance of Other non-current amounts payable and liabilities;
2. Reclassification at 31 December 2018 of EUR 4,784 thousand from Other non-current amounts payable and liabilities to Provisions and reclassification of EUR 2,770 thousand to current Provisions from Other non-current amounts payable and liabilities. Total reclassification is Eur 7.554 thousand.

Summarizing, impact of correction of errors and change in management judgement, amount to EUR 2080 thousand. Cash flows item "Increase (decrease) in provisions" after correction of errors and applying change in management judgement amounts to EUR 2,484 thousand that is calculated as sum of beginning balance of EUR 404 thousand and total impact of adjustments of EUR 2.080 thousands,

Impact of correction of error "Increase (decrease) in amounts payable, deferred income and advance" arise with:

1. Decrease of Other non-current amounts payable at 31 December 2018 by EUR 9,387 thousand due to correction of error in Regulated activities;
2. Decrease of current Contract liabilities at 31 December 2018 by EUR 5,559 thousand due to correction of error in Regulated activities;
3. Decrease of Other non-current amounts payable and liabilities at 31 December 2017 by EUR 5.474 thousand;
4. Increase of Deferred income as at 1 January 2018 by EUR 10,961 thousand due to change in management judgement on connection fees
5. Increase of current Deferred income as at 31 December 2018 by of EUR 334 thousand due to change in management judgement on connection fees;
6. Recognition of EUR 736 thousand reduce of revenue due to change in management judgement on connection fees;

Summarizing, impact of correction of errors and change in management judgement, amount to EUR 2,559 thousand ($-9,387 - 5,559 + 5,474 + 10,961 + 334 + 736$). Cash flows item "Increase (decrease) in amounts payable, deferred income and advance" after correction of errors and applying change in management judgement amounts to EUR 47,281 thousand that is calculated as sum of beginning balance of EUR 44.722 thousand and total impact of adjustments of EUR 2,559 thousands.

Retrospectively restated captions of Group's Statement of Financial Position

Restatement of year 2018

Group	1 January 2018 after corrections of errors and adoption of IFRS 9 and IFRS 15 adjustments (note 4.26)	Amendments of fair value of gas pipelines related to new connection fees	1 January 2018 (restated*)"
ASSETS			
Non-current assets			
Intangible assets	36,360	-	36,360
Property, plant, and equipment	1,750,726	10,356	1,761,082
Prepayments for non-current assets	21,911	-	21,911
Investment property	14,878	-	14,878
Non-current receivables	170,488	-	170,488
Other financial assets	426	-	426
Other non-current assets	3,239	-	3,239
Deferred tax assets	18,081	-	18,081
Total non-current assets	2,016,109	10,356	2,026,465
Current assets			
Inventories	56,866	-	56,866
Prepayments and deferred expenses	38,119	-	38,119
Trade receivables	112,092	-	112,092
Other receivables	27,800	-	27,800
Other current assets	1,093	-	1,093
Prepaid income tax	2,102	-	2,102
Cash and cash equivalents	171,756	-	171,756
	409,828	-	409,828
Assets held-for-sale	79,301	-	79,301
Total current assets	489,129	-	489,129
TOTAL ASSETS	2,505,238	10,356	2,515,594

Group	1 January 2018 after corrections of errors and adoption of IFRS 9 and IFRS 15 adjustments (note 4.26)	Amendments of fair value of gas pipelines related to new connection fees	1 January 2018 (restated*)"
EQUITY AND LIABILITIES			
Equity			
Issued capital	1,212,156	-	1,212,156
Reserves	99,380	-	99,380
Retained earnings	(73,353)	-	(73,353)
Equity attributable to equity holders of the parent	1,238,183	-	1,238,183
Non-controlling interests	42,651	-	42,651
Total equity	1,280,834	-	1,280,834
Liabilities			
Non-current liabilities			
Non-current loans and bonds	480,068	-	480,068
Lease liabilities	187	-	187
Grants and subsidies	200,311	-	200,311
Deferred corporate income tax liabilities	36,049	-	36,049
Provisions	7,367	-	7,367
Deferred income	118,348	10,356	128,704
Other non-current amounts payable and liabilities	1,832	-	1,832
Total non-current liabilities	844,162	10,356	854,518
Current liabilities			
Current portion of non-current loans	119,599	-	119,599
Current loans	14,082	-	14,082
Current portion of finance lease liabilities	145	-	145
Trade payables	98,338	-	98,338
Contract liabilities	27,765	-	27,765
Corporate income tax payable	3,695	-	3,695
Provisions	2,498	-	2,498
Deferred income	4,365	-	4,365
Other current amounts payable and liabilities	109,421	-	109,421
	379,908	-	379,908
Liabilities directly associated with the assets held for sale	334	-	334
Total current liabilities	380,242	-	380,242
Total liabilities	1,224,404	10,356	1,234,760
TOTAL EQUITY AND LIABILITIES	2,505,238	10,356	2,515,594

*Restatement affect Financial statements of year 2018 (see above for the disclosures of the reasons of restatements provided by the Group)

Retrospectively restated captions of Group's Statement of Financial Position

Restatement of year 2018

Group	31 December 2018 after corrections of errors (note 4.27)	New connection fees deferral.	Amendments of fair value of gas pipelines related to new connection fees	Amendments impact to non-controlling interests	31 December 2018 restated *	Group	31 December 2018 after corrections of errors (note 4.27)	New connection fees deferral.	Amendments of fair value of gas pipelines related to new connection fees	Amendments impact to non-controlling interests	31 December 2018 restated *
ASSETS						EQUITY AND LIABILITIES					
Non-current assets						Equity					
Intangible assets	106,330	-	-	-	106,330	Issued capital	1,212,156	-	-	-	1,212,156
Property, plant, and equipment	2,091,590	-	(204)	-	2,091,386	Reserves	212,802	-	-	-	212,802
Prepayments for non-current assets	23,621	-	-	-	23,621	Retained earnings	(147,554)	-	-	-	(147,554)
Investment property	6,494	-	-	-	6,494	Result for financial year 2018	(4,200)	(9,460)	(9,743)	963	(22,440)
Non-current receivables	160,606	-	-	-	160,606	Equity attributable to equity holders of the parent	1,273,204	(9,460)	(9,743)	963	1,254,964
Other financial assets	2,008	-	-	-	2,008	Non-controlling interests	48,521	-	-	(963)	47,558
Other non-current assets	6,094	-	-	-	6,094	Total equity	1,321,725	(9,460)	(9,743)	-	1,302,522
Deferred tax assets	14,468	-	-	-	14,468	Liabilities					
Total non-current assets	2,411,211	-	(204)	-	2,411,007	Non-current liabilities					
Current assets						Non-current liabilities					
Inventories	43,137	-	-	-	43,137	Non-current loans and bonds	735,410	-	-	-	735,410
Prepayments and deferred expenses	30,655	-	-	-	30,655	Lease liabilities	14,334	-	-	-	14,334
Trade receivables	143,120	-	-	-	143,120	Grants and subsidies	208,874	-	-	-	208,874
Other receivables	25,436	-	-	-	25,436	Deferred corporate income tax liabilities	39,797	(1,835)	(1,553)	-	36,409
Other current assets	2,147	-	-	-	2,147	Provisions	35,355	-	-	-	35,355
Prepaid income tax	4,192	-	-	-	4,192	Deferred income	115,261	10,961	10,216	-	136,438
Other financial assets	656	-	-	-	656	Other non-current amounts payable and liabilities	1,887	-	-	-	1,887
Cash and cash equivalents	127,835	-	-	-	127,835	Total non-current liabilities	1,150,918	9,126	8,663	-	1,168,707
Total current assets	377,178	-	-	-	377,178	Current liabilities					
Assets held-for-sale	65,706	-	-	-	65,706	Current portion of non-current loans	61,819	-	-	-	61,819
Total current assets	442,884	-	-	-	442,884	Current loans	47,727	-	-	-	47,727
TOTAL ASSETS	2,854,095	-	(204)	-	2,853,891	Current portion of finance lease liabilities	5,220	-	-	-	5,220
						Trade payables	93,237	-	-	-	93,237
						Contract liabilities	49,766	-	-	-	49,766
						Corporate income tax payable	4,545	-	-	-	4,545
						Provisions	5,558	-	-	-	5,558
						Deferred income	7,912	334	876	-	9,122
						Other current amounts payable and liabilities	102,682	-	-	-	102,682
						Total current liabilities	378,466	334	876	-	379,676
						Liabilities directly associated with the assets held for sale	2,986	-	-	-	2,986
						Total current liabilities	381,452	334	876	-	382,662
						Total liabilities	1,532,370	9,460	9,539	-	1,551,369
						TOTAL EQUITY AND LIABILITIES	2,854,095	-	(204)	-	2,853,891

*Restatement affect Financial statements of year 2018 (see above for the disclosures of the reasons of corrections provided by the Group)

Retrospectively restated captions of Statement of Profit or Loss and other Comprehensive Income:

Restatement of year 2018

Group	2018 after corrections of errors (note 4.27)	New connection fees deferral.	Amendments of fair value of gas pipelines related to new connection fees	Amendments impact to non- controlling interests	Netting of income and expenses related to PSO fees	Netting of income and expenses related to electricity transfer and gas distribution in Latvia	Netting of of income and expenses related to LNGT security component	2018 restated*
		1	2	3	4	5	6	
Revenue from contracts with customers	1,179,584	(11,295)	(736)	-	(118,530)	(4,841)	(19,904)	1,024,278
Other income	45,782	-	-	-	-	-	-	45,782
	1,225,366	(11,295)	(736)		(118,530)	(4,841)	(19,904)	1,070,060
Operating expenses								
Purchases of electricity, gas for trade and related services	(911,737)	-	-	-	118,530	4,841	19,904	(768,462)
Purchases of gas and heavy fuel oil	(26,545)	-	-	-	-	-	-	(26,545)
Depreciation and amortisation	(87,460)	-	(204)	-	-	-	-	(87,664)
Salaries and related expenses	(79,741)	-	-	-	-	-	-	(79,741)
Repair and maintenance expenses	(21,200)	-	-	-	-	-	-	(21,200)
Result of revaluation of non-current assets	(67,671)	-	-	-	-	-	-	(67,671)
Reversal of (impairment) of amounts receivable and loans	(9,876)	-	-	-	-	-	-	(9,876)
Impairment of property, plant and equipment	7,205	-	(10,356)	-	-	-	-	(3,151)
Other expenses	(26,143)	-	-	-	-	-	-	(26,143)
Total operating expenses	(1,223,168)	-	(10,560)	-	118,530	4,841	19,904	(1,090,453)
Profit (loss) from operations	2,198	(11,295)	(11,296)	-	-	-	-	(20,393)
Finance income	1,621	-	-	-	-	-	-	1,621
Finance costs	(14,899)	-	-	-	-	-	-	(14,899)
Results of the revaluation and closing of derivative financial instruments	(573)	-	-	-	-	-	-	(573)
Profit (loss) before tax	(11,653)	(11,295)	(11,296)	-	-	-	-	(34,244)
Current year corporate income tax (expenses)/benefit	(4,604)	-	-	-	-	-	-	(4,604)
Deferred corporate income tax (expenses)/benefit	13,489	1,835	1,553	-	-	-	-	16,877
Net profit (loss) from continuing operations	(2,768)	(9,460)	(9,743)	-	-	-	-	(21,971)
Net profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Net profit (loss)	(2,768)	(9,460)	(9,743)	-	-	-	-	(21,971)
Attributable to:								
Equity holders of the parent	(4,200)	-	-	(18,240)	-	-	-	(22,440)
Non-controlling interests	1,432	-	-	(963)	-	-	-	469
Other comprehensive income (loss)								
Items that will not be reclassified to profit or loss								
Gain/(loss) on revaluation of property, plant and equipment	123,139	-	-	-	-	-	-	123,139
Recalculation of the defined benefit plan obligation, net of deferred income tax	77	-	-	-	-	-	-	77
Items that will not be reclassified to profit or loss in subsequent periods, total	123,216	-	-	-	-	-	-	123,216
Items that may be reclassified to profit or loss in subsequent periods, total								
Exchange differences on translation of foreign operations into the Group's presentation currency	(26)	-	-	-	-	-	-	(26)
Items that may be reclassified to profit or loss in subsequent periods, total	(26)	-	-	-	-	-	-	(26)
Total other comprehensive income (loss)	123,190	-	-	-	-	-	-	123,190
Total comprehensive income (loss) for the period	120,422	(9,460)	(9,743)	-	-	-	-	101,219
Attributable to:								
Equity holders of the parent	113,204	-	-	(18,240)	-	-	-	94,964
Non-controlling interests	7,218	-	-	(963)	-	-	-	6,255

*Restatement affect Financial statements of year 2018 (see above for the disclosures of the reasons of restatements provided by the Group)

Retrospectively restated captions of Group's Statement of Cash Flow

Restatement of year 2018

Group	2018 after corrections of errors (note 4.27)	Restatements	2018 restated*
Cash flows from (to) operating activities			
Net profit (loss)	(2,768)	(19,203)	(21,971)
Adjustments to non-cash items:			
Depreciation and amortisation expenses	96,730	204	96,934
Impairment of property, plant and equipment	(7,205)	10,356	3,151
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	(10,003)	-	(10,003)
Revaluation of property, plant and equipment	76,617	-	76,617
Revaluation of investment property	(18)	-	(18)
Revaluation of derivatives	(354)	-	(354)
Impairment/(reversal of impairment) of financial assets	9,876	-	9,876
Corporate income tax expenses	(8,885)	(3,388)	(12,273)
(Depreciation) of grants	(9,270)	-	(9,270)
Increase (decrease) in provisions	2,484	-	2,484
Inventory write-down allowance/(reversal)	(718)	-	(718)
Expenses/(income) of revaluation of emission allowances	(8,933)	-	(8,933)
Emission allowances utilised	908	-	908
Elimination of results of investing activities:			
- (Gain)/loss on disposal and/or write-off of property, plant and equipment	477	-	477
Other (income)/expenses of investing activities	82	-	82
Elimination of results of financing activities:			
- Interest received	(1,427)	-	(1,427)
- Interest paid	12,442	-	12,442
- Other (income)/expenses of financing activities	2,263	-	2,263
Changes in working capital:			
(Increase) decrease in trade receivables and other amounts receivable	(21,603)	-	(21,603)
(Increase) decrease in inventories, prepayments and other current assets	18,896	-	18,896
Increase (decrease) in amounts payable, deferred income and advance amounts received	35,250	12,031	47,281
Corporate income tax (paid)	(6,309)	-	(6,309)
Net cash flows from (to) operating activities	178,532	-	178,532

Group	2018 after corrections of errors (note 4.27)	Restatements	2018 restated*
Cash flows from/(used in) financing activities			
(Purchase) of property, plant and equipment and intangible assets	(416,205)	-	(416,205)
Proceeds from sale of property, plant and equipment and intangible assets	48,162	-	48,162
Acquisition of investments in subsidiaries	(23,509)	-	(23,509)
Grants received	25,523	-	25,523
Interest received	1,105	-	1,105
Other increases (decreases) in cash flows from investing activities	(1,582)	-	(1,582)
Net cash flows used in investing activities	(366,506)	-	(366,506)
Cash flows from/(used in) financing activities			
Loans received	57,810	-	57,810
Issue of bonds	294,346	-	294,346
Repayments of borrowings	(155,421)	-	(155,421)
Lease payments	(544)	-	(544)
Interest paid	(10,402)	-	(10,402)
Dividends paid	(80,608)	-	(80,608)
Increase in issued capital of Kauno Kogeneracinė Jėgainė UAB	7,840	-	7,840
Result of the closing of derivative financial instruments	(573)	-	(573)
Net cash flows from (used in) financing activities	112,448	-	112,448
Increase (decrease) in cash and cash equivalents (including overdraft)	(75,526)	-	(75,526)
Cash and cash equivalents (including overdraft) at the beginning of the period	161,101	-	161,101
Cash and cash equivalents (including overdraft) at the end of period	85,575	-	85,575

*Restatement affect Financial statements of year 2018 (see above for the disclosures of the reasons of restatements provided by the Group)

5 Intangible assets

Movements in Group's intangible assets during the year 2019 and 2018:

Group	Patents and licences	Computer software	Emission allowances	Other intangible assets	Goodwill	In total
As at 31 December 2017						
Acquisition cost	19,370	17,002	14,838	2,773	1,461	55,444
Accumulated amortisation	(5,312)	(13,276)	-	(496)	-	(19,084)
Net book amount	14,058	3,726	14,838	2,277	1,461	36,360
Net book value at 1 January 2018	14,058	3,726	14,838	2,277	1,461	36,360
Additions	1,889	429	-	5,431	5,370	13,119
Revaluation	-	-	31,816	-	-	31,816
Recognition of statutory servitudes	-	-	-	28,564	-	28,564
Reclassified to/from property plant and equipment	36	3,517	-	(3,163)	-	390
Write-offs	-	(5)	-	(8)	-	(13)
Reclassifications between categories	-	737	-	(737)	-	-
Emission allowances utilised	-	-	(908)	-	-	(908)
Sales	-	(2)	-	-	-	(2)
Grant received on emission allowances	-	-	2,555	-	-	2,555
Reclassified to/from assets held for sale	-	(5)	-	(5)	-	(10)
Amortisation charge	(1,506)	(3,989)	-	(46)	-	(5,541)
Net book value at 31 December 2018	14,477	4,408	48,301	32,313	6,831	106,330
As at 31 December 2018						
Acquisition cost	21,295	21,523	48,301	32,845	6,831	130,795
Accumulated amortisation	(6,818)	(17,115)	-	(532)	-	(24,465)
Net book amount	14,477	4,408	48,301	32,313	6,831	106,330
Net book value at 1 January 2019	14,477	4,408	48,301	32,313	6,831	106,330
Additions	90	621	-	30,508	-	31,219
Revaluation	-	-	354	-	-	354
Recognition of statutory servitudes	-	-	-	(35)	-	(35)
Reclassified to/from property plant and equipment	9	160	-	-	-	169
Reclassified to/from assets held for sale	-	(11)	-	(4)	-	(15)
Reclassifications between categories	(10,890)	5,906	(8)	8,212	(3,220)	-
Emission allowances utilised	-	-	(973)	-	-	(973)
Additions to Rights to servitudes and security zones	-	-	-	9,890	-	9,890
Re-measurement of provision related to Rights to servitudes and security zones	-	-	-	(464)	-	(464)
Grant received on emission allowances	-	-	4,131	-	-	4,131
Amortisation charge	(1,456)	(5,333)	-	(1,080)	-	(7,869)
Net book value at 31 December 2019	2,230	5,751	51,805	79,340	3,611	142,737
As at 31 December 2019						
Acquisition cost	4,665	25,958	51,805	89,164	3,611	175,203
Accumulated amortisation	(2,435)	(20,207)	-	(9,824)	-	(32,466)
Net book amount	2,230	5,751	51,805	79,340	3,611	142,737

Emission allowances

If the Group's Emission allowances had not been revalued, the net book values of the assets as at 31 December 2019 and 2018 would have been following:

	Emission allowances
As at 31 December 2018	24,757
As at 31 December 2019	28,713

The fair value of emission allowances is determined using the prices quoted in an active market, therefore, it is attributable to Level 1 in the fair value hierarchy. At the end of each reporting period, emission allowances are measured with reference to year-end market prices. No amortisation is recorded in respect of the emissions allowances.

All amounts are in EUR thousand unless otherwise stated

During the year 2019, the Group used grants in the amount of EUR 4,131 thousand EUR (2018 - EUR 2,555 thousand) for the purchase of emission allowances.

The table below includes information on the results of revaluation of emission allowances conducted in 2019:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	721	(367)	354
	721	(367)	354

Results of revaluation of emission allowances conducted in 2018:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	22,883	8,933	31,816
	22,883	8,933	31,816

Other intangible assets

As at 31 December 2019 the Group Other intangible assets comprise following significant items:

- Rights to servitudes and security zones of EUR 38,303 thousand (31 December 2018: EUR 28,877 thousand);
- The subsidiary's Eurakras UAB right to produce electricity with an incentive rate with carrying amount EUR 10,036 thousand. As at 31 December 2018 the Eurakras UAB right to produce electricity with an incentive rate was classified as "Patents and licences" and amounted to EUR 11,278 thousand. During 2019 EUR 10,036 thousand amount was reclassified from "Patents and licences" to "Other intangible assets" as right to produce electricity with an incentive rate differs with common meaning of patents and licences;
- The subsidiary's Vėjo Gūsis UAB right to produce electricity with an incentive rate with carrying amount EUR 1,156 thousand;
- The subsidiary's Vėjo Vatas UAB right to produce electricity with an incentive rate with carrying amount EUR 1,509 thousand;
- The subsidiary's Pomerania Invall Sp. z o. o. right to produce electricity with an incentive rate with carrying amount EUR 24,390 thousand;

Goodwill

As at 31 December 2018 the Group accounted for goodwill related to acquisition of subsidiaries Vėjo gūsis UAB EUR 1.487 thousand and Vėjo vatas UAB EUR 1.733 thousand. During 2019 the Group review fair values of assets and liabilities acquired in business combination (note 43) and recognized Other intangible assets that comprise right to produce electricity with an incentive rate. Other intangible assets related to acquisition of Vėjo gūsis UAB and Vėjo vatas was recognized reclassifying EUR 3.220 thousand of Goodwill to Other intangible assets and recognizing EUR 260 thousand addition to Other intangible assets.

The Company's intangible assets

Company	Other intangible assets	In total
As at 31 December 2017		
Acquisition cost	-	-
Accumulated amortisation	-	-
Net book amount	-	-
Net book value at 1 January 2018		
Reclassified to/from assets held for sale	1,874	1,874
Amortisation charge	-	-
Net book value at 31 December 2018	1,874	1,874
As at 31 December 2018		
Acquisition cost	1,874	1,874
Accumulated amortisation	-	-
Net book amount	1,874	1,874
Net book value at 1 January 2019		
Reclassified to/from assets held for sale	-	-
Amortisation charge	-	-
Net book value at 31 December 2019	1,874	1,874
As at 31 December 2019		
Acquisition cost	1,874	1,874
Accumulated amortisation	-	-
Net book amount	1,874	1,874

On 3 December 2018, the Company accounted for assets of EUR 1,874 thousand in the intangible assets category 'Other intangible assets', where these assets indicate future synergies that were identified on the acquisition of assets of TE-3 from Vilniaus Šilumos Tinklai AB on 12 October 2017. The benefit of synergies will be realised by ensuring the connection of Vilnius co-generation power plant, which is constructed by the Group, and other objects of the Group to the heat distribution infrastructure of Vilnius city.

Fully amortised intangible assets

As at 31 December 2019, the cost of acquisition of fully amortized intangible assets used by the Group and the Company was as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Patents and licences	1,948	1,146	-	-
Computer software	6,894	2,644	-	-
Other intangible assets	377	375	83	83
Cost of fully amortised assets, total	9,219	4,165	83	83

All amounts are in EUR thousand unless otherwise stated

6 Property, plant, and equipment

The Group's property, plant and equipment:

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations	Assets of Hydro Power Plant, Pumped Storage Power Plant	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Vehicles	IT and telecommunication equipment	Other property, plant and equipment:	Construction-in-progress	In total
As at 31 December 2017												
Cost	2,324	41,432	1,037,447	167,712	207,279	64,229	779,526	7,605	37,051	14,130	68,804	2,427,539
Accumulated depreciation	-	(9,824)	(108,890)	(18,019)	(94,489)	(5,195)	(293,722)	(4,212)	(17,644)	(5,774)	(1,108)	(558,877)
Accumulated impairment	-	-	-	(575)	-	-	(106,670)	-	-	-	(335)	(107,580)
Net book value	2,324	31,608	928,557	149,118	112,790	59,034	379,134	3,393	19,407	8,356	67,361	1,761,082
Net book amount at 1 January 2018	2,324	31,608	928,557	149,118	112,790	59,034	379,134	3,393	19,407	8,356	67,361	1,761,082
Additions	-	1	710	-	10	-	804	2,100	1,823	971	360,030	366,449
Sales	-	(31)	(361)	-	-	-	(829)	(32)	(15)	(1)	(427)	(1,696)
Write-offs	-	(6)	(4,575)	(112)	(5)	(1)	(38)	(30)	(83)	(16)	(35)	(4,901)
Revaluation	(35)	10,306	36,587	-	-	-	(96)	8	(1,149)	48	-	45,669
Impairment losses	-	(15)	(17)	-	-	-	(195)	(56)	-	(16)	(1,066)	(1,365)
Reversal of impairment	-	25	388	575	-	-	-	-	-	-	-	988
Reclassifications between categories	-	1,717	195,023	57,009	3,666	14	1,766	-	3,825	585	(263,605)	-
Reclassified from (to) assets, intangible assets	-	-	-	-	-	-	-	-	(71)	(2)	(317)	(390)
Reclassified from (to) finance lease	-	-	-	-	-	-	-	(824)	-	(1,086)	-	(1,910)
Reclassified from (to) assets held for sale	-	(9,166)	(3,764)	-	-	-	-	(548)	(1,693)	(2,196)	-	(17,367)
Reclassified from (to) investment property	-	(4,502)	183	-	-	-	-	-	-	-	-	(4,319)
Reclassified from (to) inventories	-	-	2	-	(116)	-	(192)	-	(4)	(60)	1,960	1,590
Depreciation charge	-	(1,868)	(45,868)	(5,341)	(7,130)	(2,061)	(20,071)	(984)	(4,336)	(1,892)	-	(89,552)
Acquisition of subsidiaries	1,089	-	7,316	-	-	27,653	-	-	-	1,050	-	37,108
Net book value at 31 December 2018	3,378	28,069	1,114,181	201,249	109,215	84,639	360,283	3,027	17,704	5,741	163,901	2,091,386
As at 31 December 2018												
Cost or revalued amount	3,378	28,504	1,274,877	238,940	210,834	92,922	774,145	5,643	29,611	7,955	165,302	2,832,111
Accumulated depreciation	-	(435)	(160,696)	(37,691)	(101,619)	(8,283)	(307,550)	(2,616)	(11,907)	(2,215)	-	(633,012)
Accumulated impairment	-	-	-	-	-	-	(106,312)	-	-	-	(1,401)	(107,713)
Net book amount	3,378	28,069	1,114,181	201,249	109,215	84,639	360,283	3,027	17,704	5,740	163,901	2,091,386

(Cont'd on the next page)

(continued)

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations	Assets of Hydro Power Plant, Pumped Storage Power Plant and	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Vehicles	IT and telecommunication equipment	Other property, plant and equipment:	Construction-in-progress	In total
Net book value at 31 December 2018	3,378	28,069	1,114,181	201,249	109,215	84,639	360,283	3,027	17,704	5,740	163,901	2,091,386
Reclassified to right-of-use assets	-	-	(7,209)	-	-	(27,290)	(446)	-	-	(1,024)	-	(35,969)
Net book value at 1 January 2019	3,378	28,069	1,106,972	201,249	109,215	57,349	359,837	3,027	17,704	4,716	163,901	2,055,417
Additions	-	7	267	-	152	-	255	11,916	2,288	1,188	398,049	414,122
Sales	-	(75)	(89)	-	-	-	-	(850)	(7)	(62)	(328)	(1,411)
Write-offs	-	(20)	(3,971)	(358)	(220)	-	(11)	(1)	(36)	(67)	468	(4,216)
Revaluation	-	-	(2)	-	-	-	-	-	-	-	-	(2)
Impairment losses	-	-	-	-	-	-	-	-	-	-	(3,985)	(3,985)
Reversal of impairment	-	-	-	-	-	-	4	-	-	-	-	4
Reclassifications between categories	(7)	3,252	133,799	50,144	244	(4,144)	3,202	20	(3,691)	5,850	(188,669)	-
Reclassified from (to) assets, intangible assets	-	-	-	-	-	-	-	-	(169)	-	-	(169)
Reclassified from (to) finance lease	-	-	-	-	-	-	-	(10,531)	-	-	-	(10,531)
Reclassified from (to) assets held for sale	-	-	(625)	-	-	-	-	(187)	(569)	319	-	(1,062)
Reclassified from (to) investment property	-	(339)	-	-	-	-	-	-	-	-	-	(339)
Reclassified from (to) inventories	-	-	-	-	43	-	20	-	(6)	-	-	57
Reclassified from (to) right-of-use assets	-	-	-	-	-	-	-	-	-	-	(1,196)	(1,196)
Depreciation charge	-	(4,474)	(55,397)	(8,747)	(6,225)	(3,290)	(19,963)	(955)	(4,028)	(1,465)	-	(104,544)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	5,672	5,672
Net book value at 31 December 2019	3,371	26,420	1,180,954	242,288	103,209	49,915	343,344	2,439	11,486	10,479	373,912	2,347,817
As at 31 December 2019												
Cost or revalued amount	3,371	30,981	1,390,318	293,373	210,729	65,234	776,583	3,618	22,827	12,574	374,247	3,180,928
Accumulated depreciation	-	(4,561)	(209,364)	(51,085)	(107,520)	(15,319)	(326,962)	(1,179)	(11,341)	(2,095)	-	(726,499)
Accumulated impairment	-	-	-	-	-	-	(106,277)	-	-	-	(335)	(106,612)
Net book amount	3,371	26,420	1,180,954	242,288	103,209	49,915	343,344	2,439	11,486	10,479	373,912	2,347,817

In year 2019, the Group's property, plant and equipment (excluding Assets of Hydro Power Plant, Pumped Storage Power Plant, 'Structures and machinery of Thermal Power Plant' (Thermal Power Plant includes Combined Cycle Unit, Reserve Power Plant), 'Gas distribution pipelines, gas technological equipment and installations', 'Wind power plants and their installations' and 'IT and telecommunication equipment') was accounted for at revalued amount.

If tangible assets had not been revalued, the net book values of the Group's assets as at 31 December 2019 and 2018 would have been following:

Group	Land	Buildings	Structures and machinery	Vehicles	Other property, plant and equipment:	Construction-in-progress	In total
As at 31 December 2018		2,990	29,544	1,089,887	2,106	3,723	1,292,150
As at 31 December 2019		2,990	28,124	1,278,314	2,535	10,286	1,696,162

Ignitis grupė UAB, company code 301844044, Žvejų str. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

All amounts are in EUR thousand unless otherwise stated

Results of the revaluation conducted in year 2019 are presented below:

Group	Recognized in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	-	(2)	(2)
	-	(2)	(2)

Results of the revaluation conducted in year 2018 are presented below:

Group	Recognized in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	122,286	(76,617)	45,669
	122,286	(76,617)	45,669

During 2018 the Group accounted for EUR 36,587 thousand revaluation of "Structures and machinery". Revaluation of EUR 37,125 thousand increase of carrying balance arise on revaluation of assets attributed to the electricity business segment (note 4.3), and EUR 538 thousand decrease of carrying balance arise on revaluation of Ignitis gamyba AB subsidiary's assets.

As at 31 December 2019, the cost of acquisition of fully depreciated property, plant and equipment, but still in use by the Group and the Company was as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Buildings	-	-	-	-
Structures and machinery	1,395	2,005	-	-
Gas distribution pipelines, gas technological equipment and installations	16,882	12,506	-	-
Assets of Hydro Power Plant and Pumped Storage Power Plant	19,945	4,901	-	-
Wind power plants and their installations	-	-	-	-
Structures and machinery of Thermal Power Plant	85,735	78,875	-	-
Vehicles	690	1,196	-	-
IT and telecommunication equipment	5,328	567	-	-
Other property, plant and equipment:	431	140	28	25
Cost of fully amortised assets, total	130,406	100,190	28	25

During 2019, the Group disposed the property, plant and equipment with a carrying amount of EUR 1,411 thousand for consideration of EUR 2,027 thousand. The net result was recognised in the statement of profit or loss and other comprehensive income item 'Other income' (Note 33).

In the opinion of the Group's management, the carrying amount of substantially all assets stated at revalued amount as at 31 December 2019 did not differ significantly from their fair value. The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2019 (refer to Note 2.30 for the description of the fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Land	-	1,845	1,526	3,371
Buildings	-	582	25,838	26,420
Structures and machinery	-	1,792	1,205,398	1,207,190
Vehicles	-	61	6,392	6,453
Other property, plant and equipment	-	231	11,532	11,763
Construction-in-progress	-	-	373,913	373,913
In total	-	4,511	1,624,599	1,629,110

The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2018 (refer to Note 2.30 for the description of the fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Land	-	1,845	1,533	3,378
Buildings	-	596	27,473	28,069
Structures and machinery	-	1,890	1,112,291	1,114,181
Vehicles	-	66	2,961	3,027
Other property, plant and equipment	-	42	5,698	5,740
Construction-in-progress	-	-	163,901	163,901
In total	-	4,439	1,313,857	1,318,296

Land was largely attributed to Level 2 of the fair value hierarchy. The valuation was based on the comparative value 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 approach. The valuation of assets attributed to Level 3 was based on the income approach, comparative value 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 comparative value and the cost approach. The valuation of assets attributed to Level 3 was based on the income approach, comparative value approach, the cost approach or mix of these approaches. The valuation was based on data and information available to the valuer for making accurate forecasts of future cash flows.

Motor vehicles were attributed to Levels 2 and 3 of fair value hierarchy. The measurement was performed using the comparative value and the cost approach.

Construction in progress and other PP&E were mostly attributed to Level 3 of fair value hierarchy, valuation was based on income or depreciated replacement cost approach. The management considers, that cost of these assets approximates its fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

All amounts are in EUR thousand unless otherwise stated

During 2019, the Group companies capitalised EUR 653 thousand of interest expenses on borrowings intended to finance development of non-current assets (2018: EUR 776 thousand). The average capitalised interest rate was 1.97% in year 2019 and 1.42% in 2018.

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2019, the Group's commitments to purchase and construct property, plant and equipment amounted to EUR 128,504 thousand (31 December 2018: EUR 490,432 thousand).

As at 31 December 2019, the Group had pledged to the banks its property, plant and equipment in amount of EUR 21,033 thousand (31 December 2018: EUR 58,583 thousand) (Note 23).

The Company's property, plant and equipment

Company	Other property, plant and equipment:	Construction-in-progress	In total
As at 31 December 2017			
Cost or revalued amount	69	381	450
Accumulated depreciation	(29)	-	(29)
Net book amount	40	381	421
Net book value at 1 January 2018			
Additions	13	-	13
Depreciation charge	(7)	-	(7)
Net book value at 31 December 2018	46	381	427
As at 31 December 2018			
Cost or revalued amount	82	381	463
Accumulated depreciation	(36)	-	(36)
Net book amount	46	381	427
Net book value at 1 January 2019			
Additions	36	-	36
Contribution in kind to the authorized capital of the subsidiary Ignitis grupės paslaugų centras UAB	-	(364)	(364)
Depreciation charge	(13)	-	(13)
Net book value at 31 December 2019	69	17	86
As at 31 December 2019			
Cost or revalued amount	117	17	134
Accumulated depreciation	(48)	-	(48)
Net book amount	69	17	86

All amounts are in EUR thousand unless otherwise stated

7 Right-of-use assets

The Group's Right-of-Use Assets

Dynamics of the Group's right-of-use assets in year 2019:

	Land	Buildings	Structures and machinery	Wind power plants and their installations	Vehicles	IT and telecommunication equipment	Other property, plant and equipment:	In total
Period ended 31 December 2019								
Opening net book value	-	-	-	-	-	-	-	-
IFRS 16 adoption impact – reclassification from property, plant and equipment*	1,196	-	8,233	27,290	446	-	-	37,165
Additions:	-	-	-	-	-	-	-	-
Whereof: recognition as right-of-use asset	5,719	5,612	123	-	303	2,580	229	14,566
Whereof: lease contracts signed	9,248	10,263	191	-	162	77	104	20,045
Write-offs and disposals	-	(930)	(140)	-	(283)	-	(16)	(1,369)
Reclassified from (to) assets held for sale	-	(441)	(96)	-	-	(2,342)	-	(2,879)
Depreciation charge	(143)	(2,744)	(805)	(2,246)	(150)	(315)	(81)	(6,484)
Net book amount at 31 December 2019	16,020	11,760	7,506	25,044	478	-	236	61,044
31 December 2019								
Acquisition cost	16,143	13,874	8,232	27,290	823	-	317	66,679
Accumulated depreciation	(123)	(2,114)	(726)	(2,246)	(345)	-	(81)	(5,634)
Net book value as at 31 December 2019	16,020	11,760	7,506	25,044	478	-	236	61,044

* Reclassified following the coming into effect of IFRS 16 from 01/01/2019 (Note 2.1).

The Company Right-of-Use Assets

Dynamics of the Company's right-of-use assets in year 2019:

	Buildings	Vehicles	In total
Period ended 31 December 2019			
Opening net book value	-	-	-
Additions:	-	-	-
Whereof: recognition as right-of-use asset	847	177	1,024
Whereof: lease contracts signed	53	21	74
Depreciation charge	(215)	(45)	(260)
Net book amount at 31 December 2019	685	153	838
31 December 2019			
Acquisition cost	829	198	1,027
Accumulated depreciation	(144)	(45)	(189)
Net book value as at 31 December 2019	685	153	838

The Group has lease contracts for various items:

Wind power plants and their installations and Structures and machinery. The Group's companies engaged in the production of electricity from renewable sources have lease agreements for 31 wind power plants with towers, infrastructure and other installation components. The lease agreement for 5 wind farms is until 28 February 2021, the others - until 20 February 2022 February 2022. The discount rate on 31 December 2019 was 1.050 percent.

Buildings. The Group has lease contracts for office and warehouse premises with the term of 3 to 10 year and as well as contracts with lease term of 12 months or less.

Land. The Group has lease agreements of land whereas major one of them entered into by subsidiary Ignitis gamyba UAB is concluded until the year 2095 with the discount rate 4.070 percent and carrying amount as at 31 December 2019 of EUR 4,468 thousand., other significant land lease contracts entered into by subsidiary Pomerania s.p. z o.o. are valid until 2049 with discount rate from 3 to 3.3 percent and carrying amount of EUR 7.167 thousand. Maturity date of other land lease agreements vary from the year of 2073 till 2112.

Lease expenses recognized in the statement of profit or loss and other comprehensive income

The Group and the Company's lease expenses are recognised in the statement of profit or loss and other comprehensive income as follows:

	2019	
	Group	Company
Depreciation charge	6,483	215
Interest charges	551	2
Expenses related to short-term leases (other expenses)	201	-
Expenses related to leases of low value assets (other expenses)	261	-
Write-off of assets and liabilities	950	-
Lease expenses, total	8,446	217

All amounts are in EUR thousand unless otherwise stated

8 Investment property

Group	2019	2018
Carrying amount at 1 January	6,494	14,878
Revaluation	(179)	18
Reclassification from property, plant and equipment	339	4,319
Reclassification to assets held for sale	(1,124)	(12,721)
Carrying amount at 31 December	5,530	6,494

In year 2019, the Group's income from lease of investment property amounted to EUR 1,372 thousand (31 December 2018 – EUR 3,258 thousand).

The Company had no investment property in year 2019 and 2018.

The Group has leases on all investment property consisting of buildings, structures and equipment. The terms of the leases are from 1 to 10 years.

The Group has no restrictions on the disposal of its investment properties by earning rental income and no contractual obligations to construct, develop or repair it. The lease term for every single contract does not constitute the major part of the economic life of the asset, and the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset, therefore, the Group retains substantially all the risks and rewards incidental to ownership of an underlying asset and accounts for as an operating lease

Valuation of investment property

The fair value of investment property as at 31 December 2019 and 31 December 2018 was determined in April – July 2019 and July 2018, respectively by independent property valuer Apus turtas UAB.

Valuation of investment property of EUR 1,712 thousand was carried out using the market approach and income approach. Investment property is attributed to Level 3 of fair value hierarchy.

The valuation of investment property of EUR 3,818 thousand was carried out by independent property valuer Apus turtas UAB and was based on cost method, which was chosen on the basis that the property being valued has special purpose and has no analogous comparative transactions. The valuers have chosen the most conservative, transparent and easily verifiable asset valuation method, as in this case the method has the most objectively verifiable data and the price determined by this method is the least doubtful. The cost of restoration of assets has been determined using a calculation model for the creation of the property being valued, since the valuers have all data about total acquisition costs of property being valued. Valuator determined the value of physical depreciation of the property being valued. The calculations are indexed using the consumer annual price index.

Real estate valuation was done by applying a comparative method using information about past transactions. To determine the base of comparable transactions, valuers have taken into consideration the type, purpose, location and physical characteristics of the property. To determine market value of real estate, valuator applied weightings to adjust base of comparable transactions. Locality weightings (Approved by the Order No 495 of the Director of the State Enterprise Centre of Registers on 27 September 2018 'REGARDING MASS VALUATION OF REAL ESTATE 2018 DATA AND LOCALITY WEIGHTINGS IN ACCORDANCE WITH 1 JANUARY 2019 APPROVAL OF ASSET PURPOSE AND LOCATIONS'), physical condition weightings and area weightings were applied.

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2019 (Note 2.30).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Buildings	-	-	5,201	5,201
Structures	-	-	329	329
In total	-	-	5,530	5,530

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2018 (refer to Note 2.30 for the description of the fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	In total
Buildings	-	-	5,978	5,978
Structures	-	-	516	516
In total	-	-	6,494	6,494

9 Investments in subsidiaries and associates

Dynamics of the Company's investments during the year 2019 and 2018 were as follows:

Company	2019	2018
Net book value at 1 January	1,206,921	1,148,917
Increase in issued capital of subsidiaries	15,960	41,038
Establishment of subsidiaries	44,700	-
Decrease in issued capital of subsidiaries	(36,386)	-
Acquisition of subsidiaries	-	21,016
Disposal of investments	(39,747)	-
Coverage of losses	-	5,142
Liquidation of subsidiaries	-	(17)
Reclassification to assets held for sale	-	(2,359)
(Impairment) / reversal of impairment of investments in subsidiaries	13,046	(6,815)
Net book value at 31 December	1,204,494	1,206,921

Reorganisation of subsidiaries

On 1 January 2019, the reorganisation of the Group companies of Ignitis UAB (former Lietuvos Energijos tiekimas UAB) and Litgas UAB was finalised. The companies are reorganised by way of merger – Litgas UAB, which cease its activities after the reorganisation, is merged with Ignitis UAB, which continues its activities. All the assets, rights and obligations of Litgas UAB were taken over by Ignitis UAB that continues its activities. The Company's carrying amount of investment to Ignitis UAB increased by EUR 8,631 thousand and the investment to Litgas UAB was written off by the same carrying amount.

On 1 June 2019, the reorganisation of the Group companies of Ignitis UAB and Energijos tiekimas UAB was finalised. The companies are reorganised by way of merger – Energijos tiekimas UAB, which cease its activities after the reorganisation, is merged with Ignitis UAB, which continues its activities. All the assets, rights and obligations of Energijos tiekimas UAB were taken over by Ignitis UAB that continues its activities. The Company's carrying amount of investment to Ignitis UAB increased by EUR 26,126 thousand and the investment to Energijos tiekimas UAB was written off by the same carrying amount.

Ignitis grupė UAB, company code 301844044, Žveju str. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

All amounts are in EUR thousand unless otherwise stated

Increase in issued capital of subsidiaries

During the year 2019 the authorized capital of the following Group's companies was increased:

Subsidiary	Issue date	Amount of shares, pcs*	Nominal value per share, EUR	Total issue price	Paid amount	Amount outstanding	Date of articles amendment
Vilniaus kogeneracinė jėgainė UAB	22/1/2019	54,137,931	0.29	15,700	4,386	11,314	2019-01-30
Ignitis grupės paslaugų centras UAB	13/6/2019	897,149	0.29	260	260	-	2019-06-28
Total				15,960	4,646	11,314	

* there is stated amount of shares that belong to the Company

On 14 January 2019, a decision was passed to increase the share capital of the Group's company Vilniaus Kogeneracinė Jėgainė UAB up to EUR 52,300 thousand. The initial contribution of EUR 4,000 thousand was paid by the Company in cash and was made a non-cash contribution amounting to EUR 386 thousand (business consultations relating to engineering and construction preparatory works for Vilnius co-generation power plant). At 6 January 2020 the Company paid EUR 11,314 thousand for shares of the subsidiary. On 30 January 2019, the new version of the Articles of Association of the Group's company Vilniaus Kogeneracinė Jėgainė UAB related to increase in share capital was registered with the Register of Legal Entities.

On 13 June 2019 the Company and its subsidiary Ignitis gamyba AB decided to increase the authorized capital of another subsidiary Ignitis paslaugų paslaugų centras to EUR 6,960,000 by issuing 1,794,475 units of shares the par value of each is EUR 0.29. Ignitis gamyba AB acquired 897,326 units of shares, the issue price is equal to EUR 260 thousand by paying for these shares with a non-monetary contribution, long-term intangible assets, the value of which was determined EUR 260 thousand by the independent property valuator UAB APUS TURTAS for the date 31 January 2019. The Company acquired 897,149 units of shares, the issue price is equal to EUR 260 thousand by paying for these shares with a cash contribution.

On 28 February 2019, a decision of general meeting of shareholders was passed to increase the share capital of the Group's company Ignitis grupės paslaugų centras UAB from EUR 6,440 to EUR 6,960 thousand. The right to acquire 897,149 shares par value of EUR 0.29 (total emission value – EUR 260.2 thousand) per share is granted to Ignitis gamyba AB. On 28 June 2019, the new version of the Articles of Association of the Group's company Ignitis grupės paslaugų centras UAB related to increase in share capital was registered with the Register of Legal Entities.

Increase in issued capital of the Group companies in 2018:

Subsidiary	Issue date	Number of newly issued shares	Issue price per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Kauno kogeneracinė jėgainė UAB	As at 19/01/2018	8,160,000	1.00	8,160	8,160	-	As at 19/01/2018
Vilniaus kogeneracinė jėgainė UAB	As at 21/12/2017	53,781,379	0.29	15,596	15,596	-	As at 05/01/2018
Energetikos paslaugų ir rangos organizacija UAB	As at 30/01/2018	345,600	4.34	1,500	1,500	-	As at 08/02/2018
Energijos sprendimų centras UAB	As at 29/01/2018	600,000	1.50	900	900	-	As at 10/04/2018
Elektroninių mokėjimų agentūra UAB	As at 21/02/2018	370,000	1.00	370	370	-	As at 27/02/2018
<i>Increase in authorised share capital by way of in-kind contribution</i>							
Ignitis gamyba AB	As at 30/03/2018	12,919,014	0.62	8,062	8,062	-	As at 31/03/2018
NT Valdos UAB	As at 01/08/2018	222,725	28.96	6,450	6,450	-	As at 17/08/2018
Total:				41,038	41,038	-	

Offset prepayments made in 2017 for the increase of authorised share capital during the year 2018:

Subsidiary	Issue date	Number of newly issued shares	Issue price per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Vilniaus kogeneracinė jėgainė UAB	As at 21/12/2017	53,781,379	0.29	15,596	3,898	11,698	As at 05/01/2018
Total:				15,596	3,898	11,698	

Decrease in share capital

On 15 April 2019, the Company decided to reduce the authorized capital of the subsidiary NT Valdos UAB from EUR 41,385 thousand to EUR 5,000 thousand by cancelling 1,256,400 ordinary registered intangible shares of NT Valdos UAB, each with a nominal value of EUR 28.96, the total amount of cancellation is EUR 36,385 thousand. The purpose of the reduction of the authorized capital is the disbursement of funds to shareholders of NT Valdos UAB. The subsidiary disbursed the share capital reduction to the Company during July–September of 2019 and the Company accounted for EUR 9,035 thousand reversal of investments in subsidiaries impairment. On 5 July 2019, a new version of the Articles of Association of the Subsidiary Company related to the reduction of the authorized capital was registered with the Register of Legal Entities.

Decrease in share capital of the Group companies in 2019:

Subsidiary	Carrying amount As at 31 December 2018	Decrease in share capital	Coverage of losses	(Impairment) / reversal of impairment	Carrying amount at 31 December 2019
NT valdos, UAB	36,173	(36,385)	-	9,035	8,823
UAB "Ignitis"	43,125	-	-	4,011	47,136
Total:	79,298	(36,385)	-	13,046	55,959

There were no decreases in share capital of the Group companies during the year 2018.

All amounts are in EUR thousand unless otherwise stated

Establishment and acquisition of subsidiaries

On 31 December 2018, the Company announced that in developing the green energy activity and aiming to optimise operations of the controlled companies engaged in renewable energy production it approved the establishment of a new company Ignitis Renewables UAB (former Lietuvos Energija Renewables UAB), which will become a transferee of shares of all already controlled and developed wind power parks. This decision was approved by the holder of the Company's shares – the Ministry of Finance of the Republic of Lithuania. The Articles of Association of Ignitis Renewables UAB were registered with the Register of Legal Entities on 14 January 2019.

In year 2019, the following subsidiaries were established:

Subsidiary	Issue date	Number of newly issued shares	Nominal value per share, EUR	Total nominal values of the issue	Share premium	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Ignitis renewables UAB	As at 14/01/2019	3,000	1	3	44,697	44,700	-	As at 14/01/2019
Total:				3	44,697	44,700	-	

Acquisitions of new subsidiaries made in year 2018 were accounted for within investments in subsidiaries:

Subsidiary	Date of acquisition of shares	Number of shares acquired	Nominal value per share, EUR	Total issue price	Paid up amount of the acquisition cost of shares	Unpaid amount of the acquisition cost of shares
Verslo aptarnavimo centras UAB	As at 01/10/2018	9,987	0.29	3	3	
<i>Acquisition of subsidiaries</i>						
Vėjo vatas UAB	As at 31/10/2018	100,000	28.96	2,896	6,132	
Vėjo gūsis UAB	As at 31/10/2018	257,000	28.96	7,443	12,919	
VVP Investment UAB	As at 27/12/2018	8,640	28.96	250	1,237	725
Total:				10,592	20,291	725

Disposal of subsidiaries

On 28 March 2019, the share purchase and sale agreements were signed regarding the transfer of 100% of shares of the Company's subsidiaries developing projects on renewable energy resources to Ignitis renewables UAB. Upon the transfer of shares of the renewable energy companies within the Group, the Company's ownership interest in the companies remains unchanged. The shares of the renewable energy companies are transferred for the carrying amount of investments in shares and the related liabilities, therefore the impact of the transfer of shares on the financial performance of the Company and the Group is neutral.

The following investments of the Company were divested during the first three quarters of year 2019:

Subsidiary	Disposal date	Number of shares disposed	Investment value, Eur	Amount paid up*	Amount not paid up
Eurakras UAB	As at 28/03/2019	159,549	18,735	18,735	-
Vėjo vatas UAB	As at 28/03/2019	100,000	6,132	6,132	-
Vėjo gūsis UAB	As at 28/03/2019	257,000	12,918	12,918	-
VVP Investment UAB	As at 28/03/2019	8,640	1,962	1,962	-
Total:			39,747	39,747	-

Acquisition of shares from non-controlling interest

There were no acquisitions of shares from non-controlling interest during 2019.

On 26 March 2018, the Company increased the authorised share capital of Ignitis gamyba AB by EUR 3,747 thousand through the additional issue of 12,919,014 shares with the nominal value of EUR 0.29 each. Ignitis Grupė UAB committed to pay for the acquired shares by way of an in-kind contribution, i.e. Vilnius Thermal Power Plant No 3, as a whole complex of technological equipment and territories, the value of which was EUR 8,061,465. Following the change in the number of shares of Ignitis gamyba AB non-controlling interest decreased from 3.25% to 3.18%. The change in the number of shares of Ignitis gamyba AB resulted in the change in non-controlling interest in Verslo aptarnavimo centras UAB, which decreased from 1.60% to 1.59%. The non-controlling interest in Technologijų ir inovacijų centras UAB has also changed decreasing from 2.11% to 2.09%.

Contributions against losses and impairment

In year 2019, the Company accounted for EUR 9035 thousand reversal of impairment of investments in subsidiary NT Valdos UAB (see Note 9 'Decrease in share capital') and reversal of impairment of investments in subsidiary Ignitis UAB EUR 4,011 thousand.

Contributions against losses of the Group companies and impairment of investments in the subsidiaries in year 2018:

Subsidiary	Carrying amount at 31 December 2017	Increase in share capital	Coverage of losses	(Impairment) / reversal of impairment	Carrying amount at 31 December 2018
Energetikos paslaugų ir rangos organizacija UAB	191	1,500	5,072	(6,763)	-
VAE SPB UAB	-	-	70	(70)	-
Cash received upon liquidation of VAE SPB UAB	-	-	-	15	15
Shares of Verslo aptarnavimo centras UAB received upon liquidation of VAE SPB UAB	-	-	-	3	3
Total:	191	1,500	5,142	(6,815)	18

On 28 September 2018, the Company passed a decision to cover retained deficit of subsidiary Energetikos paslaugų ir rangos organizacija UAB through the shareholder's contribution of EUR 3,237 thousand by offsetting loans payable by the subsidiary to the Company and accrued interest payable. The carrying amount of loans offset, net of impairment of EUR 2,700 thousand recognised in year 2017, is equal to EUR 535 thousand.

On 21 December 2018, the Company passed a decision to cover retained deficit of subsidiary Energetikos paslaugų ir rangos organizacija UAB through the shareholder's contribution of EUR 4,537 thousand by offsetting loans payable by the subsidiary to the Company and accrued interest payable.

Prepayments for investments

According to the decisions of the Company's Board of 11 October 2018 and 2 November 2018 and the approval of the Company's shareholder of 19 October 2018, on 2 November 2018 the Company concluded the conditional share purchase and sale agreement regarding the acquisition of 100% shareholding in and shareholder's claim rights of the company engaged in the development of the project on the wind power park from the Polish company that develops wind and solar power plant parks. On 31 December 2018, the Company accounted for a partial payment of EUR 671 thousand for newly acquired shares and the transaction fee of EUR 144 thousand paid under the Polish civil law in the statement of financial position within prepayments for non-current assets (Note 15).

All amounts are in EUR thousand unless otherwise stated

Cash flows from investments in subsidiaries

Reconciliation of the factors that had impact on cash flows from the Group's and the Company's investments into subsidiaries to data reported in the statement of cash flows:

	Group		Company	
	2019	2018	2019	2018
Acquisition of subsidiaries, including loans repayments	(27,679)	(22,741)	-	(22,741)
Sale of subsidiaries	-	-	39,023	-
Increase in issued capital of subsidiaries	-	-	(12,575)	(22,627)
Prepayments for shares	-	(816)	-	(816)
Proceeds on disposal of shares of VšĮ Energetikų mokymų centras	-	48	-	-
Coverage of losses	-	-	-	(70)
Other payments related to acquisition of subsidiaries	(286)	-	-	-
Carrying amount	(27,965)	(23,509)	26,448	(46,254)

During 2019 reported "Acquisition of subsidiaries, including loans repayments" amount EUR 27,679 thousand comprise payments for shares of EUR 20,470 thousand and loans repaid to former shareholders of EUR 7,209 thousand.

Names of the Group companies

During the year 2019, some of the Group companies changed their names:

Company name	Company name as at 31 December 2018
Ignitis grupė UAB	Lietuvos energija, UAB
Ignitis gamyba, AB	Lietuvos energijos gamyba AB
Ignitis Eesti, OÜ	Geton Energy OÜ
Ignitis Latvija SIA	Geton Energy SIA
Ignitis Polska sp. z o.o.	Geton Energy Sp. z o.o.
Ignitis grupės paslaugų centras, UAB	Technologijų ir inovacijų centras UAB
Ignitis UAB	Lietuvos Energijos tiekimas UAB (former Lietuvos dujų tiekimas UAB)
Ignitis paramos fondas	Lietuvos energijos paramos fondas

The Group's structure as at 31 December 2019:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Ignitis grupė UAB	Lithuania	Parent company	-	-	- Parent company
Subsidiaries of the Group:					
Energijos skirstymo operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to the consumers; distribution of natural gas
Ignitis gamyba, AB	Lithuania	Subsidiary	96.8164	3.1836	Electricity generation, supply, import, export and trade
NT Valdos UAB	Lithuania	Subsidiary	100.0000		- Disposal of real estate, other related activities and provision of services
Duomenų logistikos centras, UAB	Lithuania	Subsidiary	79.6360	20.3640	Information technology and telecommunication services
Energetikos paslaugų ir rangos organizacija UAB	Lithuania	Subsidiary	100.0000		- Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
Elektroninių mokėjimų agentūra UAB	Lithuania	Subsidiary	100.0000		- Provision of collection services
Ignitis Eesti, OÜ	Estonia	Indirectly controlled subsidiary	100.0000		- Supply of electricity
Ignitis Latvija SIA	Latvia	Indirectly controlled subsidiary	100.0000		- Supply of electricity
Ignitis Polska sp. z o.o.	Poland	Indirectly controlled subsidiary	100.0000		- Supply of electricity
Ignitis grupės paslaugų centras, UAB	Lithuania	Subsidiary	97.9447	2.0553	Provision of information technology and telecommunications and other services
Verslo aptarnavimo centras, UAB	Lithuania	Subsidiary	98.4061	1.5939	Organisation and execution of public procurement, accounting, legal, personnel administration services
Ignitis UAB	Lithuania	Subsidiary	100.0000		- Supply of electricity and gas
Ignitis paramos fondas	Lithuania	Subsidiary	100.0000		- Provision of support to projects, initiatives and activities, relevant to the society
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000		- Modernization of the provision of centralized supply of heat in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernization of the provision of centralized supply of heat in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000		- Production of renewable electricity
Eurakras UAB	Lithuania	Indirectly controlled subsidiary	100.0000		- Production of renewable electricity
Transporto valdymas UAB	Lithuania	Subsidiary	100.0000		- Transport management activity
Vėjo Vatas UAB	Lithuania	Indirectly controlled subsidiary	100.0000		- Production of renewable electricity
Vėjo Gūsis UAB	Lithuania	Indirectly controlled subsidiary	100.0000		- Production of renewable electricity
Gamybos optimizavimas UAB	Lithuania	Subsidiary	100.0000		- Supply of electricity and natural gas
VVP Investment UAB	Lithuania	Indirectly controlled subsidiary	100.0000		- Production of renewable electricity
Ignitis renewables, UAB	Lithuania	Subsidiary	100.0000		- Production of renewable electricity
Pomerania Invall Sp. z o. o.	Poland	Indirectly controlled subsidiary	100.0000		- Production of renewable electricity

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Ignitis grupė UAB	Lithuania	Parent company	-	-	Parent company
Subsidiaries of the Group:					
Energijos skirstymo operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to the consumers; distribution of natural gas
Ignitis gamyba, AB	Lithuania	Subsidiary	96.8164	3.1836	Electricity generation, supply, import, export and trade
NT Valdosa UAB	Lithuania	Subsidiary	100.0000	-	Disposal of real estate, other related activities and provision of services
Duomenų logistikos centras, UAB	Lithuania	Subsidiary	79.6360	20.3640	Information technology and telecommunication services
Energetikos paslaugų ir rangos organizacija UAB	Lithuania	Subsidiary	100.0000	-	Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
LITGAS UAB	Lithuania	Subsidiary	100.0000	-	Supply of liquefied natural gas via the terminal and trade in natural gas (100% of votes)
Elektroninių mokėjimų agentūra UAB	Lithuania	Subsidiary	100.0000	-	Provision of collection services
Energijos tiekimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and natural gas
Ignitis Eesti, OÜ	Estonia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis Latvija SIA	Latvia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis Polska sp. z o.o.	Poland	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Ignitis grupės paslaugų centras, UAB	Lithuania	Subsidiary	97.9072	2.0928	Provision of information technology and telecommunications and other services
Verslo aptarnavimo centras, UAB	Lithuania	Subsidiary	98.4061	1.5939	Organisation and execution of public procurement, accounting, legal, personnel administration services
Ignitis UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and gas
Ignitis paramos fondas	Lithuania	Subsidiary	100.0000	-	Provision of support to projects, initiatives and activities, relevant to the society
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000	-	Modernization of the provision of centralized supply of heat in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernization of the provision of centralized supply of heat in Kaunas city
Tuulenergija OÜ	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Eurakras UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Transporto valdymas UAB	Lithuania	Subsidiary	100.0000	-	Transport management activity
Vėjo Vatas UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Vėjo Gūsis UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity
Gamybos optimizavimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and natural gas
VVP Investment UAB	Lithuania	Subsidiary	100.0000	-	Production of renewable electricity

Indirectly controlled companies

On 27 May 2019, the Company's subsidiary Ignitis renewables UAB entered into the share purchase and sale agreement regarding the acquisition of 100% of shares of Pomerania Invall Sp. z o.o. and the shareholder's claim rights. By signing this share purchase agreement, the Company acquired 100% indirect shareholding in Pomerania Invall Sp. z o.o., because Ignitis renewables UAB owns 100% shareholding in Pomerania Invall Sp. z o.o., and the Company owns 100% shareholding in Ignitis renewables UAB. Pomerania Invall Sp.z o.o. develops a wind farm project in Poland with a planned capacity of 94 megawatts (MW). The construction work on the project was launched in the 2nd quarter of 2019, whereas the commercial operations should commence in year 2021. In November 2018, Pomerania Invall Sp. z o.o. won a promotional tariff of 214.98 PLN/MWh (app. 50 EUR/MWh) for a period of 15 years. Pomerania Invall Sp.z o.o. acquisition costs amounted to EUR 292 thousand and are accounted for in the Group's statement of profit or loss and other comprehensive income under the item "Other expenses". During the year 2019, the net loss of Pomerania Invall Sp. z o.o. recognised in the Group's statement of profit or loss and other comprehensive income amounted to EUR (116) thousand.

On 6 June 2017, the Company's subsidiary Ignitis UAB (former Energijos tiekimas UAB) established a subsidiary Ignitis Polska Sp. z o.o. the share capital of which amounted to PLN 1,000 thousand. On 18 September 2017, Ignitis UAB increased the share capital of the subsidiary Polska Sp. z o.o. As at 31 December 2019 and 2018, the share capital of Polska Sp. z o.o. amounted to PLN 10,000 thousand.

The Company holds 100% of the voting rights at the shareholders' meeting of Ignitis UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2018 and 31 December 2019. During the year 2019, the net profit of Polska Sp. z o.o. recognised in the Group's statement of profit or loss and other comprehensive income amounted to EUR 352 thousand.

On 31 December 2017, the Company's subsidiary Ignitis UAB (former Energijos tiekimas UAB) established the subsidiary Ignitis Latvija SIA, the share capital of which amounted to EUR 500 thousand. As at 31 December 2019 and 31 December 2018, the share capital of Geton Energy SIA amounted to EUR 5,500 thousand. The Company holds 100% of the voting rights at the shareholders' meeting of Ignitis UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2019 and 2018. During the year 2019, the net loss of Latvija SIA recognised in the Group's statement of profit or loss and other comprehensive income amounted to EUR 737 thousand.

As at 31 December 2018 and 31 December 2019, the Company's subsidiary Ignitis UAB (former Energijos tiekimas UAB) controlled the subsidiary Ignitis Eesti OÜ, the share capital of which amounted to EUR 35 thousand. The Company holds 100% of the voting rights at the shareholders' meeting of Ignitis UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2018 and 31 December 2019. During 2019, the net loss of Ignitis Eesti OÜ recognised in the Group's statement of profit or loss and other comprehensive income amounted to EUR 5 thousand.

Ignitis grupė UAB, company code 301844044, Žvejų str. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

All amounts are in EUR thousand unless otherwise stated

As at 31 December 2019 the Company's investments in subsidiaries comprised:

At 31 December 2019	Acquisition cost	Impairment	Contributions against losses	Carrying amount	Company's ownership interest, %	Group's effective ownership interest, %
Subsidiaries:						
Energijos skirstymo operatorius AB	710,921	-	-	710,921	94.98	94.98
Ignitis gamyba AB	307,997	-	-	307,997	96.82	96.82
Vilniaus kogeneracinė jėgainė UAB	52,300	-	-	52,300	100.00	100.00
Ignitis UAB	47,136	-	-	47,136	51.00	51.00
Ignitis renewables UAB	44,700	-	-	44,700	100.00	100.00
Kauno kogeneracinė jėgainė UAB	20,400	-	-	20,400	100.00	100.00
NT Valdos UAB	8,823	-	-	8,823	100.00	100.00
Tuuleenergia OÜ	6,659	-	-	6,659	100.00	100.00
Ignitis grupės paslaugų centras UAB	3,479	-	-	3,479	50.00	97.94
Elektroninių mokėjimų agentūra UAB	1,428	-	-	1,428	100.00	100.00
Gamybos optimizavimas UAB	350	-	-	350	100.00	100.00
Verslo aptarnavimo centras UAB	298	-	-	298	100.00	100.00
Ignitis paramos fondas	3	-	-	3	100.00	100.00
Energetikos paslaugų ir rangos organizacija UAB	10,638	(22,711)	12,073	-	51.00	98.41
	1,215,132	(22,711)	12,073	1,204,494		

As at 31 December 2018 the Company's investments in subsidiaries comprised:

At 31 December 2018	Acquisition cost	Impairment	Contributions against losses	Carrying amount	Company's ownership interest, %	Group's effective ownership interest, %
Subsidiaries:						
Energijos skirstymo operatorius AB	710,921	-	-	710,921	94.98	94.98
Ignitis gamyba AB	307,997	-	-	307,997	96.82	96.82
Vilniaus kogeneracinė jėgainė UAB	36,600	-	-	36,600	100.00	100.00
NT Valdos UAB	45,209	(9,036)	-	36,173	100.00	100.00
Ignitis UAB	26,126	-	-	26,126	100.00	100.00
Kauno kogeneracinė jėgainė UAB	20,400	-	-	20,400	51.00	51.00
Eurakras UAB	18,734	-	-	18,734	100.00	100.00
Vėjo gūsis UAB	12,919	-	-	12,919	100.00	100.00
Litgas UAB	12,641	(4,010)	-	8,631	100.00	100.00
Ignitis UAB	8,369	-	-	8,369	100.00	100.00
Tuuleenergia OÜ	6,659	-	-	6,659	100.00	100.00
Vėjo vatas UAB	6,132	-	-	6,132	100.00	100.00
Ignitis grupės paslaugų centras UAB	3,219	-	-	3,219	50.00	97.91
VVP investment UAB	1,962	-	-	1,962	100.00	100.00
Elektroninių mokėjimų agentūra UAB	1,428	-	-	1,428	100.00	100.00
Gamybos optimizavimas UAB	350	-	-	350	100.00	100.00
Verslo aptarnavimo centras UAB	298	-	-	298	51.00	98.41
Ignitis paramos fondas	3	-	-	3	100.00	100.00
Energetikos paslaugų ir rangos organizacija UAB	10,637	(22,710)	12,073	-	100.00	100.00
	1,230,604	(35,756)	12,073	1,206,921		

All amounts are in EUR thousand unless otherwise stated

Investments in associates

The Group's investments in associates and joint ventures as at 31 December 2019 and 31 December 2018 were as follows:

Group	As at 31 December 2019		As at 31 December 2018	
	Carrying amount	Group's ownership interest, %	Carrying amount	Group's ownership interest, %
Geoterma UAB (Bankrupt)	2,142	23.44	2,142	23.44
In total	2,142		2,142	
Group's share of losses of associates	(2,142)		(2,142)	
Carrying amount	-		-	

As at 31 December 2019 and 31 December 2018, the Group did not account for its share of losses of associate Geoterma UAB for 2019 and 2018, because the total amount of losses accumulated as at 31 December 2016 exceeded the Group's cost of investment and the Group did not have a commitment to cover these losses. As at 31 December 2016, the share of losses not recognised amounted to EUR 438 thousand.

No data is available about associate's Geoterma UAB financial position as at 31 December 2019 and 2018 financial performance results for the year 2019 and 2018 due to Geoterma UAB went bankrupt and failed to report for three consecutive years.

On 23 August 2019 Klaipėda Regional Court approved decision to declare that Geoterma UAB is bankrupt and liquidated due to bankruptcy. Movable and real estate owned by Geoterma UAB since 20 November 2019 are sold through auction.

Summarised statement of financial position of the Group companies with non-controlling interest as at 31 December 2019 and 31 December 2018:

Company name Year	Current assets and liabilities			Non-current assets and liabilities			Net assets	Non-controlling interest
	Assets	Liabilities	Total net current assets	Assets	Liabilities	Total net non-current assets		
Energijos skirstymo operatorius AB								
As at 31 December 2019	74,789	(308,328)	(233,539)	1,568,396	(678,433)	889,963	656,424	32,933
As at 31 December 2018 (restated*)	124,690	(312,453)	(187,763)	1,445,193	(632,548)	812,645	624,882	31,352
Ignitis gamyba AB								
As at 31 December 2019	158,421	(39,404)	119,017	519,691	(228,655)	291,036	410,053	13,054
As at 31 December 2018 (restated*)	120,727	(28,897)	91,830	535,987	(236,005)	299,982	391,812	12,474
Duomenų logistikos centras UAB								
As at 31 December 2019	2,487	(1,054)	1,433	6,771	(2,783)	3,988	5,421	1,104
As at 31 December 2018	1,736	(487)	1,249	4,271	(297)	3,974	5,223	1,064
Ignitis grupės paslaugų centras UAB								
As at 31 December 2019	5,186	(5,543)	(357)	9,472	(1,033)	8,439	8,082	166
As at 31 December 2018	5,294	(5,977)	(683)	7,951	(157)	7,794	7,111	149
Verslo aptarnavimo centras UAB								
As at 31 December 2019	4,332	(4,027)	305	2,254	(1,380)	874	1,179	19
As at 31 December 2018	3,598	(2,764)	834	134	-	134	968	15
Kauno kogeneracinė jėgainė UAB								
As at 31 December 2019	8,621	(13,223)	(4,602)	103,199	(61,077)	42,122	37,520	1,725
As at 31 December 2018	10,148	(3,030)	7,118	42,092	(10,100)	31,992	39,110	2,504

*Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

Summarised statement of profit or loss and other comprehensive income of the Group companies with non-controlling interests for the year 2019 and 2018:

Company name / Year	Revenue	Profit (loss) before tax	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 AB								
2019	418,848	31,076	494	31,570	(30)	31,540	1,584	-
2018 (restated*)	482,021	(25,979)	14,845	(11,134)	114,583	103,449	(559)	1,766
Ignitis gamyba AB								
2019	145,504	50,650	(7,858)	42,792	722	43,514	1,362	805
2018 (restated*)	137,820	42,376	(7,715)	34,661	18,872	53,533	1,103	763
Duomenų logistikos centras UAB								
2019	3,764	720	(118)	602	-	602	123	82
2018	3,818	740	(118)	622	-	622	127	62
Ignitis grupės paslaugų centras UAB								
2019	17,163	941	(164)	777	-	777	16	7
2018	16,170	576	(108)	468	-	468	10	2
Verslo aptarnavimo centras UAB								
2019	14,203	411	(86)	325	-	325	5	2
2018	11,324	255	(61)	194	-	194	3	3
Kauno kogeneracinė jėgainė UAB								
2019	-	(1,590)	-	(1,590)	-	(1,590)	(779)	-
2018	-	(451)	-	(451)	-	(451)	(221)	-

*Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

All amounts are in EUR thousand unless otherwise stated

Summarised Statement of Cash Flows of the Group companies with non-controlling interest for the years 2019 and 2018:

Company name / Year	Cash flows from (to) operating activities	Income tax (paid) recovered	Net cash flows from (to) operating activities	Net cash flows from (to) investing activities	Net cash flows from (to) financing activities	Net increase (decrease) in cash flows	Cash and cash equivalents at beginning of the year	Cash and cash equivalents at end of year
Energijos skirstymo operatorius AB								
2019	163,286	-	163,286	(156,482)	(4,295)	2,509	2,266	4,775
2018 (restated*)	72,383	(1,128)	71,255	(292,714)	227,931	6,472	(4,206)	2,266
Ignitis gamyba AB								
2019	51,914	(2,015)	49,899	(779)	(38,505)	10,616	47,885	58,501
2018 (restated*)	64,257	(3,117)	61,140	(32,402)	(41,553)	(12,815)	60,700	47,885
Duomenų logistikos centras UAB								
2019	2,250	(135)	2,115	(248)	(1,052)	815	1,130	1,945
2018	1,598	(40)	1,559	(479)	(305)	775	356	1,130
Ignitis grupės paslaugų centras UAB								
2019	3,111	(163)	2,948	(2,870)	(813)	(735)	1,156	421
2018	3,525	(15)	3,510	(2,412)	(48)	1,050	106	1,156
Verslo aptarnavimo centras UAB								
2019	650	-	650	(1,418)	(860)	(1,628)	1,837	209
2018	1,641	(167)	1,474	(4)	(260)	1,210	627	1,837
Kauno kogeneracinė jėgainė UAB								
2019	(1,218)	-	(1,218)	(50,942)	50,161	(2,000)	9,777	7,777
2018	(4,921)	-	(4,921)	(20,969)	25,906	16	9,761	9,777

*Part of amounts do not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in the Note 4.26 and Note 4.27

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

All amounts are in EUR thousand unless otherwise stated

10 Non-current receivables

Amounts receivable after one year comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current receivables				
Amount receivable on disposal of LitGrid AB (Notes 3.1, 4.9)	158,658	158,658	158,658	158,658
Finance lease	3,043	1,459	-	-
Accrued Kaunas cogeneration plant infrastructure installation cost compensation	606	-	-	-
Accrued revenue related to the capacity reserve (note 4.24)	475	-	-	-
Amounts receivable on emission allowances lent	-	52	-	-
Loans granted	211	293	564,543	520,893
Other non-current amounts receivable	2,126	144	88	42
Total:	165,119	160,606	723,289	679,593
Less: allowance	(88)	-	(88)	-
Carrying amount	165,031	160,606	723,201	679,593

Information on the fair value of amount receivable from EPSO-G on disposal of Litgrid AB is presented in Notes 3.1 and 4.9. The key contractual terms in relation to repayment terms of the amount receivable and the interest rate applied were reviewed in 2016. Interest rate is based on 1 year EURIBOR.

Under the valid agreement between the Company and EPSO-G, during the period until year 2022 EPSO-G will have to cover the debt for the shares of Litgrid AB acquired in year 2012. The amount receivable for shares is stated at fair value through profit or loss, because the final amount payable by EPSO-G for shares depends on the recalculation of the final price premium. The amount of the price premium depends on return for year 2014–2018 of regulated assets of the electricity transmission activity conducted by LitGrid AB. As at 31 December 2019, the fair value of the amount receivable that comprises the amount receivable for shares and final price premium, is equal to EUR 158,658 thousand. As at 31 December 2019, the amount of the price premium was negative and was equal to EUR 15,877 thousand (31 December 2018: EUR 15,877 thousand). The amount receivable for EPSO-G shares is classified as financial assets at fair value through profit or loss.

Expected credit losses of loans granted

As at 31 December 2019, the Company assessed whether credit risk of recipients of non-current and current loans has increased significantly and did not establish any indications and has no information indicating that credit risk of loan recipients on a collective and individual basis has increased significantly. Assumptions used in calculating 12-month expected credit losses related to loans receivable were as follows:

- The credit rating of all borrowers is equivalent to the Company's credit rating (BBB+);
- Loss event probability of 0.13% is consistent with the S&P's One-Year Global Corporate Default Rates presented in the publication announced by S&P the 2017 Annual Global Corporate Default Study;
- The coefficient of losses recovered in case of a loss event is equal to 90% in the energy sector according to the data of Moody's studies;
- Changes in the country's macroeconomic conditions and/or business environment will have no significant impact on the increase in credit risk of borrowers over the next twelve months.

As at 31 December 2019, the Company calculated 12-month expected credit losses of EUR 130 thousand (31 December 2018: EUR 92 thousand) related to non-current and current loans receivable. The calculated expected credit losses were assessed as insignificant, therefore they were not accounted for in the Company's statement of financial position as at 31 December 2019.

Movements on the impairment account during the years ended 31 December 2019 and 31 December 2018:

	Group		Company	
	2019	2018	2019	2018
As at 1 January	-	678	-	2,701
Impairment losses	88	-	88	-
Coverage of subsidiaries' losses by loans granted	-	-	-	(2,701)
Reversal of impairment	-	(678)	-	-
At the end of the reporting period	88	-	88	-

In year 2018, the impairment of loans of Energetikos paslaugų ir rangos organizacija UAB amounting to EUR 2,701 thousand was reclassified to 'Investments in subsidiaries' in the statement of financial position after the decision was made to cover the subsidiary's operational losses by offsetting against loans receivable.

Loans granted

The Company's loans granted as at 31 December 2019 comprised loans granted to the following subsidiaries:

Company	Interest rate type	Company		
		Within one year (Note 18)	After one year	In total
Energijos skirstymo operatorius AB green bonds	Fixed interest	-	416,288	416,288
Energijos skirstymo operatorius AB taken over loans	Variable interest	32,902	49,345	82,247
Tuuleenergia OÜ	Fixed interest	-	19,119	19,119
Eurakras UAB	Fixed interest	-	24,355	24,355
Ignitis UAB	Variable interest	60,255	30,500	90,755
Transporto valdymas UAB	Variable interest	-	24,936	24,936
Vėjo vatas UAB	Fixed interest	2,547	-	2,547
Energetikos paslaugų ir rangos organizacija UAB	Variable interest	1,480	-	1,480
Ignitis grupės paslaugų centras UAB	Variable interest	1,473	-	1,473
Ignitis renewables UAB	Fixed interest	56,922	-	56,922
VVP Investment UAB	Variable interest	400	-	400
Energijos skirstymo operatorius AB	Variable interest	105,164	-	105,164
Vilniaus kogeneracinė jėgainė UAB	Variable interest	3,336	-	3,336
Carrying amount		264,479	564,543	829,022

On 28 May 2019, the Company signed a loan agreement with Ignitis renewables UAB, under which Ignitis renewables UAB was granted a loan of EUR 44 million to finance investments in green energy production projects and to purchase a 100% shareholding in Pomerania Invall Sp. z o.o.

On 28 February 2018, the Company and Energijos skirstymo operatorius AB signed an additional arrangement to the Proportional Transfer Agreement for Green Bonds of 13 October 2017, under which Energijos skirstymo operatorius AB assumed additional green bonds based commitments amounting to EUR 66,288 thousand.

On 3 July 2018, the Company placed EUR 300 million worth 10 years' duration green bond issue (hereinafter "the Issue"). Annual interest of 1.875% is payable for bonds and they have been issued

All amounts are in EUR thousand unless otherwise stated

with the yield of 2.066%. Net cash inflows comprise 98.290% of the nominal value of the bond issue or EUR 294,345,619.

On 29 August 2018, the Company and its subsidiary Energijos skirstymo operatorius AB signed the Proportional Transfer Agreement for Green Bonds, under which the Company assumed a commitment to grant to the subsidiary a loan of up to EUR 250,000 thousand. The loan is granted for the financing of investments in the renewal of the electricity network according to the Green Bonds Description. Liabilities assumed under the agreement are to be fulfilled by 10 July 2028. The fixed interest rate under the agreement coincides with the effective interest rate on the green bonds issue and is set as 2.11%. The essential terms and conditions of the agreement coincides with the terms and conditions of the green bonds issue. The agreement does not provide for any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

The Company's loans granted as at 31 December 2018 comprised loans granted to the following subsidiaries:

Company	Interest rate type	Company		
		Within one year (Note 18)	After one year	In total
Energijos skirstymo operatorius AB green bonds	Fixed interest	-	366,288	366,288
Energijos skirstymo operatorius AB loans taken over	Variable interest	57,402	82,246	139,649
Tuuleenergia OÜ	Fixed interest	300	20,446	20,746
Eurakras UAB	Fixed interest	-	24,355	24,355
Energijos tiekimas UAB	Variable interest	32,998	3,500	36,498
Transporto valdymas UAB	Variable interest	-	21,336	21,336
Vėjo Gūsis UAB	Fixed interest	-	167	167
Vėjo Vatas UAB	Fixed interest	-	2,555	2,555
Energetikos paslaugų ir rangos organizacija UAB	Variable interest	1,221	-	1,221
Energijos skirstymo operatorius AB	Variable interest	76,320	-	76,320
Lietuvos Energijos tiekimas UAB	Variable interest	14,098	-	14,098
Ignitis grupės paslaugų centras UAB	Variable interest	1,668	-	1,668
Carrying amount		184,006	520,893	704,899

Non-current borrowings by maturity:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
1 and 2 years	30	37	7,049	35,177
2 and 5 years	90	110	73,084	42,703
After 5 years	91	146	484,410	443,013
Carrying amount	211	293	564,543	520,893

The weighted average interest rates (%) on non-current loans granted with fixed and variable interest rates:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Fixed interest rate	1,952	1,952	2,346	2,227
Variable interest rate	-	-	1,746	0,934

11 Finance lease receivables

The Group's finance lease receivables were reported in the following line items in the statement of financial position as at 31 December 2019:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current receivables	3,043	1,459	-	-
Other receivables	520	377	-	-
Assets held-for-sale	22,076	12,097	-	-
Carrying amount	25,639	13,933	-	-

Finance lease receivables of subsidiary Transporto valdymas UAB for the lease of motor vehicles are reported within non-current assets held-for-sale. Amounts receivable under the energy saving services agreements are included in the line items 'Amounts receivable after one year' and 'Other amounts receivable'.

The Group's finance lease receivables comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Minimum payments				
Within the first year	5,666	3,697	-	-
From two to five years	20,449	9,620	-	-
More than five years	3,124	3,048	-	-
In total	29,239	16,365	-	-
Unearned finance income				
Within the first year	(1,084)	(668)	-	-
From two to five years	(2,303)	(1,449)	-	-
More than five years	(213)	(315)	-	-
In total	(3,600)	(2,432)	-	-
Carrying amount	25,639	13,933	-	-

The Group's finance lease receivables reported within amounts receivable after one year, non-current assets held for sale and other amounts receivable amounted to EUR 25,639 thousand as at 31 December 2019 (31 December 2018: EUR 13,933 thousand).

During the year 2015–2018, the Group signed repurchase agreements for motor vehicles. These agreements stipulated particular repurchase amounts for motor vehicles used in long-term lease. The repurchase amount of motor vehicles stipulated in all repurchase agreements totalled EUR 7,512 thousand as at 31 December 2019 (31 December 2018: EUR 5,402 thousand). The repurchase term ranges from 1 to 5 years.

In view of (1) income received from long-term lease, (2) net book values of leased assets at the end of the lease term and (3) amounts for which these motor vehicles will be (or will not be) sold, in 2019 the reclassification of EUR 10,531 thousand (31 December 2018: EUR 1,910 thousand) from property, plant and equipment to non-current finance lease was made.

The Group does not earn contingent finance income related to finance lease arrangements.

Impairment of finance lease receivables (lifetime expected credit losses)

As at 31 December 2019, the Group assessed whether credit risk of finance lease clients has increased significantly and did not establish a significant increase in credit risk.

12 Other financial assets

Non-current financial assets

The Group and the Company other non-current financial assets comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Convertible bonds of Contrarian Ventures UAB	500	500	500	500
Innovation Fund Smart Energy Fund powered by Ignitis Group KÜB	3,474	1,508	3,474	1,508
Platform for Financing Energy Efficiency	261	-	-	-
In total	4,235	2,008	3,974	2,008
Less: impairment of convertible bonds	(500)	-	(500)	-
Carrying amount	3,735	2,008	3,474	2,008

Innovation Fund Smart Energy Fund powered by Ignitis Group KÜB

On 26 July 2017 the Company signed the establishment agreement of the limited partnership "Smart Energy Fund powered by Ignitis Group" (hereinafter – the Partnership) with UAB Contrarian Ventures (hereinafter "CV"). Innovation Fund Smart Energy Fund powered by Ignitis Group KÜB (hereinafter – "SEF") invests in start-ups that are developing new technologies in the energy technology field. According to the Partnership there is one full member - UAB Contrarian Ventures, which acts on behalf of the SEF, has the right to manage SEF, makes decisions on the management of SEF affairs, concludes transactions on behalf of the SEF. All other SEF members (including the Company) acts under the Partnership Participant Agreement. Investment decisions are made and approved by the Investment Committee, which is made up solely of Key-men that are shareholders of Contrarian Ventures UAB.

By the management's judgment the Company does not have control over the Partnership because, under the terms of the Partnership, the Company does not have the power to manage the activities of the SEF as the Company is not a partner of SEF, investment decisions are made in accordance with SEF investment strategy or approved by the Investment Committee, where the Company has only observer.

Investments to SEF includes expenses and payments for the following: SEF formation fee, management fee and payments for investments purposes (for acquiring shares or investing). The Company is committed to provide financial and technical assistance to SEF.

SEF also manages AcceleratorOne Program which invests in start-ups and helps them grow. The program tests pilot products and services in the local market, providing further opportunity to grow internationally. On 11 August 2017 the Company, Contrarian Ventures UAB and Accelerator UAB have entered into an agreement under which the Company undertook to acquire EUR 700,000 convertible bonds, which entitle the Company, at the maturity of the bond, to (1) demand a cash payment or (2) receive shares of UAB Accelerator. Accelerator UAB is a SEF support company attracting start-ups. As at 31 December 2019 the Company's paid amount for convertible bonds and subsequently recognized impairment is EUR 500 thousand (according to schedule the rest amount shall be paid in 2020 September).

Platform for Financing Energy Efficiency

The Company subsidiary Energijos skirstymo operatorius AB signed the establishment agreement of the limited partnership "Platform for Financing Energy Efficiency" (hereinafter – the Partnership) with Public Investment Development Agency (hereinafter "VIPA") on 3 July 2018. The Partnership shall allocate funds for implementation of various projects and measures contributing to reduction of climate

change and final energy consumption and increase of generating consumers. The Subsidiary participates in the Partnership as a limited partner, i.e., is liable for a contribution of EUR 10 million to be paid, if necessary, for a period of 10 years. VIPA, as a general partner of unlimited liability, is in charge of all the activities of the Partnership: search for funded projects, assessment of applications, administration, etc. It is also foreseen that the Partnership is open to contributions of other partners that strive for changes in increasing energy consumption efficiency.

By the management's judgment the Subsidiary does not have control over the Partnership because, under the terms of the Partnership Participants Agreement, the Company does not hold the majority of the votes in the Partnership participants meeting – a body that takes major decisions of the Partnership's activities. The only subject that requires the unanimous agreement of the participants is the modification of the Partnership participants agreement.

The main liability of the Partnership – to declare energy savings of at least 40 GWh by the end of year 2020, using funded energy efficiency measures. The Subsidiary shall have the right to cease the membership in the Partnership on its own initiative, if the Partnership fails to declare required energy savings by the end of year 2020. The investment policy of the Partnership includes certain qualitative criteria for investment effectiveness.

To ensure the financing of the Partnership activities in October 2019 VIPA signed an agreement with European Investment Bank (EIB) to provide a loan of EUR 12.5 million to the Partnership. The loan shall be for a minimum of 4 and a maximum of 10 years. Under the terms of the Partnership Participants Agreement, the Subsidiary is liable, within the limits of its Contributions, to this Loan Agreement. As of 31 December 2019 the loan limit was not utilised. As of 31 December 2019 the Subsidiary has contributed EUR 261 thousand to the Partnership. Part of the funds has been used to finance energy efficiency projects and the other part to cover operating costs of the Partnership.

Current financial assets

The Group and the Company other current financial assets comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Term deposits	-	656	-	-
Carrying amount	-	656	-	-

13 Other non-current assets

Other non-current assets comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Accrued sales revenue from energy saving schemes	-	1,007	-	-
Emission allowances to be received in future	9,702	9,702	-	-
Emission allowances returned	(4,615)	(4,615)	-	-
Less: allowance	-	-	-	-
Carrying amount	5,087	6,094	-	-

As at 31 December 2011, 400,000 units of emission allowances were lent under the provisions of the lending agreement signed with STX Services BV on 1 December 2009. The agreement is valid until 2021. Additional 650,000 units of emission allowances were lent on 16 April 2012 under the provisions of the lending agreement signed with CF Partners (UK) LLP on 13 April 2012. On 7 April 2015, CF Partners (UK) LLP returned 650,000 units of emission allowances. There were no changes in 2019 and 2018.

All amounts are in EUR thousand unless otherwise stated

14 Inventories

The Group and the Company inventories comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Natural gas	40,923	37,350	-	-
Consumables, raw materials and spare parts	4,946	5,529	-	-
Heavy fuel oil	204	2,350	-	-
Biofuel	342	264	-	-
Other	2,872	191	-	-
In total	49,287	45,684	-	-
Less: allowance	(2,666)	(2,547)	-	-
Carrying amount	46,621	43,137	-	-

The Group inventories expensed during the year ended 31 December 2019 were as follows:

	Group		Company	
	2019	2018	2019	2018
Natural gas	224,071	305,520	-	-
Biofuel	1,299	1,645	-	-
Other inventories	1,151	10,535	-	-
In total	226,521	317,700	-	-

Movements on the account of inventory write-down to net realisable value during 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Carrying amount at 1 January	2,547	3,253	-	-
Additional impairment	260	685	-	-
Reversal of impairment	(141)	(1,391)	-	-
Carrying amount at 31 December	2,666	2,547	-	-

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2019 amounted to EUR 2,359 thousand (31 December 2018: EUR 2,645 thousand). Movements on the account of inventory write-down to net realisable value were recognised in the statement of profit or loss and other comprehensive income within 'Other expenses'.

15 Prepayments and deferred expenses

The Group's and the Company's non-current prepayments as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Prepayments for property, plant, equipment	27,809	23,621	-	-
Prepayments for investments (Note 9)	-	-	144	816
Carrying amount	27,809	23,621	144	816

The Group and the Company's current prepayments as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Prepayments for natural gas	8,880	5,806	-	-
Deposits related to Power Exchange	19,195	14,783	-	-
Deferred expenses	1,306	1,030	-	-
Prepayments for other goods and services	13,693	2,154	32	62
Prepayments for electricity due to over-declaration by customers	5,194	4,439	-	-
Other prepayments	2,280	922	-	-
Assets under contracts with customers	-	1,521	-	-
Carrying amount	50,548	30,655	32	62

16 Trade receivables

The Group and the Company trade receivables comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Amounts receivable under contracts with customers				
Receivables for electricity	77,439	76,265	-	-
Receivables for gas from non-household customers	31,990	49,180	-	-
Receivables for gas from household customers	3,479	4,287	-	-
Receivables for contractual works	593	1,206	-	-
Receivables for sale of heat	545	657	-	-
Receivables for exported electricity and electricity produced abroad	621	430	-	-
Receivables for IT and telecommunications services	173	768	-	-
Other trade receivables	11,082	19,450	-	-
Amounts receivable under other contracts				
Receivables for lease of assets	722	464	-	-
In total	126,644	152,707	-	-
Less: impairment of trade receivables	(8,777)	(9,587)	-	-
Carrying amount	117,867	143,120	-	-

As at 31 December 2019 and 2018, the Group had not pledged the claim rights to trade receivables.

Under the contracts with customer, no interest is charged on trade receivables and the settlement period is usually between 15 and 30 days. For terms and conditions on settlement between related parties see Note 41.

All amounts are in EUR thousand unless otherwise stated

Impairment of amounts receivable (lifetime expected credit losses)

The Company/Group assesses material amounts receivable individually, and all immaterial amounts collectively.

The Company's/Group's management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on a particular debtor and a significant increase in the credit risk of that particular debtor.

For the purpose of determining the lifetime expected credit losses of amounts receivable in case of a collective assessment, the Company/Group uses the loss ratio matrix. A different loss ratio matrix is established in different subsidiaries of the Company and in each separate group of consumers.

The table below presents information on the Group's trade receivables under contracts with customers as at 31 December 2019 that are assessed on a collective basis using the loss ratio matrix.

Group	Loss ratio	Trade receivables	Decrease in value
Not past due	0,19	46,329	86
Up to 30 days	4,22	8,337	352
30–60 days	7,44	833	62
60-90 days	17,24	609	105
90-120 days	23,16	354	82
More than 120 days	49,88	13,018	6,494
As at 31 December 2019	10,34	69,480	7,181

The table below presents information on the Group's trade receivables under contracts with customers as at 31 December 2018 that are assessed on a collective basis using the loss ratio matrix.

Group	Loss ratio	Trade receivables	Decrease in value
Not past due	0,60	115,118	692
Up to 30 days	2,36	6,147	145
30–60 days	8,07	1,958	158
60-90 days	9,95	643	64
90-120 days	16,71	802	134
More than 120 days	55,71	12,862	7,166
As at 31 December 2018	6,08	137,530	8,359

The table below presents information on the Group's trade receivables under contracts with customers that are assessed on an individual basis:

Group	31 December 2019		31 December 2018	
	Trade receivables	Decrease in value	Trade receivables	Decrease in value
Not past due	53,824	437	13,573	151
Up to 30 days	550	35	486	-
30–60 days	214	28	18	1
60-90 days	78	21	4	-
90-120 days	109	7	20	-
More than 120 days	2,389	1,068	1,076	1,076
Carrying value	57,164	1,596	15,177	1,228

Movements on the account of impairment of trade receivables during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Balance as at 1 January	9,587	10,156	-	-
Effect of first-time adoption of IFRS 9	-	526	-	-
Restated balance at 1 January	9,587	10,682	-	-
Charge of the year	1,010	2,316	-	-
Write-down of doubtful receivables	-	(544)	-	-
Impairment/(reversal of impairment)	(1,820)	(2,867)	-	-
Balance as at 31 December	8,777	9,587	-	-

Impairment of receivables was recognised in the profit and loss section of the statement of profit or loss and other comprehensive income.

The fair values of trade receivables as at 31 December 2019 and 2018 approximated their carrying amounts.

17 Other receivables

The Group and the Company other receivables comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Value added tax	6,402	13,245	-	2
Unbilled accrued revenue from electricity sales (including related VAT)	4,943	5,296	-	-
Accrued amounts receivable for natural gas	73	-	-	-
Accrued revenue related to the capacity reserve and PSO services (Notes 4.22, 4.23)	15,566	-	-	-
Current portion of finance lease relating to energy saving services (Note 11)	520	377	-	-
Amount receivable on disposal of Energetikų mokymų centras VŠĮ	-	-	-	36
Amounts receivable on disposal of property, plant and equipment	-	4,424	-	-
Management fee receivable	-	-	355	573
Other receivables	4,349	2,193	25	20
In total	31,853	25,535	380	631
Less: impairment of other receivables	(73)	(99)	-	-
Carrying amount	31,780	25,436	380	631

The fair values of other receivables as at 31 December 2019 and 2018 approximated their carrying amounts.

18 Current loans

The Group and the Company's current loans as at 31 December 2019 and 2018 comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Current portion of non-current loans	-	-	35,449	57,702
Current loans	-	-	229,030	126,304
Interest receivable	-	-	7,276	5,318
In total	-	-	271,755	189,324
Less: impairment of loans	-	-	(806)	-
Carrying amount	-	-	270,949	189,324

As at 31 December 2019, the Company calculated 12-month expected credit losses related to non-current and current loans receivable. The calculated expected credit losses were assessed as insignificant, therefore they were not accounted for in the Company's statement of financial position as at 31 December 2019 (Note 10).

All current loans of the Company accounted for as at 31 December 2019 and 31 December 2018 have been issued to the subsidiaries with a variable interest rate, which is set by adding an interest margin to the basic interest rates linked with EURIBOR. The weighted average interest rates (%) on current loans:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Variable interest rate	-	-	0.943	0.538

19 Cash and cash equivalents

The Group and the Company cash and cash equivalents as at 31 December 2019 and 2018 comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Cash balances in bank accounts	131,837	127,835	144	231
	131,837	127,835	144	231

Cash, cash equivalents and a bank overdraft include the following for the purposes of the cash flow statement:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Cash and cash equivalents	131,837	127,835	144	231
Bank overdraft	(191,291)	(42,260)	(191,291)	(42,260)
Carrying amount	(59,454)	85,575	(191,147)	(42,029)

The fair values of cash and cash equivalents as at 31 December 2019 and 2018 approximated their carrying amounts.

Customer cash held in the Group's subsidiary Elektroninių mokėjimų agentūra UAB depository accounts (Note 4.26), which is not recognized in the Group statement of financial position amounted to EUR 2,752 thousand as at 31 December 2019 (31 December 2018: EUR 6,428 thousand).

Under the loan agreements signed with the banks, the Group has pledged current and future cash inflows (Note 1). As at 31 December 2019, the balance of cash pledged amounted to EUR 18,607 thousand (31 December 2018: EUR 15,455 thousand).

20 Assets held-for-sale

Non-current assets held-for-sale comprised as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Property, plant and equipment and investment property	4,753	35,589	77	77
Disposal group	35,890	30,117	-	-
Investments in subsidiaries	-	-	7,064	7,064
	40,643	65,706	7,141	7,141

Movements of non-current assets held-for-sale during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Net book value at 1 January	65,706	79,301	7,141	14,717
Disposals	(33,392)	(45,520)	-	-
Write-offs	(19)	(91)	-	-
Purchase of non-current assets for sale purposes	-	30	-	-
In-kind contribution for increase of issued capital of Ignitis gamyba AB	-	-	-	(8,061)
Result of revaluation of non-current assets	(608)	-	-	-
Change of other assets attributed to disposal group	11,394	6,503	-	-
Depreciation of property, plant and equipment accounted for in disposal group	-	(1,841)	-	-
Increase (decrease) in property, plant and equipment and investment property	(572)	(2,774)	-	-
Impairment loss recognised on the remeasurement to fair value less costs to sell	(4,067)	-	-	-
Reclassified (to) from:				
Intangible assets	15	10	-	(1,874)
Property, plant, and equipment incl. impairment	1,062	17,367	-	-
Investment property	1,124	12,721	-	-
Investments in subsidiaries	-	-	-	2,359
Net book amount as at 31 December	40,643	65,706	7,141	7,141

Within the line item of the disposal group the Company recognised investment of subsidiary Transporto valdymas UAB of EUR 2,359 thousand, which is intended to be disposed by the Company.

The Company's line item of the disposal group also includes investment of subsidiary Duomenų logistikos centras UAB of EUR 4,705 thousand, which is intended to be disposed by the Company.

The Group's line item of the disposal group includes assets of subsidiaries Transporto valdymas UAB and Duomenų logistikos centras UAB amounting to EUR 35,890 thousand (31 December 2018: EUR 30,117 thousand), which is intended to be disposed by the Group. Liabilities of EUR 5,322 thousand being disposed along with these assets were reported under the line item 'Liabilities related to non-current assets held for sale' (31 December 2018: EUR 2,986 thousand).

All amounts are in EUR thousand unless otherwise stated

During 2019 the Group sold property classified as held for sale of EUR 33,392 thousand carrying value for EUR 33,673 thousand consideration.

Major classes of assets and liabilities classified as held for sale

Major classes of the Group assets classified as held for sale:

	Group	
	At 31 December 2019	At 31 December 2018
ASSETS		
Non-current assets		
Intangible assets	12	12
Property, plant and equipment	7,650	13,392
Right-of-use assets	3,079	-
Non-current receivables	18,013	11,518
Total non-current assets	28,754	24,922
Current assets		
Inventories	20	52
Prepayments and deferred expenses	155	192
Trade receivables	1,180	1,067
Other receivables	4,055	3,884
Prepaid income tax	23	-
	5,433	5,195
Assets held for sale	1,703	-
Total current assets	7,136	5,195
TOTAL ASSETS	35,890	30,117

Major classes of the Group liabilities attributable to assets classified as held for sale:

	Group	
	At 31 December 2019	At 31 December 2018
LIABILITIES		
Non-current liabilities		
Non-current lease liabilities	2,503	-
Deferred income tax liabilities	1,002	882
Provisions	8	20
Other non-current amounts payable and liabilities	230	257
Total non-current liabilities	3,743	1,159
Current liabilities		
Lease liabilities	593	-
Trade payables	139	314
Advances received	174	277
Income tax payable	132	125
Other current amounts payable and liabilities	541	1,111
Total current liabilities	1,579	1,827
TOTAL LIABILITIES	5,322	2,986

21 Equity

As at 31 December 2019 and 2018, the Company's share capital amounted to EUR 1,212,156,294. As at 31 December 2019 and 2018, 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 2019 and 31 December 2018, all shares were fully paid.

22 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 issued capital. The legal reserve shall not be used for payment of dividends and is formed to cover future losses only.

As at 31 December 2019, the Group's legal reserve amounted to EUR 112,647 thousand (31 December 2018: EUR 49,851 thousand). In 2019 the Group transferred EUR 62,796 thousand (2018: EUR 3,339 thousand) to the legal reserve.

In 2019, the Company transferred EUR 60,909 thousand (2018: EUR 5,295 thousand) to the legal reserve. The Company's legal reserve as at 31 December 2019 was not fully formed.

Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment and emission allowances due to increase in value. The revaluation cannot be used to cover losses.

As at 31 December 2019, the Group's revaluation reserve amounted to EUR 146,993 thousand (31 December 2018: EUR 162,935 thousand).

This reserve was not formed by the Company as its property, plant and equipment is carried at cost.

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the appropriation of the next year's profit. As at 31 December 2019, the Group accounted for the result of the translation of the Group's net investments (31 December 2018: EUR 16 thousand) in Ignitis Polska Sp. z o.o. and Pomerania Inwall Sp. z o.o., a Poland-based companies indirectly controlled by the Company, in the amount of EUR 11 thousand into the Group's presentation currency within the item of other reserves. No other reserves were formed by the Company as at 31 December 2019 and 2018.

23 Loans and bonds

Borrowings

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current				
Bonds issued	590,120	588,999	590,120	588,999
Bank borrowings	231,809	146,411	49,345	82,246
Current				
Current portion of non-current loans	37,454	61,819	32,901	57,401
Bank overdraft	191,291	42,260	191,291	42,260
Accrued interest	5,446	5,467	5,446	5,461
Total borrowings	1,056,120	844,956	869,103	776,367

Non-current borrowings by maturity:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
1 and 2 years	32,104	61,987	7,049	32,156
2 and 5 years	95,719	84,424	21,148	21,467
After 5 years	694,106	588,999	611,268	617,622
In total	821,929	735,410	639,465	671,245

All borrowings of the Group and the Company are denominated in euros.

On 29 January 2019, the Company signed the new credit agreement with AB "SEB bankas", based on which the Company is able to borrow EUR 100 million. The repayment term is before 29 January 2021.

On 16 September 2019, the Company signed the new credit agreement with SEB bankas AB, based on which the Company is able to borrow EUR 70 million and the due date of which is before 16 September 2020.

The loan agreements provide for financial and non-financial covenants that the individual Group entities are obliged to comply with. All Group companies complied with the covenants as at 31 December 2019 and 2018.

As at 31 December 2019, the Group unwithdrawn balance of loans and bank overdrafts amounted to EUR 283,593 thousand (31 December 2018: EUR 469,939 thousand).

As at 31 December 2019, the Company's unwithdrawn balance of loans and bank overdrafts amounted to EUR 108,709 thousand (31 December 2018: EUR 157,740 thousand).

Under the agreement with later amendments for the loan of EUR 190 million designated for the funding of the construction of a co-generation power plant in Vilnius signed between Vilniaus kogeneracinė jėgainė UAB and the European Investment Bank (EIB) on 5 December 2016, Vilniaus kogeneracinė jėgainė UAB and the Group have to comply with the requirements related to equity and other financial indicators. Vilniaus kogeneracinė jėgainė UAB has assumed the following commitments:

- The State of Lithuania, directly or indirectly, will retain control over Vilniaus kogeneracinė jėgainė UAB;
- Vilniaus kogeneracinė jėgainė UAB financial commitments that are not secured with collateral (a pledge or guarantee) will not exceed EUR 30,000 thousand.

The Group has assumed the following commitments:

- The Group's net debt-to-equity ratio will not exceed one;
- The ratio of net debt to EBITDA adjusted for one-off items will not exceed 4, except the December in 2018, 2019 and 2020 when the ratio will not exceed 4.5, 5.4 and 4.5;
- The Group's subsidiaries borrowings, secured by guarantees or other fulfilment measures, of all current and future obligation and Group's property, plant and equipment ratio will not exceed the rate of 0.16.

As at 31 December 2019 and 2018, the Group and the Company complied with the requirements defined in the loan agreement with the European Investment Bank.

On 14 July 2017, the Company issued bonds worth of EUR 300 million at the stock exchange. The Company pays 2.000% annual interest on bonds issued. Net cash inflows from the issue of bonds amount to EUR 293,834 thousand. Bonds will be redeemed on 14 July 2027.

On 3 July 2018, the Company placed EUR 300 million worth 10 years' duration green bond issue (hereinafter "the Issue"). Annual interest of 1.875% will be payable for bonds and they have been issued with the yield of 2.066%. Net cash inflows from the issue of bonds amount to EUR 294,345,619 and comprise 98.290% of the nominal value of the bond issue.

In the statement of financial position as at 31 December 2019 and 31 December 2018, the Company accounted for the bond issue debt of EUR 590,120 thousand and EUR 588,999 thousand, respectively. In year 2019, expenses related to interest on the issued bonds totalled EUR 12,731 thousand (in 2018: EUR 9,471 thousand). The accrued amount of coupon payable as at 31 December 2019 amounted to EUR 5,446 thousand (31 December 2018: EUR 5,461 thousand).

On 4 July 2018, the Company signed additional arrangement amending and supplementing the terms of the overdraft agreement signed with Swedbank, whereby the overdraft amount was increased from EUR 100,000 thousand to EUR 130,000 thousand. The Group's and the Company's withdrawn part of the overdraft amounted to EUR 71,524 thousand as at 31 December 2019 (31 December 2018: EUR 42,260 thousand).

As at 31 December 2019, the Company's non-current borrowings of EUR 49,345 thousand (31 December 2018: EUR 82,247 thousand) comprised debts to SEB Bankas AB and OP Corporate bank plc under the loan refinancing agreement of Energijos skirstymo operatorius AB. The current portion of non-current borrowings relating to the loan refinancing of Energijos skirstymo operatorius AB amounted to EUR 32,902 thousand (31 December 2018: EUR 57,401 thousand).

In year 2018, the Company's subsidiary Ignitis gamyba AB repaid a part of the non-current loan to SEB Bankas AB prior to maturity, which was granted on 21 February 2014. On 2 July 2017, the credit agreement for the amount of EUR 60,000 thousand was signed with SEB Bankas AB.

The weighted average interest rates (%) on the Group's and the Company's borrowings payable with fixed and variable interest rates:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current borrowings				
Fixed interest rate	2.069	2.128	2.054	2.147
Variable interest rate	0.958	1.027	0.911	0.877
Current loans				
Variable interest rate	0.446	0.410	0.446	0.410

The Group and the Company cannot identify the final beneficiaries that acquired the placed issues of bonds, thus according to a separate interpretation of the State Tax Inspectorate current coupon payments are subject to the tax at a rate of 15% by the Group and the Company. In 2019, the Group and the Company paid income tax of individuals of EUR 900 thousand on a EUR 6,000 thousand coupon paid to investors.

Net debt reconciliation

This note sets out an analysis of net debt, a non-IFRS measure for the purposes of these financial statements presentation defined by management as presented below.

Net debt balances as at 31 December 2019 and 31 December 2018:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Cash and cash equivalents	(131,837)	(127,835)	(144)	(231)
Term deposits	-	(656)	-	-
Borrowings payable after one year	821,929	735,410	639,465	671,245
Borrowings payable within one financial year (including overdraft and accrued interest)	234,191	109,546	229,638	105,122
Lease liabilities	42,218	19,554	840	-
Net debt	966,501	736,019	869,799	776,136
Cash and cash equivalents	(131,837)	(128,491)	(144)	(231)
Borrowings – fixed interest rate	723,784	614,600	596,406	594,459
Borrowings – variable interest rate	374,554	249,910	273,537	181,908
Net debt	966,501	736,019	869,799	776,136

For the purpose of net debt calculation, borrowings comprise only debts to financial institutions institutions and other debts relating to financing.

All amounts are in EUR thousand unless otherwise stated

Reconciliation of the Group's net debt balances and cash flows from financing activities:

Group	Assets		Lease liabilities		Borrowings			Total
	Cash	Term deposits	Non-current lease liabilities	Current lease liabilities	Non-current portion of non-current borrowings	Current portion of non-current borrowings	Current borrowings	
Net debt at 1 January 2018	(171,756)	-	187	145	480,068	119,599	14,082	442,325
Cash changes								
Increase (decrease) in cash and cash equivalents (including overdraft)	43,921	-	-	-	-	-	31,605	75,526
Proceeds from borrowings	-	-	-	-	29,888	27,922	-	57,810
Issue of bonds	-	-	-	-	294,346	-	-	294,346
(Repayments) of borrowings	-	-	-	-	(11,857)	(143,564)	-	(155,421)
Lease payments (principal portion)	-	-	-	(544)	-	-	-	(544)
Interest paid	-	-	-	(5)	-	(3,633)	(6,764)	(10,402)
Non-cash changes								
Accrual of interest payable	-	-	-	5	805	2,836	8,796	12,442
Reclassification of interest payable from trade payables	-	-	-	-	-	797	-	797
Acquisition of subsidiaries	-	(656)	18,960	806	153	-	8	19,271
Expenses of issue of bonds	-	-	-	-	(131)	-	-	(131)
Reclassifications between items	-	-	(4,813)	4,813	(57,862)	57,862	-	-
Net debt at 31 December 2018	(127,835)	(656)	14,334	5,220	735,410	61,819	47,727	736,019
Net debt at 1 January 2019	(127,835)	(656)	14,334	5,220	735,410	61,819	47,727	736,019
Cash changes								
Increase (decrease) in cash and cash equivalents (including overdraft)	(4,002)	-	-	-	-	-	149,031	145,029
Proceeds from borrowings	-	-	-	-	130,937	-	-	130,937
(Repayments) of borrowings	-	-	-	-	-	(70,394)	-	(70,394)
(Repayments) of borrowings related to investments in subsidiaries	-	-	-	-	-	(7,209)	-	(7,209)
Lease payments (principal portion)	-	-	-	(7,379)	-	-	-	(7,379)
Interest paid	-	-	-	(444)	-	(13,000)	(702)	(14,146)
Redemption of term deposits	-	656	-	-	-	-	-	656
Non-cash changes								
Accrual of interest payable	-	-	-	551	-	14,618	772	15,941
Recognition of lease liabilities under IFRS 16	-	-	8,292	6,274	-	-	-	14,566
Lease contracts concluded	-	-	12,188	6,592	-	-	-	18,780
Reclassification of interest payable from (to) trade payables	-	-	-	-	-	-	(91)	(91)
Acquisition of subsidiaries	-	-	-	-	7,202	-	-	7,202
Reclassifications between items	-	-	1,674	(1,674)	(51,620)	51,620	-	-
Reclassifications to liabilities attributable to assets held for sale	-	-	(2,670)	(740)	-	-	-	(3,410)
Net debt at 31 December 2019	(131,837)	-	33,818	8,400	821,929	37,454	196,737	966,501

All amounts are in EUR thousand unless otherwise stated

Reconciliation of the Company's net debt balances and cash flows from financing activities for the year 2019:

Company	Assets		Lease liabilities		Borrowings		Total
	Cash	Non-current lease liabilities	Current lease liabilities	Non-current portion of non-current borrowings	Current portion of non-current borrowings	Current borrowings	
Net debt as at 1 January 2018	(52,517)	-	-	433,668	95,013	2,794	478,958
Cash changes							
Increase (decrease) in cash and cash equivalents (including overdraft)	52,286	-	-	-	-	42,260	94,546
Issue of bonds	-	-	-	294,346	-	-	294,346
(Repayments) of borrowings	-	-	-	-	(95,052)	-	(95,052)
Interest paid	-	-	-	-	(1,615)	(6,131)	(7,746)
Non-cash changes							
Accrual of interest payable	-	-	-	805	1,614	8,798	11,217
Expenses of issue of bonds	-	-	-	(133)	-	-	(133)
Reclassifications between items	-	-	-	(57,441)	57,441	-	-
Net debt as at 31 December 2018	(231)	-	-	671,245	57,401	47,721	776,136
Net debt as at 1 January 2019	(231)	-	-	671,245	57,401	47,721	776,136
Cash changes							
Increase (decrease) in cash and cash equivalents (including overdraft)	87	-	-	-	-	149,031	149,118
(Repayments) of borrowings	-	-	-	-	(57,401)	-	(57,401)
Lease payments (principal portion)	-	-	(239)	-	-	-	(239)
Interest paid	-	-	(3)	-	(12,593)	(710)	(13,306)
Non-cash changes							
Accrual of interest payable	-	-	3	12,731	983	695	14,412
Recognition of lease liabilities under IFRS 16	-	253	771	-	-	-	1,024
Lease contracts concluded	-	33	41	-	-	-	74
Reclassification of interest payable from (to) trade payables	-	-	(19)	-	-	-	(19)
Reclassifications between items	-	277	(277)	(44,511)	44,511	-	-
Net debt as at 31 December 2019	(144)	563	277	639,465	32,901	196,737	869,799

All amounts are in EUR thousand unless otherwise stated

24 Lease liabilities

Movements in the Group lease liabilities during the year 2019 and 2018:

Group	Non-current lease liabilities		Current lease liabilities		Total
	Lease liabilities	Financial lease liabilities	Lease liabilities	Financial lease liabilities	
Opening book value as at 1 January 2018	-	187	-	145	332
Cash changes					
Lease payments (principal portion)	-	-	-	(544)	(544)
Interest paid	-	-	-	(5)	(5)
Non-cash changes					
Interest charges	-	-	-	5	5
Acquisition of subsidiaries	-	18,960	-	806	19,766
Reclassifications between items	-	(4,813)	-	4,813	-
Carrying amount at 31 December 2018	-	14,334	-	5,220	19,554
Opening book value as at 1 January 2019	-	14,334	-	5,220	19,554
Cash changes					
Lease payments (principal portion)	-	-	(1,976)	(5,403)	(7,379)
Interest paid	-	-	(346)	(98)	(444)
Non-cash changes					
Recognition of lease liabilities under IFRS 16	8,292	-	6,274	-	14,566
Lease contracts concluded	12,188	-	6,592	-	18,780
Interest charges	-	-	350	201	551
Reclassifications between items	6,550	(4,876)	(6,550)	4,876	-
Reclassifications to liabilities attributable to assets held-for-sale	(2,670)	-	(740)	-	(3,410)
Carrying amount at 31 December 2019	24,360	9,458	3,604	4,796	42,218

Movements in the Company lease liabilities during the year 2019 and 2018:

Company	Non-current lease liabilities	Current lease liabilities	Total
Opening book value as at 1 January 2019	-	-	-
Cash changes			
Lease payments (principal portion)	-	(239)	(239)
Interest paid	-	(3)	(3)
Non-cash changes			
Recognition of lease liabilities under IFRS 16	253	771	1,024
Lease contracts concluded	33	41	74
Interest charges	-	3	3
Reclassifications between items	277	(277)	-
Reclassifications to trade and other payables	-	(19)	(19)
Carrying amount at 31 December 2019	563	277	840

The Group and the Company minimum payments under leases are as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Minimum payments				
Within the first year	8,927	5,421	280	-
From two to five years	19,466	5,011	565	-
More than five years	29,497	9,477	-	-
In total	57,889	19,909	845	-
Future finance costs				
Within the first year	(527)	(201)	(3)	-
From two to five years	(1,348)	(129)	(2)	-
More than five years	(13,797)	(25)	-	-
In total	(15,672)	(355)	(5)	-
Carrying amount	42,218	19,554	840	-

The Group's finance lease liabilities related to the development of the wind power parks amounted to EUR 14,220 thousand as at 31 December 2019 (31 December 2018: EUR 19,367 thousand). Average interest rates paid for finance lease of the equipment of the wind power parks is 1.05% as at 31 December 2019 (31 December 2018: 1.05%). As at 31 December 2019, the validity terms of the effective finance lease contracts for the equipment of the wind power parks expire in the period from the year 2021 to 2022.

All amounts are in EUR thousand unless otherwise stated

25 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 the deferred income taxes relate to the same fiscal authority. Dynamics of deferred income tax assets and liabilities during the reporting period were as follows:

Group	As at 31 December 2017	Recognised in profit or loss	IFRS 15 adoption impact	Recognised in other comprehensive income	Reclassifications to liabilities attributable to assets held-for-sale	As at 31 December 2018 (restated)	Recognised in profit or loss	Deferred taxes recognized in business combination	Reclassifications to liabilities attributable to assets held-for-sale	As at 31 December 2019
Deferred tax assets										
Deferred income	3,647	(1,405)	-	-	-	2,242	(948)	-	-	1,294
Accrued expenses	2,217	(579)	-	-	(4)	1,634	315	-	-	1,949
Impairment of assets	5,849	212	-	-	(5)	6,056	763	-	-	6,819
Tax losses carry forward	8,754	1,543	-	-	-	10,297	(1,801)	-	-	8,496
Difference of financial and tax value of assets identified on business combination	2,587	2,807	-	-	-	5,394	1,001	-	-	6,395
Other	1,789	760	-	-	-	2,549	(421)	-	15	2,143
Deferred income tax asset before valuation allowance	24,843	3,338	-	-	(9)	28,172	(1,091)	-	15	27,096
Less: decrease in realized value	(4,721)	2,416	-	-	-	(2,305)	(1,689)	-	-	(3,994)
Deferred income tax asset, net	20,122	5,754	-	-	(9)	25,867	(2,780)	-	15	23,102
Deferred income tax liabilities										
Valuation of PP&E (increase/decrease in value)	21,035	(14,606)	-	21,732	(891)	27,270	130	-	(138)	27,262
Differences in depreciation rates	19,434	1,376	-	-	-	20,810	4,780	-	28	25,618
Tax relief on acquisition of PP&E	4,156	(6,985)	-	-	-	(2,829)	(5,419)	-	-	(8,248)
Difference on recognition of income from new customer connection services	2,504	6,860	(10,997)	-	-	(1,633)	335	-	-	(1,298)
Result of valuation of financial assets	80	(129)	-	-	-	(49)	-	-	-	(49)
Difference of financial and tax value of assets identified on business combination	1,878	(271)	-	-	-	1,607	-	4,384	-	5,991
Derivative financial instruments	-	2,632	-	-	-	2,632	(2,626)	-	-	6
Other	-	-	-	-	-	-	458	-	-	458
Deferred income tax liability, net	49,087	(11,123)	(10,997)	21,732	(891)	47,808	(2,342)	4,384	(110)	49,740
Deferred income tax, net	(28,965)	16,877	10,997	(21,732)	882	(21,941)	(438)	(4,384)	125	(26,638)

The Group's statement of financial position presents separately deferred tax assets (EUR 11,770 thousand) and deferred tax liabilities (EUR 38,408 thousand) related to different subsidiaries. The net balance of deferred tax is liability of EUR 26,639 thousand.

Dynamics of the Company's deferred income tax assets and liabilities during the reporting period were as follows:

Company	As at 31 December 2017	Recognised in profit or loss	Recognised in other comprehensive income	As at 31 December 2018	Recognised in profit or loss	Recognised in other comprehensive income	As at 31 December 2019
Deferred tax assets							
Accrued expenses	112	57	-	169	(6)	-	163
Tax losses carry forward	437	471	-	908	589	(897)	600
Deferred income tax asset, net	549	528	-	1,077	583	(897)	763
Deferred income tax liabilities							
Result of valuation of financial assets	-	-	-	-	-	-	-
Deferred income tax liability, net	-	-	-	-	-	-	-
Deferred income tax, net	549	528	-	1,077	583	(897)	763

As at 31 December 2019, the Group did not recognise deferred income tax assets on accumulated tax loss from operations of EUR 14,961 thousand (31 December 2018: EUR 15,369 thousand).

26 Grants and subsidies

The balance of grants comprises grants to finance acquisition of assets, funds received from the EU structural funds, plant and equipment and intangible assets received in return for no consideration. Movements on the account of grants in year 2019 and 2018 were as follows:

Group	Asset-related grants			In total
	Asset-related grants and other projects of the Group	Projects for renovation, improvement of environmental and safety standards	Grants for emission allowances	
Balance at 31 December 2017	49,543	149,569	1,199	200,311
Depreciation of property, plant and equipment	(1,450)	(7,820)	-	(9,270)
Grants received	25,523	-	2,555	28,078
Emission allowances utilised	-	-	(175)	(175)
Grants attributable to revaluation of property plant and equipment	(8,928)	(768)	-	(9,696)
Grants reversed due to recognised impairment of PP&E and other reasons	(1)	-	-	(1)
Grants transferred to short term liabilities	-	(373)	-	(373)
Balance at 31 December 2018	64,687	140,608	3,579	208,874
Balance at 1 January 2019	64,687	140,608	3,579	208,874
Depreciation of property, plant and equipment	(1,250)	(7,761)	-	(9,011)
Grants received	64,032	16	4,131	68,179
Emission allowances utilised	-	-	(93)	(93)
Balance at 31 December 2019	127,469	132,863	7,617	267,949

Amortisation of grants is accounted for under depreciation and amortisation in the statement of profit or loss and other comprehensive income and reduces depreciation expenses of related property, plant and equipment. Grants reversed are reported within revaluation/impairment of assets and reduce these expenses.

Grants reversed due to recognised impairment of property, plant, and equipment of subsidiary Energijos skirstymo operatorius AB in year 2018 amounted to EUR 8,928 thousand.

27 Contract liabilities and other prepayments

Deferred income

Movements in the Group and the Company's deferred income during the year 2019 and 2018:

Group	2019		2018	
	Current portion	Non-current portion	Current portion	Non-current portion
Balance as at 1 January	9,122	136,438	5,242	54,509
Impact of first-time adoption of IFRS 15 on the electricity distribution activity	-	-	(877)	74,195
Restated balance at 1 January	9,122	136,438	4,365	128,704
Received during the period	-	21,654	-	19,052
Recognised as income	(5,555)	-	(6,561)	-
Reclassifications between items	6,182	(6,182)	11,318	(11,318)
Balance as at 31 December	9,749	151,910	9,122	136,438

Deferred income are the Group liabilities under contracts with customers and 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.

Amortisation of deferred income from connection of customers is included in the revenue line item in profit or loss.

Advances received

The Group and the Company's advances received as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Current prepayments under contracts with customers (contract liabilities)	51,665	44,912	-	-
Current prepayments under other agreements:	80	4,854	52	51
In total	51,745	49,766	52	51

28 Provisions

The Group and the Company's provisions as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Non-current	35,564	35,355	-	-
Current	19,818	5,558	-	806
Total amount of provisions	55,382	40,913	-	806

All amounts are in EUR thousand unless otherwise stated

Dynamics of the Group's provisions during the year 2019 and 2018 were as follows:

	Emission allowance liabilities	Provisions for employee benefits	PSO provision	Decommissioning provision	Provisions for servitudes	Provisions for registration of protection zones	Provisions for onerous contracts	Provision for capacity reserve and system services	Total
Balance as at 1 January 2018	529	3,862	5,474	-	-	-	-	-	9,374
Increase during the period	894	1,222	2,730	1,573	28,649	-	-	-	35,068
Utilised during the period	(908)	(2,270)	(159)	-	(743)	-	-	-	(4,080)
Revaluation of emission allowances utilised	380	-	-	-	-	-	-	-	380
Result of change in actuarial assumptions	-	54	-	-	117	-	-	-	171
Balance as at 31 December 2018	895	2,868	7,554	1,573	28,023	-	-	-	40,913
Balance as at 1 January 2019	895	2,868	7,554	1,573	28,023	-	-	-	40,913
Increase during the period	478	209	-	1,431	324	8,328	675	12,718	24,163
Utilised during the period	(987)	(1,013)	(7,554)	-	(931)	-	(314)	-	(10,799)
Revaluation of emission allowances utilised	93	-	-	-	-	-	-	-	93
Result of change in actuarial assumptions	-	877	-	-	(464)	-	-	-	413
Balance as at 31 December 2019	479	2,941	-	3,004	26,952	8,328	361	12,718	54,783

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.

As at 31 December 2019, the provision for one-off compensations to third parties for damages related to the establishment of statutory servitudes (effective until 10 July 2004) amounted to EUR 26,952 thousand (31 December 2018: EUR 28,023).

As at 31 December 2019 the Company had not accounted for any provision. As at 2018, the Company's provisions consisted of the guarantee issued to the subsidiaries for the loans granted to subsidiary Energetikos paslaugų ir rangos organizacija UAB under cash-pool agreements.

Provision for capacity reserve and system services

According to regulation applicable to providing of capacity reserve services companies that discontinue capacity reserve services shall reimburse any discrepancies between the projected and actual costs of providing these services to the transmission system operator if the costs actually incurred by the Group were less than the revenues received from the transmission system operator. If the actual costs incurred by the Group were higher than the income of the transmission system operator, the transmission system operator shall reimburse this amount to the Group.

With regard to the resolution above, the Group recognises assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level, regardless of the difference under the of provision of services in the future. As at 31 December 2019, EUR 12,718 thousand of provision was recognized in the Group statement of financial position (Note 4.21).

29 Other non-current amounts payable and liabilities

The Group and the Company's Other non-current amounts payable and liabilities as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018 (restated)	As at 31/12/2019	As at 31/12/2018
Non-current trade payables	550	729	-	-
Other payables	333	1,158	-	378
Carrying amount	883	1,887	-	378

30 Trade payables

The Group and the Company's Other trade payables as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Amounts payable for electricity and heavy fuel oil	49,847	47,324	-	-
Amounts payable for contractual works, services	1,841	5,683	-	-
Amounts payable for gas	7,718	28,406	-	-
Other payables	19,161	11,824	259	947
Carrying amount	78,567	93,237	259	947

31 Other current amounts payable and liabilities

The Group and the Company's other current amounts payable and liabilities as at 31 December 2019 and 2018 were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Payroll related liabilities	6,942	5,048	80	127
Amounts payable for property, plant and equipment	26,056	41,293	-	-
Taxes (other than income tax)	15,357	15,795	1,155	201
Accrued expenses	9,710	7,847	1,316	1,032
Derivative financial instruments	3,047	35	-	-
Put option redemption liability (Note 4.8)	16,660	16,660	-	-
Non-controlling interest dividends	2,947	2,874	-	-
Unpaid shares of Vilniaus kogeneracinė jėgainė UAB	-	-	11,314	-
Other amounts payable and liabilities	4,324	13,130	-	13
Carrying amount	85,043	102,682	13,865	1,373

Derivative financial instruments

As at 31 December 2019 and 2018, assets and liabilities related to the Group and the Company's agreements on derivative financial instruments were as follows:

	Group		Company	
	As at 31/12/2019	As at 31/12/2018	As at 31/12/2019	As at 31/12/2018
Other current assets				
Derivative financial instruments linked to the market prices of electricity	752	1634	-	-
Derivative financial instruments linked to the market price of gas	5,036	412	-	-
In total	5,788	2,046	-	-
Other non-current amounts payable and liabilities				
Derivative financial instruments linked to the market prices of electricity	1,408	18	-	-
Derivative financial instruments linked to the market price of gas	1,639	17	-	-
In total	3,047	35	-	-

Trading of derivatives linked to electricity market prices is carried out by the subsidiary Ignitis UAB (until 1 June 2019 – Energijos tiekimas UAB) on the NASDAQ Commodities trading platform. Ignitis UAB is currently the only Lithuanian electricity provider, active in the stock market. Trading of derivatives can reduce electricity price fluctuation risks, as well as to carry out commercial activities, making use of fluctuations in market prices. At the NASDAQ Commodities exchange, Ignitis UAB performs the market maker functions in respect of financial instruments linked to Latvian electricity market prices (EPAD Riga).

Measurement of fair value of derivative financial instruments

The Group and the Company recognise derivative financial instruments at fair value. The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2019:

Group	Level 1	Level 2	Level 3	In total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Assets:				
Derivatives linked to the market prices of electricity	13	739	-	752
Derivatives linked to the market price of gas	-	5,036	-	5,036
Liabilities:				
Derivatives linked to the market prices of electricity	(500)	(908)	-	(1,408)
Derivatives linked to the market price of gas	-	(1,639)	-	(1,639)
In total	(487)	3,228	-	2,741

The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2018:

Group	Level 1	Level 2	Level 3	In total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Assets:				
Derivatives linked to the market prices of electricity	76	1,558	-	1,634
Derivatives linked to the market price of gas	412	-	-	412
Liabilities:				
Derivatives linked to the market prices of electricity	-	(18)	-	(18)
Derivatives linked to the market price of gas	-	(17)	-	(17)
In total	488	1,523	-	2,011

Derivatives linked to the market price of electricity acquired at the Nasdaq Commodities exchange are attributed to Level 1 of the fair value hierarchy. These instruments are measured according to the prices of products announced by the Nasdaq Commodities exchange.

The Group attributes to Level 2 of the fair value hierarchy derivative financial instruments linked with the Lithuanian/Latvian and Estonian/Finish electricity price areas. Derivatives acquired directly from other market participants (over-the-counter contracts) and physical transmission rights acquired are estimated based on the prices of the NASDAQ Commodities exchange by additionally adding price area differences (a potential risk) that are evaluated using the expert method.

32 Revenue from contracts with customers

Disaggregated revenue information

The Group and the Company's revenue from contracts with customers during 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Electricity related revenue				
Revenue from the sale of electricity	127,445	120,607	-	-
Revenue from public electricity supply	137,190	95,066	-	-
Revenue from sale of produced electricity	69,290	68,438	-	-
Income from capacity reserve services	62,258	53,072	-	-
Electricity distribution	359,579	325,877	-	-
Gas related revenue				
Revenue from gas sales	210,857	256,608	-	-
Gas security component income	29,372	22,805	-	-
Gas distribution	34,870	41,632	-	-
Other revenue				
Revenue from Public service obligation services	13,855	16,261	-	-
Sales of inventories and scrap	6,340	-	-	-
Connection fees	5,294	7,385	-	-
Proceeds from the sale of heat energy	3,631	3,911	-	-
Management fee income	-	-	3,283	3,188
Other revenue from contracts with customers	19,365	12,616	-	-
Total	1,079,347	1,024,278	3,283	3,188

The Group and the Company's revenue based on the timing of transfer of goods or services

	Group		Company	
	2019	2018	2019	2018
Performance obligation settled during the period	1,073,007	1,024,278	3,283	3,188
Performance obligation settled at a specific point in time	6,340	-	-	-
In total	1,079,347	1,024,278	3,283	3,188

Contract balances

Balances arising from contracts with customers as at the end of the year 2019 and 2018 are as follows:

	Note	Group		Company	
		2019	2018	2019	2018
Contracts' with clients assets					
Trade receivables*	16	117,145	142,656	-	-
Other receivables	17	-	-	380	631
Prepayments and deferred expenses	15	-	1,521	-	-
Contracts' with clients liabilities					
Advances received	27	51,665	44,912	-	-
Deferred income	27	161,659	145,559	-	-

* Accounts receivables related to lease contracts are excluded

Contract assets

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under the contracts. Recognised expected credit losses if any are disclosed in the Notes 15-17.

Contract liabilities

	Note	Group		
		31/12/2019	31/12/2018	01/01/2018
Prepayments under contracts with customers	27	51,665	44,912	24,801
Deferred income from new customers' connection fees	27	161,659	145,559	133,069
Total				
Current		61,414	54,034	29,166
Non-current		151,910	136,437	128,704

Deferred income: revenue relating to new customers connection fees services is recognised over time although the customer pays up-front in full for these services. The revenue of these services is recognised over the period which is the average useful life of related items of property, plant and equipment (Note 2.22).

Rights to returned goods assets and refund liabilities

Under the Group's contracts related to sales presented below the customers have no rights to return the electricity/gas that was consumed and therefore no refund liabilities and corresponding adjustments to revenue is recognised for those goods:

- Revenue from the sale of electricity
- Revenue from public electricity supply
- Revenue from sale of produced electricity
- Income from capacity reserve services
- Electricity distribution
- Revenue from gas sales
- Gas distribution
- Connection fees
- Proceeds from the sale of heat energy

Public service obligations and liquefied natural gas terminal security components are funds that are received as compensations regarding the electricity capacity reserve services, electricity production from renewable sources and services of gas supply as designated gas supplier.

The Group does not have any significant contracts with the customers' right to return goods.

Performance obligations

Revenue from the gas and electricity sale, supply, distribution and sale of thermal energy is recognized monthly upon the transfer of gas/electricity/thermal energy based on the actual consumption by customers which is determined according to the readings of gas/electricity/thermal energy meters. Payment terms are defined 30 days. There are no warranties specified in the contracts.

Revenue from connection fees is deferred and recognized as revenue over the estimated average useful life of assets providing the connection service, being 27 years for electricity grid and 46-55 years on for gas grid. Connection fees received from customers which are deferred are accounted as liabilities under connection contracts with customers in the statement of financial position.

Sales of inventory and scrap are recognized as revenue upon delivery of goods on the basis of invoices to customers, which are issued immediately after the sale of goods recognised. Payment terms are defined 30 days.

The remaining performance obligations expected to be recognised after the end of the financial year relate to new customers connection fees:

	Group		
	31/12/2019	31/12/2018	01/01/2018
More than one year	151,910	136,437	128,704
Within one year	9,749	9,122	4,365
Total liability under connection contracts	161,659	145,559	133,069

33 Other income

The Group and the Company's other income during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Rent income	1,923	8,440	2	170
Compensation for alleged damage of Alstom Power Ltd.	9,276			
Derivatives (commodities)	(7,437)	28,693	-	-
Interest on late payments equivalent to interest	890	69	-	-
Gain/(loss) on disposal of non-current assets	1,213	4,527	-	-
Other income	5,415	4,053	23	533
In total	11,280	45,782	25	703

The Group provides 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 profit or loss on a proportionate basis over the entire lease term.

34 Purchases of electricity, gas for trade and related services

The Group and the Company's purchases of electricity, gas for trade and related services during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Costs of purchases of gas for trade	218,096	258,434	-	-
Purchases of electricity and related services	488,746	499,493	-	-
Purchases of sub-contractual services	4,827	10,535	-	-
In total	711,669	768,462	-	-

35 Other expenses

The Group and the Company's other expenses during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Taxes	6,177	6,329	27	246
Write-offs of property, plant and equipment	4,235	5,005	-	-
Customer service	4,561	4,367	-	-
Telecommunications and IT services	4,216	4,041	409	401
Transport	4,032	3,065	112	155
Utilities	2,683	2,351	104	770
Write-offs of non-current and current amounts receivable (bad debts)	1,507	2,012	-	-
Short-term and low-value lease (Note 7)	208	1,159	-	193
Consultation services	1,443	1,538	444	720
Expenses of low-value inventories	1,671	1,179	-	-
Personnel development	903	1,003	120	189
Business trips	619	408	44	59
Business support services	-	-	717	318
Expenses related to emission allowances, their revaluation and provisions	367	(8,933)	-	-
Inventory write-down/(reversal)	(27)	(718)	-	-
Provision for guarantees for the fulfilment of obligations of the subsidiaries	-	-	(806)	(2,097)
Other expenses	4,613	3,337	720	403
Carrying amount	37,208	26,144	1,891	1,357

Following are the services rendered by the audit firm to the Group and the Company during the year 2019 and 2018:

	Group		Company	
	2019	2018	2019	2018
Audit of the financial statements under the agreements	390	186	27	11
Assurance and other related services	22	93	19	67
Tax consultation services	52	44	52	7
Expenses of other services	55	10	21	22
Carrying amount	519	333	119	107

36 Finance income

The Group and the Company's finance income during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Interest income at the effective interest rate	1,547	1,427	15,500	10,040
Other income from financing activities	646	194	2	29
In total	2,193	1,621	15,502	10,069

The Company's interest income

The Company earns interest income from long-term and short-term loans, the majority of which is granted to the Group companies (Note 10, 18). In 2019, the Company received EUR 14 017 thousand (in 2018: EUR 5,389 thousand) interest income, which is presented in the cash flow statement under 'Interest received'.

The Group's interest income

The Group's interest on disposal of LitGrid AB (Note 10) in year 2019 amounted to EUR 1,017 thousand (in 2018: EUR 1,102 thousand). In 2019, the Group received EUR 1,017 thousand (in 2018: EUR 1,105 thousand) interest income, which is presented in the cash flow statement under 'Interest received'.

37 Finance expenses

The Group and the Company's finance expenses during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Interest expenses	14,737	12,442	14,411	11,217
Interest and discount expense on lease liabilities	551	-	2	-
Negative effect of changes in exchange rates	146	21	16	18
Other expenses of financing activities	3,399	2,436	2,586	934
In total	18,833	14,899	17,015	12,169

The Company's interest expenses

The Company incurs interest expense on long-term and short-term loans payable and bonds issued (Note 23). In year 2019, the Company paid interest in the amount of EUR 13,306 thousand (in 2018: EUR 7,746 thousand), which are presented in the cash flow statement under 'Interest paid'.

The Group's interest expense

The Group incurs interest expense on long-term and short-term loans payable and bonds issued (Note 23). In 2019, the Group paid interest in the amount of EUR 14,146 thousand (in 2018: EUR 10,402 thousand), which are presented in the cash flow statement under 'Interest paid'.

38 Income tax expenses

Income tax expenses for the period comprise current year income tax and deferred income tax. Under the Republic of Lithuania Law on Corporate Income Tax, the income tax rate of 15% was assessed on profit in year 2019 and 2018. The Group and the Company's income tax expenses during the year 2019 and 2018 were as follows:

	Group		Company	
	2019	2018	2019	2018
Income tax expenses (benefit) for the reporting period	6,739	4,604	-	(7)
Deferred income tax expenses (benefit)	438	(16,877)	(583)	(528)
Income tax expenses (benefit) recognised in profit or loss	7,177	(12,273)	(583)	(535)

Income tax on the Group 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	
	2019	2018	2019	2018
Profit (loss) before tax	66,153	(34,244)	31,620	44,153
Income tax expenses (benefit) at tax rate of 15%	9,923	(5,137)	4,743	6,623
Expenses not deductible for tax purposes	4,202	10,199	519	3,275
Income not subject to tax	(2,434)	(1,135)	(3,888)	(10,426)
Reversal of impairment of investments in subsidiaries	-	-	(1,957)	-
Income tax relief for the investment project	(5,057)	(12,692)	-	-
Adjustments in respect of prior years	12	(425)	-	(7)
Tax losses utilised	(1,544)	(790)	-	-
Realisation of unrecognised tax losses	1,689	(2,416)	-	-
Unrecognised deferred income tax on tax losses	386	123	-	-
Income tax expenses (benefit)	7,177	(12,273)	(583)	(535)

Dynamics of the Group current income tax liabilities during the year 2019 and 2018 were as follows:

	2019		2018	
	Prepaid income tax	Income tax payable	Prepaid income tax	Income tax payable
Balance as at 1 January	4,192	(4,544)	2,102	(3,695)
Income tax expenses	-	(6,739)	-	(4,604)
Income tax and Advance income tax payments	762	3,789	2,463	3,862
Offset of advance income tax	(1,186)	1,186	990	(990)
Offset with other taxes	(1,334)	178	(1,444)	1,293
Adjustments for prior periods	-	(40)	81	(411)
Balance as at 31 December	2,434	(6,171)	4,192	(4,545)

All amounts are in EUR thousand unless otherwise stated

Dynamics of the Company's income tax liabilities during the year 2019 and 2018 were as follows:

	2019		2018	
	Prepaid income tax	Income tax payable	Prepaid income tax	Income tax payable
Balance as at 1 January	15	-	147	-
Income tax expenses	-	-	-	7
Offset of advance income tax	(15)	-	(138)	-
Adjustments for prior periods	-	-	6	(7)
Balance as at 31 December	-	-	15	-

39 Dividends

Dividends declared by the Company in year 2019 and 2018:

	2019		2018	
	(EUR'000) EUR	Dividends per share	(EUR'000) EUR	Dividends per share
Ignitis grupė UAB	13,000	0.0031	78,265	0.0187
Number of shares	4,179,849,289		4,179,849,289	

Dividends declared by the Group companies in year 2019:

Declared at	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Non-controlling interest dividends
05/03/2019	Duomenų logistikos centras UAB	2018	0.0290	405	324	82
	Ignitis grupės paslaugų centras, UAB	2018	0.0150	327	164	7
30/04/2019	Verslo aptarnavimo centras UAB	2018	0.2100	123	63	2
30/04/2019	Tuuleenergia OÜ	2018	1.8000	899	899	-
29/04/2019	Eurakras UAB	2018	11.7200	1,870	-	-
12/04/2019	Ignitis gamyba AB	2 nd half of 2018	0.0100	6,480	6,274	206
27/09/2019	Ignitis gamyba AB	1 st half of 2018	0.0290	18,792	18,194	599
				28,896	25,918	896

Dividends declared by the Group companies in year 2018:

Declared at	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Non-controlling interest dividends
13/03/2018	EurakrasUAB	2017	0.05900	1,690	1,690	-
20/03/2018	Ignitis UAB	2017	0.17401	3,000	3,000	-
26/03/2018	Ignitis gamyba AB	2 nd half of 2017	0.01400	8,891	8,602	289
30/03/2018	Energijos skirstymo operatorius AB	2 nd half of 2017	0.02535	22,679	21,541	1,138
04/04/2018	Ignitis UAB	2017	0.15837	4,571	4,571	-
05/04/2018	Verslo aptarnavimo centras UAB	2017	0.00026	268	137	3
11/04/2018	Technologijų ir inovacijų centras UAB	2017	0.00666	148	74	2
17/04/2018	Litgas UAB	2017	0.02654	1,194	1,194	-
27/04/2018	Duomenų logistikos centras UAB	2017	0.02200	306	243	62
28/09/2018	Energijos skirstymo operatorius AB	1 st half of 2018	0.01400	12,525	11,896	628
27/09/2018	Ignitis gamyba AB	1 st half of 2018	0.02300	14,904	14,430	474
				70,176	67,378	2,596

40 Contingent liabilities and commitments

Guarantees issued and received by the Company

The Company's guarantees issued as at 31 December 2019 and 2018 were as follows:

Name of the subsidiary	Beneficiary of the guarantee	Issue at	Maturity	Maximum amount of the guarantee	As at 31/12/2019	As at 31/12/2018
Vilniaus kogeneracinė jėgainė UAB	European Investment Bank	30/12/2016	06/12/2033	190,000	99,881	19,796
Kauno kogeneracinė jėgainė UAB	Swedbank AB	18/10/2017	18/10/2022	61,200	31,125	5,147
Vėjo gūsis UAB	Swedbank lizingas, UAB	29/1/2019	28/2/2022	9,258	6,797	-
Vėjo vatas UAB	Swedbank lizingas, UAB	29/1/2019	28/2/2021	9,687	7,413	-
Ignitis grupė UAB Group companies	Ignitis grupė UAB Group companies	2016	30/06/2019	-	54,106	73,902
				270,145	199,322	98,845

The Group companies can lend each other their funds by virtually transferring them to the Group's corporate account (cashpool) opened at the bank Swedbank AB. The Company guarantees that funds borrowed by the Group companies at the cashpool account are timely repaid to the Group companies that have lent funds. As at 31 December 2019, the amount lent and borrowed by the Group companies at the Group's cashpool account totalled EUR 225,783 thousand (31 December 2018: EUR 201,012 thousand), including the amount of EUR 171,708 thousand (31 December 2018: EUR 126,304 thousand) lent by the Company (Note 18). As at 31 December 2019, the total amount of the Company's guarantees was EUR 199,322 thousand (31 December 2018: EUR 98,845 thousand).

On 5 December 2016, the Company and the European Investment Bank (Luxembourg) signed a guarantee and indemnity agreement under which the Company secured fulfilment of all current and

All amounts are in EUR thousand unless otherwise stated

future obligations of subsidiary Vilniaus kogeneracinė jėgainė UAB in the 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. The guarantee covers the repayment of all types of amounts payable related to the usage of the provided loan to the European Investment Bank. The maximum amount of the guarantee has not been established. As at 31 December 2019, amounts withdrawn by Vilniaus kogeneracinė jėgainė UAB from the loan provided by the European Investment Bank totalled EUR 99,881 thousand (31 December 2018: EUR 19,796 thousand).

On 31 May 2017, the Group's subsidiary Kauno kogeneracinė jėgainė UAB and Swedbank AB signed the credit agreement for the amount of EUR 120,000,000 (one hundred twenty million). The loan is designated for the financing of construction works of the co-generation power plant complex in Kaunas and the financing of the following construction-related expenses of the project being implemented: financing of payments under the agreements on construction, supply of equipment, electrification, general construction works, general systems, installation of automation systems, insurance, management of the construction site, project management, as well as the financing of advance payments (credit funds cannot be used for the financing of interest and unforeseen expenditure), excl. VAT. As at 31 December 2019, amounts withdrawn from the loan provided totalled EUR 61,029 thousand (31 December 2018: EUR 10,092 thousand). Monetary liabilities of Kauno kogeneracinė jėgainė UAB to the bank under the credit agreement are secured by the guarantees issued by the Company and Fortum OYJ (Finland) in proportion to the number of shares of Kauno kogeneracinė jėgainė UAB held, i.e. 51% of shares is held by the Company and 49% is held by FORTUM HEAT LIETUVA UAB.

Contract liabilities

According to the provisions of the natural gas supply agreement with Gazprom OAO, the subsidiary Ignitis UAB did not purchase 46.9 million. m³ out of agreed minimum quantity of 400 million m³ of natural gas in 2018. Shortage of consumption according to the provisions of the said contract is allowed to be "withdraw" within the next 3 years upon fulfilment of the contractual advance payments and consumption of natural gas. Unused natural gas had no impact on the Company's 2018 year financial position, however, in year 2019 the subsidiary paid EUR 7.6 million, i.e. made an advance payment for part of 2018 year for amount of natural gas not consumed.

In December 2019 the subsidiary has agreed supply of natural gas for the year 2020 with Gazprom OAO. This agreement contains a take-or-pay clause under which the Company has committed to purchase a minimum amount of natural gas. According to the current consumption forecasts, the Group plans to purchase the entire quantity planned for the year 2020.

Capital expenditure commitments

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2019, the Group commitments to purchase or construct property, plant and equipment amounted to EUR 128,504 thousand (31 December 2018: EUR 490,432 thousand).

Rate adjustments due to profit earned in preceding periods exceeding the return on investment permitted by NERC (2019 year)

Electricity distribution

Based on its Resolution No O3E-569 of 17 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2020*, NERC set the price cap for the distribution service for the year 2020 and, based on its Certificate No O5E-517 of 16 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2020*, NERC stated that the level of expected revenue from electricity distribution activities carried out by the Group in year 2020 is reduced by EUR 41,875 thousand, including the impact of time value of money of EUR 1,388 thousand. The amount is the remaining part of the return on investments in year 2016-2017 that was earned by the Group in excess of the level set by NERC for these years.

In establishing the price caps for year 2019 - 2020, NERC determined the amount of investments (i.e. the asset base) on the basis of the historical cost of the asset base rather than the asset base determined using the LRAIC (long-run average incremental cost) model approved by NERC. In its certificate No O5E-517 of 16 October 2019 *On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2020*, NERC stated the following: <... in order to maintain an integral financing of required and supported investments into assets optimized according to the LRAIC model the impact of said correction will be evaluated in further regulatory period while establishing the price cap (new regulatory period) according to the LRAIC model used for setting the price for distribution services ...>.

In year 2018, the Group revalued its property, plant and equipment of electricity business segment to fair value. As an input to the fair value measurement, the independent property valuator used the assumption that going forward, NERC will use LRAIC model in its full extent (i.e. not adjusted) in determining the amount of the asset base.

Gas distribution

Based on its Resolution No O3E-365 on 31 October 2019 *On the correction of the price caps for natural gas distribution services provided by Energijos skirstymo operatorius AB for the year 2020*, NERC set the price cap for the natural gas distribution service to be effective for the year 2020 and, based on its Certificate No O5E-538 of 21 October 2019 *On the correction of price caps for natural gas distribution services provided by Energijos skirstymo operatorius AB for the year 2020*, NERC stated that the level of revenue from natural gas distribution activities carried out by the Group in year 2020 is reduced by EUR 9,791 thousand, including the impact of time value of money of EUR 264 thousand. The amount of the remaining part of the return on investments in year 2014-2018 that was earned by the Group in excess of the level set by NERC (EUR 19,054 thousand) will be assessed when establishing the natural gas distribution price for the upcoming periods.

Litigations

The plaintiff Vilniaus energija UAB has filed a claim with the Vilnius Regional Court regarding the award of EUR 9,284 thousand from Energijos skirstymo operatorius AB. The plaintiff claims to have incurred EUR 9,284 thousand losses due to the fact that Energijos skirstymo operatorius AB during the year 2014 purchased only the electricity produced by the Plaintiff's cogeneration plants in the technical minimum regime. Energijos skirstymo operatorius AB has not recognised any provision related to the claim, because the description for PSO service provisions and other applicable legislation do not impose any obligation on the Defendant to purchase all electricity generated by the Plaintiff. On 17 March 2017, the Plaintiff updated the subject-matter of the claim and requested the court to award

All amounts are in EUR thousand unless otherwise stated

damages in the amount of EUR 10,712 thousand. On 18 September 2017, the court of first instance passed the ruling whereby the claim was rejected in full. The claimant appealed against the court ruling. By the ruling of 6 November 2018, the Court of Appeal of Lithuania rejected the ruling of Vilnius Regional Court of 18 September 2017 in part and remitted the case back to the court of first instance. On 22 January 2019, the claimant filed an appeal in cassation regarding the part of the ruling of the Court of Appeal of Lithuania dated 6 November 2018 that was left unchanged and the Supreme Court of Lithuania accepted the appeal. The investigation of the case has been suspended in the court of first instance by the request of the claimant until part of the case is reviewed under the cassation procedure.

By the ruling of 6 May 2019, the Vilnius Regional Court resumed proceedings following the ruling of the Supreme Court of Lithuania of 17 April 2019 to terminate the appeal proceedings. Vilnius Regional Court passed a judgement in the civil case on 28 January 2020, where it satisfied partially the claim of plaintiff Vilniaus energija UAB against the Company and recognized that Vilniaus energija UAB had been discriminated with regard to other combined heat and power plants. The court adjudged losses of EUR 2,2 million from the subsidiary Energijos skirstymo operatorius AB for behalf of Vilniaus energija UAB and 6 percent annual interest from the adjudged amount calculated from the day when the civil case was lodged in the court until complete execution of the judgement. Vilniaus energija UAB asked in another part to recognize that it had been discriminated with regard to supply of balancing energy and to adjudge reimbursement of losses from the subsidiary Energijos skirstymo operatorius AB. This part of the civil claim of Vilniaus energija UAB was rejected. The judgement of Vilnius Regional Court has not yet become effective. Due to the uncertainty of the outcome of the case Energijos skirstymo operatorius AB has not recognised any provision related to the claim.

On 27 February 2020, the subsidiary Energijos skirstymo operatorius AB filed an appeal regarding the part of the judgement of Vilnius Regional Court dated 28 January 2020 that satisfied the claim of UAB Vilniaus energija. The subsidiary Energijos skirstymo operatorius AB contents Vilnius Regional Court's conclusions that the subsidiary Energijos skirstymo operatorius AB discriminated Vilniaus energija UAB with regard to other combined heat and power plants when purchasing eligible electricity. Based on the management estimates, the amount of energy purchased by the subsidiary Energijos skirstymo operatorius AB beyond the technical minimum amount of the producers has been distributed to all producers on a pro-rata basis, so that there is no breach of competition law. In the absence of unlawful actions by the subsidiary Energijos skirstymo operatorius AB, there is no obligation on the subsidiary Energijos skirstymo operatorius AB to compensate for the loss which Vilniaus energija UAB alleges it has suffered. In accordance of this management's estimate Energijos skirstymo operatorius AB has not recognised any provision related to the claim.

Dispute over resolutions adopted by NERC relating to revenue from the regulated activities is disclosed in Note 4.25.

On 16 May 2019, the plaintiff JUMPS UAB brought an action before the court of first instance against subsidiary Ignitis gamyba UAB with a view to obtaining a declaration that the plaintiff cannot be, or should be, subject to excessive damages under the contract for the sale of property. The amount of the claim is EUR 392,854. In the subsidiary's view, the claim is unfounded and the penalties are properly imposed under the penalty clause in the contract with the plaintiff. According to the management's assessment the subsidiary Ignitis gamyba UAB recognized the amount received as income in the statement of profit or loss and other comprehensive income under 'Other income'.

Based on a press release of the European Commission, the Group informs that on 3 June 2019, the European Commission has opened an in-depth investigation to assess whether EU State aid rules were respected when allocating public interest service monies to the Group in the context of a strategic reserve measure. The Group's management is not aware of any circumstances that could result in potential significant liabilities for the Group in this respect, so therefore no provisions are recognized.

41 Related-party transactions

As at 31 December 2019 and 2018, 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 and their close family members.

The Group transactions with related parties during 2019 and year-end balances arising on these transactions as at 31 December 2019 are presented below:

Related parties	Accounts Receivable	Accounts Payable	Sales	Purchases	Finance income (costs)
	As at 31/12/2019	As at 31/12/2019	2019	2019	2019
EPSO-G UAB	158,943	-	32	-	1,017
LitGrid AB	10,297	14,749	75,474	134,833	-
Amber Grid AB	4,203	6,329	32,575	62,409	1
Baltpool UAB	11,682	10,177	39,300	36,980	-
TETAS UAB	84	869	555	6,115	6
GET Baltic	754	-	26,050	2,110	-
Associates and other related parties of the Group	116	217	62	1,217	-
Total	186,079	32,341	174,048	243,664	1,024

The Group transactions with related parties during the year 2018 and year-end balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Accounts Receivable	Accounts Payable	Sales	Purchases	Finance income (costs)
	As at 31/12/2018	As at 31/12/2018	2018	2018	2018
EPSO-G UAB	158,693	-	35	-	1,102
Litgrid AB	7,106	15,049	63,838	129,627	-
Amber Grid AB	3,730	6,019	38,153	1,811	-
Baltpool UAB	8,265	15,962	59,654	54,324	-
TETAS UAB	1,381	4,421	1,387	91,711	-
LITGRID Power Link Service UAB	36	-	60	-	-
GET Baltic UAB	724	12	11,436	6,103	-
Associates and other related parties of the Group	279	120	380	394	-
Total	180,214	41,583	174,943	283,970	1,102

The major sale and purchase transactions with related parties in 2019 and 2018 comprised transactions with the companies controlled by the Lithuanian Ministry of Energy: Litgrid AB and BALTPOOL UAB. The Group's purchases from these entities mainly included purchases of electricity, capacity, transmission, PSO services and gas. Sales transactions included sales of electricity, capacity and PSO services

All amounts are in EUR thousand unless otherwise stated

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 were not disclosed.

The Company transactions with related parties during the year 2019 and year-end balances arising on these transactions as at 31 December 2019 are presented below:

Related parties	Accounts Receivable As at 31/12/2019	Accounts Payable As at 31/12/2019	Sales 2019	Purchases 2019	Finance income 2019	Finance costs 2019
Subsidiaries						
Energijos skirstymo operatorius AB	608,849	-	1,446	-	9,708	-
Ignitis gamyba AB	42	-	478	-	-	-
Energetikos paslaugų ir rangos organizacija UAB	1,484	-	4	-	45	-
Elektroninių mokėjimų agentūra UAB	4	-	21	-	-	-
Energijos tiekimas UAB	-	-	96	-	91	-
Duomenų logistikos centras UAB	-	1	5	-	-	-
NT valdos UAB	-	-	30	-	3	-
Transporto valdymas UAB	25,539	10	-	100	358	1
Ignitis grupės paslaugų centras UAB	1,482	41	126	407	10	-
Ignitis UAB	90,964	-	424	-	911	-
Verslo aptarnavimo centras UAB	49	166	228	971	2	-
Vilniaus kogeneracinė jėgainė UAB	3,484	11,314	125	20	683	-
Eurakras UAB	24,754	-	10	-	709	-
Tuuleenergia OÜ	19,403	-	1	-	655	-
Kauno kogeneracinė jėgainė UAB	125	-	166	-	236	-
Vėjo gūsis UAB	7	-	-	-	75	-
Vėjo vatas UAB	2,766	-	-	1	133	-
Gamybos optimizavimas UAB	1	-	7	-	-	-
VVP investment UAB	403	-	-	-	14	-
Ignitis renewables UAB	57,096	-	59	-	805	-
Other related parties						
EPSO-G UAB	158,940	-	-	-	1,017	-
Total	995,392	11,532	3,226	1,499	15,455	1

The Company transactions with related parties during the year 2018 and year-end balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Accounts Receivable As at 31/12/2018	Accounts Payable As at 31/12/2018	Sales 2018	Purchases 2018	Finance income 2018	Finance costs 2018
Subsidiaries						
Energijos skirstymo operatorius AB	586,559	-	1,388	-	6,655	-
Ignitis gamyba AB	60	-	542	-	-	-
Energetikos paslaugų ir rangos organizacija UAB	1,250	-	74	-	151	-
Elektroninių mokėjimų agentūra UAB	3	-	33	-	-	-
Energijos tiekimas UAB	36,546	-	180	149	110	-
Litgas UAB	10	-	102	-	11	-
Duomenų logistikos centras, UAB	1	-	17	-	-	-
NT Valdos UAB	13	-	93	184	186	-
Transporto valdymas UAB	21,608	8	-	79	225	-
Ignitis grupės paslaugų centras UAB	1,684	107	99	390	10	-
Lietuvos dujų tiekimas UAB	14,130	-	187	-	75	-
Verslo aptarnavimo centras UAB	29	109	157	593	1	-
VAE SPB UAB	-	-	3	-	-	-
Vilniaus kogeneracinė jėgainė UAB	29	-	98	-	23	-
EurakrasUAB	24,756	-	11	-	709	-
Tuuleenergia OÜ	21,059	-	4	-	760	-
Energijos sprendimų centras UAB	-	-	31	-	-	-
Kauno kogeneracinė jėgainė UAB	69	-	155	-	5	-
Vėjo gūsis UAB	29	-	-	-	-	-
Vėjo vatas UAB	2,693	-	-	-	8	-
Other related parties						
EPSO-G UAB	158,658	-	-	-	1,102	-
Total	869,186	224	3,174	1,395	10,031	-

As at 31 December 2019, the Company accounted for EUR 806 thousand loan impairment related to EUR 1,480 thousand borrowings provided by the Company to the subsidiary Energetikos paslaugų ir rangos organizacija UAB at the Group's cash pool account.

As at 31 December 2018, the Company accounted for a provision amounting to EUR 806 thousand related to the guarantee issued to the subsidiaries for loans obtained by Energetikos paslaugų ir rangos organizacija UAB under the group account (cash pool).

The dividends declared in year 2019 and 2018 are disclosed in Note 39.

Terms of transactions with related parties

The payment terms set range from 15 to 90 days. Closing debt balances are not secured by pledges, they do not yield interest, and settlements occur in cash. There were no guarantees given or received in respect of the related party payables and receivable.

Compensation to key management personnel

	Group		Company	
	2019	2018	2019	2018
Wages and salaries and other short-term benefits to management personnel	4,578	3,681	1,170	815
Whereof: termination benefits and benefits to Board Members	433	402	118	118
Number of key management personnel	54	55	12	10

Management in the table above comprise heads of administration of all subsidiaries and their deputies.

42 Operating segments

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

In year 2018 a new strategy of the Group was approved. This strategy sets out four main lines of business for the Group - strategic generation, green generation, customers and solutions and distribution grid operator. Following the adoption of the new strategy, steps have been taken to refine the actions due. The scope of the operating segments has been modified following the changes as well as due to the changes in the Group's structure, which were completed in 2nd quarter of 2019, management now follows its performance by operating segments that are consistent with the line of business specified in the Group's strategy:

- electricity supply and distribution and gas distribution segment renamed Networks and now includes only the distribution of electricity and gas activities carried out by Energijos skirstymo operatorius AB. Electricity public supply activity transferred to customers and solutions segment following the transfer from Energijos skirstymo operatorius AB to Ignitis UAB of this business activity;
- electricity generation segment separated into two segments – Flexible generation and Green generation. Flexible generation segment includes activities carried out by Ignitis gamyba AB (except Kaunas Algirdas' Brazauskas Hydro Power Plant, Kruonis pumped storage power plant, Biofuel and Steam Boiler). Green generation segment includes activities carried out by Ignitis gamyba AB (Kaunas Algirdas' Brazauskas Hydro Power Plant, Kruonis pumped storage power plant, Biofuel and Steam Boiler), Vilniaus kogeneracinė jėgainė UAB, Kauno kogeneracinė jėgainė UAB, Eurakras UAB, Tuuleenergia OU, Vėjo gūsis UAB, Vėjo vatas UAB, VVP Investment UAB, Ignitis renewables UAB, Pomerania Invall Sp. z o.o.;
- Trade in gas and trade in electricity segments merged into one segment Customers and solutions. It includes activities carried out by Ignitis UAB, Energijos Tiekimas UAB (until 31 May 2019), Ignitis Eesti OÜ, Ignitis Latvija SIA, Ignitis Polska Sp. z o.o. Electricity public supply activity took over from networks segment following the transfer from Energijos skirstymo operatorius AB to Ignitis UAB of this business activity.

The following services and entities comprise the other segments:

- support services (Ignitis grupės paslaugų centras UAB, Verslo aptarnavimo centras UAB);
- non-core activities (Energetikos paslaugų ir rangos organizacija UAB, Duomenų logistikos centras UAB, NT Valdos UAB, Transporto valdymas UAB);
- service entities (Elektroninių mokėjimų agentūra UAB, Gamybos Optimizavimas UAB);
- as well as parent company Ignitis grupė UAB, which does not constitute a separate operating segment, however it is disclosed separately, as its net profit exceeds 10% of profit (before elimination adjustments) of all profit generating segments. The Group's support service entities and special purpose entities are aggregated to a single segment as none of them individually meet recognition criteria of an operating segment.

2018 comparative information has been restated and disclosed accordingly.

The Group has single geographical segment – the Republic of Lithuania, electricity sales in Latvia, Estonia and Poland are not significant for the Group. 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 adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBIDTA – a non-IFRS alternative performance measure). Another performance measure is adjusted Earnings Before Interest and Taxes (EBIT – a non-IFRS alternative performance measure). Both measures are calculated starting from data presented in the financial statements prepared in accordance with IFRS as adjusted by management for selected items which are not defined by IFRS.

The Group management calculates EBITDA as follows:

Net revenue (Note 32, 33) -
Operating expenses +
Depreciation and amortisation expenses (Note 5, 6, 7, 26) +
Expenses on revaluation and provisions for emission allowances (Note 35) +
Impairment expenses of non-current assets (Note 6, 20) +
Write-off expenses of non-current assets (Note 35)
<hr/> <hr/>
EBITDA

The Group management calculates EBIT as follows:

Net revenue (Note 32, 33) -
Operating expenses +
Expenses on revaluation and provisions for emission allowances (Note 35) +
Impairment expenses of non-current assets (Note 6, 20) +
Write-off expenses of non-current assets (Note 35)
<hr/> <hr/>
EBIT

Ignitis grupė UAB, company code 301844044, Žveju str. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

All amounts are in EUR thousand unless otherwise stated

Management's adjustments, adjusted EBITDA and EBIT

Management's adjustments used in calculating adjusted EBITDA and EBIT:

Segment / Management's adjustments	2019	2018
Networks		
Temporary regulatory differences of Energijos skirstymo operatorius AB	36,905	36,782
Cash effect restatement new connection points and upgrades of Energijos skirstymo operatorius AB	12,236	11,083
Compensation received for the previous periods	(2,613)	-
Result of disposal of non-current assets	(609)	-
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	502	(15)
Flexible generation		
Temporary regulatory differences of Ignitis gamyba AB	(6,279)	(4,449)
Received compensation related to carried out projects in previous periods	(9,276)	-
Temporary fluctuations in fair value of derivatives	431	-
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(1,054)	370
Green generation		
Temporary regulatory differences of Ignitis gamyba AB	544	(2,721)
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(3)	15
Customers and Solutions		
Temporary regulatory differences of Ignitis UAB	564	47,396
Temporary fluctuations in fair value of electricity and gas derivatives of Ignitis UAB and Energijos tiekimas*, UAB (until 31 May 2019)	16,373	(14,869)
Temporary regulatory differences of Litgas UAB	-	4,496
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	3,808	869
Other segments and consolidation adjustment		
Result of disposal of non-current assets	(595)	(4,526)
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(1,968)	169
Consolidation adjustment of cash effect restatement for new consumers connection of Energijos skirstymo operatorius AB	3,869	1,408
	52,835	76,008

Networks segment

Adjusted EBITDA and EBIT are calculated by adding management's adjustments that comprise the impact of the recalculation of regulated activity revenue of prior periods resulting from the National energy regulatory council's (NERC) resolutions and by deducting the current year difference arising between the return on investments permitted by the NERC and estimated by management. In management's opinion the adjusted EBITDA and EBIT more accurately present results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return on investments set by the NERC and the actual return on investments of prior periods that may have both positive and negative impact on the current year results. During 2019 the recalculation for prior periods amounted to EUR 61,724 thousand (EUR 75,205 thousand during 2018). The amounts are based on resolutions published by the NERC. During 2019 the recalculation for current year amounted to EUR (24,819) thousand (during 2018 EUR (38,423) thousand). Amounts for current year are based on management's estimate arising from comparison between the return on investments permitted by the NERC and estimated by management using actual financial and operating data for the current period.

Adjusted EBITDA and EBIT include adjustment of the changes in revenue accounting principles (15 IFRS) of new customers (hereinafter – NC) connections and upgrades. Management calculates this adjustment by eliminating NC connections and upgrades deferred income and adding NC generated cash flow for the current year. It enables to reflect the result for the reporting period more accurately and to better compare the results between the periods. Such calculation of the indicator shows generated cash flow by the Company for the services provided to the NC during the reporting period when those services were provided, i.e. fulfilment of the contractual connection obligations to the customers. During 2019 Group received EUR 21,660 thousand cash for new customer connection (EUR 19,052 thousand during 2018) and the deferred income amounted to EUR 5,555 thousand for 2019 (EUR 6,561 thousand for 2018), which is calculated by adding a consolidation adjustment to the standalone figures of Energijos skirstymo operatorius AB related to gas distribution assets fair value adjustments in the consolidated financial statements.

For adjusted EBITDA and EBIT calculation one-time factors are eliminated as well as the result of disposal of non-current assets as it is not related to the core activities of the Group as well as impairment and write-offs of current and non-current amounts receivables, loans, goods and others. This is done to reflect the result for the reporting period more accurately and to better compare the results between the periods.

During 2019 Energijos skirstymo operatorius AB received compensation from Litgrid AB for transmission (including systemic) services (for January and February 2016) amounting EUR 2,613 thousand. During 2019 the result of disposal of non-current assets of Energijos skirstymo operatorius AB amounted to EUR 609 thousand. Impairment and write-offs of current and non-current amounts receivables, loans, goods and others for 2019 amounted to EUR 502 thousand (EUR (15) thousand for 2018).

Flexible generation segment

Adjusted EBITDA and EBIT results are reported after the adjustments made by the management, eliminating the impact of one-time factors, and by measuring the change in revenue (and, consequently, adjusted EBITDA and EBIT) from Elektrėnai Complex regulated services provided by AB Ignitis gamyba, if current revenue was recognized at the amount consistent with the allowable income amount, calculated using NERC methodologies, taking into account allowable return on investments and actual service costs incurred during the period. The adjustment is based on management's estimation using actual costs for the current period and amounted to EUR (6,279) thousand for 2019 (EUR (4,449) thousand for 2018). Also in 2019 AB Ignitis gamyba received compensation of EUR 9,276 thousand for the indemnification of potentially inflicted damage by Alstom Power Ltd during the implementation of the project of the public limited liability company Lietuvos Elektrinė in 2005–2009 which is eliminated as a one-time factor related to prior periods. In management's opinion the adjusted EBITDA and EBIT more accurately presents results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return set by the NERC and the actual return as well as eliminating one-off factors that may have both positive and negative impact on the current year results.

Adjusted EBITDA and EBIT are calculated by eliminating the difference between derivatives, booked in the statement of the financial position, fair value (Mark to market) and acquisition price – unrealized profit. As to management's opinion the changes in the market value of open financial derivatives positions misrepresents the actual results of these financial instruments, therefore management evaluates only the results of closed positions – realized profit. This kind of activity in the segment started during 2019 and related eliminations amounted to EUR 431 thousand.

Green generation segment

Adjusted EBITDA and EBIT results are reported after the adjustments made by the management by measuring the change in revenue (and, consequently, EBITDA and EBIT) from Kruonis PSHP regulated services provided by AB Ignitis gamyba, if current revenue was recognized at the amount consistent with the allowable income amount, calculated using NERC methodologies, taking into account allowable return on investments and actual service costs incurred during the period. The adjustment is based on management's estimation using actual costs for the current period and amounted to EUR 544 thousand for 2019 (EUR (2,721) thousand for 2018). In management's opinion the adjusted EBITDA and EBIT more accurately presents results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return set by the NERC and the actual return as well as eliminating one-off factors that may have both positive and negative impact on the current year results.

Customer and Solutions segment

Adjusted EBITDA and EBIT are calculated by eliminating deviations arising in the regulated activities of gas and electricity supply due to the variance between actual and projected prices for the acquisition prices and other components established in the calculation methodology used by the NERC. These adjustments may have both positive and negative impact on the current year results and allow to reflect the result for the reporting period more accurately and better compare the results between the periods. During 2019 the effect was negative and according to management estimate amounted to EUR 564 thousand. During 2018 the effect was negative and amounted to EUR 47,396 thousand.

Adjusted EBITDA and EBIT results in 2018 were calculated by eliminating deviations arising from the difference between the projected and actual LNG acquisition and realisation prices and quantities, and other variances that occurred during the year between expenses included in the security component calculated by NERC methodology and actually incurred expenses and revenue. In 2018, these variances amounted to EUR 4,496 thousand.

Adjusted EBITDA and EBIT are adjusted for temporary fluctuations in the fair value of derivatives related to other periods (including contracts that are settled in the current period but are related to future periods). The Group uses derivatives for economic hedge of gas and electricity supply contracts, however does not fully apply hedge accounting, therefore the management eliminates them when analysing current period results. During 2019 related eliminations amounted to EUR 16,373 thousand (EUR (14,869) thousand during 2018).

Management's retrospective adjustments, adjusted EBITDA and EBIT for the previous financial period

During 2019 the Group amended financial statements issued for twelve month period ended 31 December 2018, accordingly the management revised management adjustments applied to segments for 2018 as follows:

Segment	2018 (revised)	2018 (reported)	Adjustment
Networks	47,865	79,807	(31,942)
Flexible generation	(4,449)	-	(4,449)
Green generation	(2,721)	-	(2,721)
Customers and Solutions	37,023	(5,805)	42,828
Other segments	(4,526)	-	(4,526)
Consolidation adjustments	1,408	-	1,408
Total	74,600	74,002	598

- Management adjustments applied to Networks segment are revised due to change in accounting treatment applied to new connection revenue recognition (Note 4.27) and recalculation of regulated income from electricity public supply activity transferred to customers and solutions segment;
- Management adjustments applied to Flexible generation and Green generation are revised due to correction of errors (note 4.26);
- Management adjustments applied to Customers and Solutions segment are revised due to recalculation of regulated income from electricity public supply activity transferred from networks segment;
- Management adjustments applied to Other segments segment are revised due to additional adjustment made by the management of eliminating result of disposal of non-current assets.

All amounts are in EUR thousand unless otherwise stated

The table below shows the Group information on segments for the year 2019:

2019	Networks	Flexible generation	Green generation	Customers and Solutions	Other segments		Elimination of inter-company transactions and consolidation eliminations	Management adjusted balances	Management adjustments	Unadjusted balances
					Parent Company	Other segments				
Sales revenue from external customers	459,712	64,575	83,813	519,865	25	10,318	3,869	1,142,177	(51,550)	1,090,627
Sales revenue from contracts with customers	454,976	63,451	83,496	526,928	2	8,654	3,869	1,141,376	(62,029)	1,079,347
Other income	4,736	1,124	317	(7,063)	23	1,664	-	801	10,479	11,280
<i>from which is dividend income</i>	-	-	-	-	-	-	-	-	-	-
Inter-segment revenue	5,056	689	1,636	9,858	29,201	36,906	(83,346)	-	-	-
Sales revenue from contracts with customers	4,696	563	81	9,503	3,281	16,517	(34,641)	-	-	-
Other income	360	126	1,555	355	25,920	20,389	(48,705)	-	-	-
<i>from which is dividend income</i>	-	-	1,870	12	25,918	4	(27,804)	-	-	-
Total revenue	464,768	65,264	85,449	529,723	29,226	47,224	(79,477)	1,142,177	(51,550)	1,090,627
Purchases of electricity, gas for trade, and related services, gas and heavy fuel oil	(183,335)	(28,391)	(27,698)	(500,494)	-	(3,980)	9,242	(734,656)	-	(734,656)
Wages and salaries and related expenses	(46,000)	(6,305)	(4,391)	(4,925)	(5,582)	(19,783)	-	(86,986)	-	(86,986)
Repair and maintenance expenses	(21,745)	(4,885)	(2,367)	(3)	-	(834)	36	(29,798)	-	(29,798)
Other expenses	(33,200)	(3,651)	(5,681)	(13,632)	(1,890)	(13,770)	40,722	(31,102)	(1,285)	(32,387)
EBITDA	180,488	22,032	43,442	10,657	(4,164)	8,853	(1,673)	259,635	(52,835)	206,800
from which:										
<i>Depreciation and amortization</i>	(81,620)	(11,592)	(12,693)	(6,884)	(273)	(3,408)	6,582	(109,888)	-	(109,888)
EBIT	98,868	10,440	30,749	3,773	(4,437)	5,445	4,909	149,747	(52,835)	96,912
Impairment and write-offs of property, plant and equipment	(8,210)	(275)	-	-	-	(5,163)	(41)	(13,689)	-	(13,689)
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(502)	1,054	3	(3,808)	11,653	56	(9,741)	(1,285)	1,285	-
Revaluation of emission allowances	-	(431)	-	-	-	-	-	(431)	-	(431)
Operating profit (loss)	90,156	10,788	32,622	(23)	33,134	342	(32,677)	134,342	(51,550)	82,792
Finance income	27	373	589	825	15,502	99	(15,222)	2,193	-	2,193
Finance costs	(10,265)	(792)	(2,710)	(1,655)	(17,015)	(523)	14,127	(18,833)	-	(18,833)
Result of associates	292	215	-	-	-	-	(507)	-	-	-
Profit (loss) before tax	80,210	10,584	30,501	(853)	31,621	(82)	(34,279)	117,702	(51,550)	66,152
Income tax expense	(6,866)	42	(4,713)	(238)	(314)	91	267	(11,731)	4,554	(7,177)
Net profit (loss)	73,344	10,626	25,788	(1,091)	31,307	9	(34,012)	105,971	(46,996)	58,975
Property, plant and equipment, intangible and right-of-use assets	1,628,771	392,012	546,704	42,974	2,798	22,885	(84,546)	2,551,598	-	2,551,598
Investment assets	181,371	434	256,519	2,088	36	15,207	-	455,655	-	455,655
Net debt	657,710	(43,151)	278,479	91,188	869,799	27,447	(914,971)	966,501	-	966,501
Adjusted EBITDA	180,488	22,032	43,442	10,657	(4,164)	8,853	(1,673)	259,635		
Management adjustments (for revenues)	(45,919)	15,124	(544)	(16,937)	-	595	(3,869)	(51,550)		
Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others	(502)	1,054	3	(3,808)	11,653	56	(9,741)	(1,285)		
Total EBITDA adjustments	(46,421)	16,178	(541)	(20,745)	11,653	651	(13,610)	(52,835)		
EBITDA	134,067	38,210	42,901	(10,088)	7,489	9,504	(15,283)	206,800		

All amounts are in EUR thousand unless otherwise stated

The table below shows the Group information on segments for the year 2018:

2018	Networks	Flexible generation	Green generation	Customers and Solutions	Other segments		Elimination of inter-company transactions and consolidation eliminations	Management adjusted balances	Management adjustments	Unadjusted balances
					Parent Company	Other segments				
Sales revenue from external customers	429,066	63,585	75,611	562,368	703	11,919	1,408	1,144,660	(74,600)	1,070,060
Sales revenue from contracts with customers	429,013	58,907	75,608	533,505	-	4,964	1,408	1,103,405	(79,127)	1,024,278
Other income	53	4,678	3	28,863	703	6,955	-	41,255	4,527	45,782
<i>from which is dividend income</i>	-	-	-	-	-	-	-	-	-	-
Inter-segment revenue	11,073	(648)	946	67,371	70,566	53,087	(202,395)	-	-	-
Sales revenue from contracts with customers	3,856	(216)	946	62,207	3,188	29,830	(99,811)	-	-	-
Other income	7,217	(432)	-	5,164	67,378	23,257	(102,584)	-	-	-
<i>from which is dividend income</i>	-	-	-	20	67,378	10	(67,408)	-	-	-
Total revenue	440,139	62,937	76,557	629,739	71,269	65,006	(200,987)	1,144,660	(74,600)	1,070,060
Purchases of electricity, gas for trade, and related services, gas and heavy fuel oil	(184,564)	(34,444)	(29,951)	(608,668)	-	(13,715)	76,335	(795,007)	-	(795,007)
Wages and salaries and related expenses	(41,542)	(6,284)	(3,068)	(3,587)	(5,067)	(22,970)	2,777	(79,741)	-	(79,741)
Repair and maintenance expenses	(13,810)	(4,954)	(1,631)	-	-	(1,744)	941	(21,198)	-	(21,198)
Other expenses	(31,378)	(3,935)	(3,843)	(10,794)	(1,357)	(23,263)	47,142	(27,428)	(1,408)	(28,836)
EBITDA	168,845	13,320	38,064	6,670	(2,533)	3,304	(6,384)	221,286	(76,008)	145,278
from which:										
<i>Depreciation and amortisation</i>	(57,352)	(11,656)	(10,810)	(1,122)	(7)	(6,514)	(202)	(87,663)	-	(87,663)
EBIT	111,493	1,664	27,254	5,548	(2,540)	(3,210)	(6,586)	133,623	(76,008)	57,615
Impairment and write-offs of property, plant and equipment	(54,330)	(501)	-	(5)	(11,198)	(2,591)	(18,316)	(86,941)	-	(86,941)
Impairment and write-offs of current and non-current amounts receivables, loans, goods and others	15	(370)	(15)	(869)	(6,815)	(76)	6,722	(1,408)	1,408	-
Revaluation of emission allowances	-	8,933	-	-	-	-	-	8,933	-	8,933
Operating profit (loss)	57,178	9,726	27,239	4,694	46,825	(5,867)	(85,588)	54,207	(74,600)	(20,393)
Finance income	89	168	12	380	10,069	42	(9,139)	1,621	-	1,621
Finance costs	(6,627)	(1,568)	(1,452)	(880)	(12,169)	(999)	8,796	(14,899)	-	(14,899)
Result of associates	179	123	-	-	-	-	(302)	-	-	-
Results of the revaluation and closing of derivative financial instruments	-	-	-	-	(572)	(1)	-	(573)	-	(573)
Profit (loss) before tax	50,819	8,449	25,799	4,194	44,153	(6,825)	(86,233)	40,356	(74,600)	(34,244)
Income tax expense	32,303	(10,786)	(3,654)	(3,366)	10,053	(976)	35,038	58,612	(46,339)	12,273
Net profit (loss)	83,122	(2,337)	22,145	828	54,206	(7,801)	(51,195)	98,968	(120,939)	(21,971)
Property, plant and equipment, intangible and right-of-use assets	1,506,852	401,774	320,959	42,651	2,301	22,370	(99,192)	2,197,715	-	2,197,715
Investment assets	271,283	1,459	132,817	312	1,887	21,517	-	429,275	-	429,275
Net debt	625,213	(22,972)	94,770	38,838	776,137	15,385	(791,352)	736,019	-	736,019
Adjusted EBITDA	168,845	13,320	38,064	6,670	(2,533)	3,304	(6,384)	221,286		
Management adjustments (for revenues)	(47,865)	4,449	2,721	(37,023)	-	4,526	(1,408)	(74,600)		
Management adjustments for impairment and write-offs of current and non-current amounts receivables, loans, goods and others	15	(370)	(15)	(869)	(6,815)	(76)	6,722	(1,408)		
Total EBITDA adjustments	(47,850)	4,079	2,706	(37,892)	(6,815)	4,450	5,314	(76,008)		
EBITDA	120,995	17,399	40,770	(31,222)	(9,348)	7,754	(1,070)	145,278		

43 Business combinations

In accordance with Company's Board of Directors and Company's subsidiary Ignitis renewables UAB decisions, Ignitis renewables UAB entered into share purchase agreement for 100% shares and shareholder's claim rights in Pomerania Invall Sp. z o.o. on 27 May 2019. Thereafter, the Company acquired indirect 100% shareholding in Pomerania Invall Sp. z o.o. because Company's subsidiary Ignitis renewables UAB owns 100% of shares in Pomerania Invall Sp. z o.o., and the Company owns 100% of shares in Ignitis renewables UAB. As at 30 September 2019, the ownership property right was fully owned by the Company's subsidiary Ignitis renewables UAB. The total amount of the investment to Pomerania Invall Sp. z o.o. is EUR 20,470 thousand. The investment was fully paid as at 31 December 2019.

The Group applied the purchase method to account for these business combinations according to the provisions of IFRS 3. Under the latter method, the acquisition cost is measured as the sum of the fair values, at the date of exchange, of assets given, liabilities incurred and equity instruments issued in exchange for control of the business being acquired.

During business combination the Group established that the difference between the acquisition cost of the businesses and the fair value of the net assets acquired represents goodwill and/or one and/or several items of assets have probably been acquired.

The Group's management finalized the assessment of the initial accounting for business combinations as at 31 December 2019.

On business combination, assets and liabilities of Pomerania Invall Sp. z o.o. were identified with the following fair values at the date of acquisition:

	Pomerania Invall Sp. z o.o.
Property, plant and equipment	7,314
Amount receivable within one year	92
Cash and cash equivalents	6
Borrowings, non-current liabilities	(7,385)
Current liabilities	(83)
Net assets	(56)
Other adjustments	36
Identified other intangible assets (Note 5)	24,390
Deferred corporate income tax liability	(3,900)
Purchase consideration paid	20,470
Net cash outflow on acquisition of subsidiaries:	
Cash paid to sellers of shares	(20,470)
Cash paid for loans of the sellers of shares	(7,209)
Cash and cash equivalents at acquired company	6
Cash paid for expenses related to purchase	(292)
Net cash flow	(27,965)

As at 10 October 2018 Competition Council of the Republic of Lithuania issued the permission to execute the concentration by acquiring 100% shares in Vėjo vatas UAB and 100% shares in Vėjo gūsis UAB and taking the control of the mentioned companies in accordance with the application of the concentration. As at 5 November 2018 the Company entered into share purchase agreement for acquisition of 100% of shares in Vėjo vatas UAB and Vėjo gūsis UAB and shareholder claim rights.

Company's investment in Vėjo vatas UAB comprised EUR 6,132 thousand, and investment in Vėjo gūsis UAB comprised EUR 12,919 thousand. Both investments were fully paid as at 31 December 2018.

The Group had 12 month period after purchase of Vėjo vatas UAB, Vėjo gūsis UAB ir VVP Investment UAB for review and recognition the fair value of assets and liabilities. The fair value of assets and liabilities were recognized during the business combination and disclosed below:

	Vėjo vatas UAB	Vėjo gūsis UAB	VVP Investment UAB	Total
Property, plant and equipment	16,488	20,117	7	36,612
Other non-current assets	267	389	2	658
Inventories and prepayments	53	22	48	123
Amounts receivable within one year	259	373	-	632
Cash and cash equivalents	172	357	-	529
Non-current liabilities	(10,130)	(9,258)	(157)	(19,545)
Current liabilities	(2,744)	(589)	(88)	(3,421)
Net assets	4,365	11,411	(188)	15,588
Recognised goodwill in Group financial statement	-	-	2,150	2,150
Other adjustments	42	244	-	286
Identified other intangible assets	1,990	1,490	-	3,480
Deferred corporate income tax liability	(265)	(226)	-	(491)
Liabilities for shares purchase	-	-	(725)	(725)
Purchase consideration paid	6,132	12,919	1,237	20,288
Net cash outflow on acquisition of subsidiaries:				
Cash paid to sellers of shares	(6,132)	(12,919)	(1,237)	(20,288)
Cash paid for loans of the sellers of shares	(2,547)	-	-	(2,547)
Cash and cash equivalents at acquired company	172	357	-	529
Net cash flow	(8,507)	(12,562)	(1,237)	(22,306)

Vėjo vatas UAB, Vėjo gūsis UAB ir VVP Investment UAB net result and income less inter-company transactions with Group companies are accounted in Group's financial statement in year 2019:

	Vėjo vatas UAB	Vėjo gūsis UAB	VVP Investment UAB	Total
Revenue from contracts with customers	1	-	-	1
Net profit (loss)	(2,097)	(2,658)	-	(4,755)

44 Events after the reporting period

Business combination

On 31 December 2019 was completed the reorganisation of the Group companies Verslo aptarnavimo centras UAB and Ignitis grupės paslaugų centras UAB – Verslo aptarnavimo centras UAB was merged with Ignitis grupės paslaugų centras UAB. On 2 January 2020 Verslo aptarnavimo centras UAB was de-registered from the Register of Legal Entities.

Information on the company involved in the reorganization (Ignitis grupės paslaugų centras UAB) and the company being reorganized (Verslo aptarnavimo centras UAB) before and after the reorganisation on 1 January 2020:

	Before reorganisation		After reorganisation
	Ignitis grupės paslaugų centras UAB	Verslo aptarnavimo centras UAB	Ignitis grupės paslaugų centras UAB
Issued capital (EUR)	6,960,000	580,000	7,914,645
Number of shares (units)	24,000,000	2,000,000	27,291,878
Nominal value per share (EUR)	0.29	0.29	0.29

The list of shareholders of Ignitis grupės paslaugų centras UAB on 31 December 2019 and 1 January 2020 is presented below:

Shareholder	31 December 2019			1 January 2020		
	Number of shares	Share capital, Eur	%	Number of shares	Share capital, Eur	%
Ignitis grupė UAB	12,008,705	3,482,525	50.0363	13,772,749	3,994,097	50.4646
Energijos skirstymo operatorius AB	6,442,270	1,868,258	26.8428	7,204,405	2,089,277	26.3976
Ignitis gamyba AB	5,341,548	1,549,049	22.2565	5,855,347	1,698,051	21.4545
Ignitis UAB	202,477	58,718	0.8436	459,377	133,220	1.6832
Verslo aptarnavimo centras UAB	5,000	1,450	0.0208	-	-	-
Total	24,000,000	6,960,000	100	27,291,878	7,914,645	100

This reorganization of associates did not have impact nor on financial position nor operating results of the Group as only the legal composition of shareholders changed. Along with the reorganization, a part of Verslo aptarnavimo centras UAB customer service activities was transferred to Energijos skirstymo operatorius AB and Ignitis UAB.

Initial Public Offering

On 23 March 2020 the Company from the Ministry of Finance of the Republic of Lithuania (“the Ministry of Finance”) has received a letter implementing its sole shareholder’s requesting the Company to prepare for an Initial Public Offering (IPO) to choose the period of new shares’ emission issue based on the capital market situation and to make other related actions and documents. The Company should have to prepare for IPO by September 2020.

The letter was submitted in accordance with decisions that were taken on 18 March 2020 by the Government of the Republic of Lithuania and the Commission for the Coordination of the Protection of National Security Objects to pass a resolution approving the transformation of the Company from a private limited liability company (UAB) into a public limited liability company (AB). For the purpose to implement an IPO by this resolution the Government also agreed that the Company’s share capital would be increased by additional contributions through the issuance of new ordinary registered intangible shares. Share should be publicly distributed in such quantity that after the increase of the

authorized capital at least 2/3 of the shares and votes in the general meeting of shareholders would belong to Republic of Lithuania.

Events related to litigation and claims

On 18 March 2020 Vilnius City District Court and Vilnius Regional District Court issued resolutions upholding the minority shareholders’ statements regarding the waiver of their claims, that challenged the decisions of the Extraordinary General Meeting of Shareholders on the delisting of Energijos skirstymo operatorius AB (ESO) and Ignitis gamyba AB (GEN) (both the subsidiaries of the Company) shares, and closed the civil proceedings. Enactment of this resolution was reached after the 2020 March 17 when a peace agreement was signed between the Company and the Investors’ Association representing minority shareholders. By this agreement, the Company has undertaken to: (i) make decisions on proposing to pay dividends for 2019 to ESO and / or GEN shareholders; (ii) each minority shareholder who has sold his shares to the Company will be able to acquire the Company’s shares at an amount equal to the number of shares held by the shareholder multiplied by the price publicly offered by the Company plus the amount of dividends paid in year 2020 for the year 2019 in proportion to the number of shares held by the shareholder. In ESO and GEN tender circulars, that on 10 January 2020 were submitted to Bank of Lithuania, however not yet approved, there is specified that the price to be paid for one share of ESO amounts to EUR 0.880, for one share of GEN amounts to EUR 0.640.

COVID 19 pandemic

On 30 January 2020 the World Health Organization has declared a global emergency following the COVID-19 outbreak and on 11 March 2020 confirmed the spread of the disease as a pandemic. An outbreak of COVID-19 was reported in the European Union on 31 January 2020 in Italy. On 26 February 2020 due to the threat of COVID-19 the Government of the Republic of Lithuania (hereinafter “the Government”) declared an emergency situation in the country and on 14 March 2020 adopted a resolution No. 207 Regarding the announcement of quarantine in the Republic of Lithuania, on the basis of which quarantine was announced in the entire territory of the country from 16 March 2020 until 27 April 2020 with the possibility of extension. During quarantine, the country has:

- Restricted movement of population across the border and within the country (movement of goods is not restricted)
- Restricted public and private sector activities
- The process of education and childcare and educational activities in all educational institutions are stopped
- The work organization of health care institutions, etc. has been established.

In relation to the emergency situation and quarantine the Parliament of the Republic of Lithuania adopted amendments aimed at preserving jobs and helping the population with special urgency. On 16 March 2020 the Government took the decision (Protocol No.14) and in respect of which concluded a Plan for the economic stimulation and the implementation of measures directed to mitigate the spread of COVID 19 (hereinafter “the Plan”). One of the measures for the implementation of the Plan is to make possible to defer or arrange in portions the payments for the consumed electricity and natural gas to the Group’s subsidiary Ignitis UAB. This means that the company UAB Ignitis will directly experience delays in customers’ payments for services.

Management of the Group from 16 March 2020 instructed all employees of the Group who have the ability to work remotely not to go to workplaces in offices, hold meetings through the teleconferencing IT programs. The company ensured that all conditions are in place for efficient remote work to employees. Employees do not experience any disruptions in the performance of direct functions. During the quarantine period, the Group strictly adheres to all recommendations issued by the Government regarding the possible threat of COVID 19.

All amounts are in EUR thousand unless otherwise stated

Financial impact

The potential financial impact on the Group's operations due to the situation (both in Lithuania and the world) described above and due to Plan adopted by the Government on the implementation of measures to reduce the consequences of COVID 19 are presented below:

Area affected	Potencial financial impact
---------------	----------------------------

Direct impact:

Cash flows from electricity and gas payments: payment delays, arrangements on longer debt repayment terms

Following the recommendation of the Government of The Republic of Lithuania, we grant special deferrals for payments for electricity and gas distribution and supply. Decisions are made based on the requests of private and business customers for the quarantine period. Customer requests are analyzed case by case, not exceeding the predefined amount.

Indirect impact:

Increase in the percentage of bad debts

Depending on the duration of the quarantine, the financial impact of the consequences will increase, but given the most likely scenarios for the spread of COVID-19 publicly discussed by experts, this should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the financial statements cannot be reasonably determined.

Cash flow from declining of electricity and gas consumption during the quarantine period and slower recovery of consumption after the period ended

The negative impact of electricity and gas consumption will potentially affect the business segment, however it partially will be offset by increased electricity consumption in the private clients' segment. This should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the financial statements cannot be reasonably determined.

Cash flows related to the risk of delays in the development of large infrastructure projects (construction and development of new power plants)

Depending on the duration of the quarantine, there could be a risk of project delays due to disruptions of supply chain or due to appeared risk of infection of critical personnel with COVID 19. The positive impact on cash flows could be due to subsequent investments, however accordingly the planned income earnings and cash flow from operations related to the ongoing project could be delayed. This should not jeopardize business continuity. Reasonable or significant assumptions as of the date of issue of the financial statements cannot be reasonably determined.

Other resolutions/decisions adopted by the Government regarding the implementation of the Plan did not have a direct impact on the Group's operations. The indirect financial impact cannot be reliably estimated due to the short period that has elapsed between the date of the Plan taken and the date of the issue of these financial statements.

Impact on business continuity

The Management in assessing the risks to the Group's going concern has taken into account the uncertainty caused by the COVID 19 outbreak regarding the potential future impact on the Group's operations. The Group's management has assessed the potential disruption of cash flows, supply of services or goods, attracting the financing sources, potential reductions in electricity and gas consumption due to the economic slowdown, the risk of contingency COVID 19 and delays in ongoing projects using all available information at the time of issuing these financial statements. During

assessment the Group did not identify any circumstances that could cast doubt on the going concern of the Group as a whole or individual companies of the Group.

There is the risk and probability for prolongation of the quarantine for more than 3 months due to COVID 19 outbreak in the Republic of Lithuania and the duration of the most severe restrictive measures applied in foreign countries, therefore the results of the Management's assessment of the impact on the Group's financial results for 2020 may change, i.e. deteriorate. It is not possible to reasonably estimate the assumptions of the longer-term adverse effect scenario at the date of issue of the financial statements.

Impact on fair value measurements

At the end of the reporting period, i.e. as at 31 December 2019 fair value was determined based on market data at that date, based on assumptions that are similar to assumptions that market participants would accept under current market conditions in pricing an asset or liability, including risk assumptions. The Group made the assumptions using all available information, including information that could be obtained from due diligence activities that are routine. Unobservable inputs are used to estimate fair values to the extent that appropriate observable data is not available.

The objective of determining fair value is to present the fair value of an asset that reflects conditions at the measurement date, not a future date. Although events occurring after the measurement date may provide information about the assumptions used to determine fair value at the measurement date (particularly those that are not observable), they are adjusted only to the extent that information provides additional evidence about conditions that existed at the measurement date and market participants or the Group were aware of this information. In making fair value measurements, the Group has taken into account what market conditions and relevant assumptions were known or were known at the date of the valuation by market participants, i.e. 31 December 2019. The COVID 19 outbreak and the risks associated with it were not taken into account in determining the fair value as at 31 December 2019 as there was no observable and unobservable data on the conditions related to exposure to the risk of COVID 19. However, as the threat of COVID 19 has undoubtedly increased the risk that the carrying amounts of assets and liabilities will be adjusted in the next financial year, the Group has considered the extent of COVID 19's disruption to its operations and provides additional "disclosures" in the section "Disclosures of Other Circumstances".

Impact on the assessment of expected credit losses

In estimating expected credit losses, management is required to consider reasonable information at the reporting date, i.e. 31 December 2019 the Group estimating the expected credit losses as at 31 December 2019 did not take into account the COVID 19 outbreak and the risks associated with it because COVID 19 was identified in early January of 2020 and a global emergency was announced at 20 January 2020. In estimating expected credit losses at the reporting date, management has reasonably taken into account past events, current conditions and forecast of future economic conditions that were present and known at 31 December 2019. However, as the threat of COVID 19 clearly increased the risk that the carrying amounts of assets and liabilities might need to be adjusted in the next financial year, the Group considered the extent of COVID 19 disruption to its operations and discloses information about those assets with significant valuation uncertainties in the section "Disclosures of Other Circumstances".

Impact on the assessment of impairment of assets and on the assessment of fair value of assets carried at revalued amounts

The Group assessed the impairment of non-financial assets and fair value of assets, carried at revalued amounts taking into account all indications of impairment at the end of the reporting period. Events after the reporting period and information obtained after the reporting period are taken into account in assessing the impairment when they provide additional evidence of those conditions that

All amounts are in EUR thousand unless otherwise stated

existed at the end of the reporting period. Similarly, only that information is considered in determining the recoverable amount of an asset if such conditions existed at the end of the reporting period. The Group performed assessment of impairment of its assets as at 31 December 2019 and did not take into account the COVID 19 outbreak and the risks associated with it, as COVID 19 was identified in early January of 2020 and a global emergency was announced at 20 January 2020. In assessing the indications of impairment of assets at the end of the reporting period, management has reasonably taken into account all indications that were present and known as at 31 December 2019.

Disclosures of other circumstances

In the above-described paragraphs "Impact on the determination of fair value", "Impact on the assessment of probable credit losses", "Impact on the assessment of impairment of assets" and "the assessment of fair value of assets carried at revalued amounts", the Group disclosed that the impact of COVID 19 was not included in the determination of estimates as at 31 December 2019, when those assessments were carried out, because there were no observable conditions existing on that date that would indicate exposure to the possible future threat of COVID 19. However, as the threat of COVID 19 has undoubtedly increased the risk that the carrying amounts of assets and liabilities may need to be adjusted in the next financial year, the Group has considered the extent of the disruption caused by COVID 19 and discloses the following information about those assets and liabilities with significant valuation uncertainties:

- Sensitivity of fair value measurement methods after the inclusion of COVID 19 in the list of assumptions: Valuation of Property, plant and equipment recoverable value is sensitive to the assumptions in respect of the future cash flows and the rate used to discount them.
- Impact of COVID 19 on the assessment of expected credit losses: The calculation of impairment of receivables is sensitive to changes in loss ratios.

Other events

On 16 January 2020 the Company paid the remaining amount of EUR 11,313,819 of the unpaid share capital of Vilniaus kogeneracinė jėgainė UAB.

On 23 January 2020 occurred the auction of the real estate of the Company's subsidiary NT Valdos UAB, during which the last three properties were sold for a total of EUR 196 thousand, excluding VAT.

On 28 January 2020 the National Energy Regulatory Council (NERC) has approved the subsidiary Energijos skirstymo operatorius AB 2019 investment projects in the electricity sector submitted for a commonly agreed list of investments, with a total value of up to EUR 91.3 million. In year 2019 most of the investments in the electricity sector were for the renovation and / or modernization of the 35-6 kV power grid and 0.4 kV power grid, communication and control systems, software.

On 6 February 2020 Environmental Project Management Agency of the Ministry of Environment of the Republic of Lithuania extended the term of implementation of Vilniaus kogeneracinė jėgainė UAB project until the 20 April 2021. The contract combined with Lietuvos verslo paramos agentūra VšĮ for the implementation of project activities was also extended until the 20 April 2021.

On 19 February 2020 the guarantee agreement of Vilniaus kogeneracinė jėgainė UAB and Swedbank AB was extended until 22 February 2021. The guarantee agreement is intended to ensure the fulfillment of Vilniaus kogeneracinė jėgainė UAB obligations related to Vilniaus šilumos tinklai UAB.

On 10 March 2020 as part of the construction project for the Pomerania wind farm in Poland the Group company Pomerania Wind Farm sp. z o.o. has entered into an agreement with the European Investment Bank ('EIB') regarding the financing for carrying out the project for an amount of PLN 258 million (about EUR 60 million). The Company and the EIB have entered into a first call guarantee

agreement to secure this loan. The Company's subsidiary Ignitis renewables UAB, which controls all of Pomerania Wind Farm sp. z o.o. shares, has signed an agreement with the EIB for pledging 100% shares of Pomerania Wind Farm sp. z o.o. in favor of the lender. Maturity date of the loan contract is 31 December 2035.

On 16 April 2020 the Company and bank Swedbank AB have concluded a contract regarding the overdraft for amount EUR 100 million. Maturity of contract is until 16 October 2020.

On 1 April 2020 the news announced that of the Company and EPSO-G UAB entered negotiation process regarding settlement of the EPSO-G debt for LitGrid AB shares the Company sold in 2012 (Note 10). Beginning of negotiation was supported by The Government of the Republic of Lithuania. An agreement between the Company and EPSO-G UAB on early repayment of the debt and the amount has not been signed as at the date of financial statement issue. Negotiations are still in the process and the amount of a premium to the final price of the contract re LitGrid AB shares' disposal is not yet agreed and known at the date of financial statements' issue.

22/04/2020

CERTIFICATION STATEMENT

Referring to the provisions of the Article 12 of the Law on Securities of the Republic of Lithuania and the Rules of disclosure of information of the Bank of Lithuania, we, Darius Maikštėnas, Chief Executive Officer of UAB Ignitis grupė and, Darius Kašauskas, Finance and Treasury Director of UAB Ignitis grupė, and Giedruolė Guobienė Head of Accounting department UAB Ignitis grupės paslaugų centras acting under Order No IS-88-20 of 10 April 2020, hereby confirm that, to the best of our knowledge, UAB Ignitis grupė consolidated and Company's financial statements for the financial year 2019 prepared according to International financial reporting Standards adopted by the European Union, give a true and fair view of UAB Ignitis grupė assets, liabilities, financial position, profit or loss for the period and cash flows, the Annual Report for the financial year 2019 includes a fair review of the development and performance of the business as well as the condition of UAB Ignitis grupė together with the description of the principle risks and uncertainties it faces.

UAB Ignitis grupė
Chief Executive Officer

A handwritten signature in blue ink, appearing to be 'Darius Maikštėnas'.

Darius Maikštėnas

UAB Ignitis grupė
Finance and Treasury
Director

A handwritten signature in blue ink, appearing to be 'Darius Kašauskas'.

Darius Kašauskas

UAB Ignitis grupės paslaugų centras,
Head of Accounting department,
acting under Order No. IS-88-20
(signed 10 April 2020)

A handwritten signature in blue ink, appearing to be 'Giedruolė Guobienė'.

Giedruolė Guobienė



Independent auditor's report

To the shareholder of Ignitis Grupė UAB

Our opinion

In our opinion, the two years separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Lietuvos energija UAB (changed name to Ignitis Grupė UAB in 2019) ("the Company") and its subsidiaries (together "the Group") as at 31 December 2018 and 2017, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the years ended as at 31 December 2018 and 2017 respectively in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's and the Group's two years separate and consolidated financial statements comprise:

- the Company's and the Group's statements of financial position as at 31 December 2018 and 2017;
- the Company's and the Group's statement of profit or loss and other comprehensive income for each of the two years then ended;
- the Company's and the Group's statements of changes in equity for each of the two years then ended;
- the Company's and the Group's statement of cash flows for each of the two years then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

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

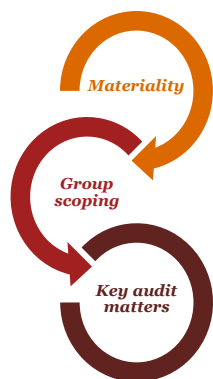
Emphasis of matter

We draw attention to Note 3.3 to these reissued two years separate and consolidated financial statements, which describes the reason for the reissuance of the 2018 and 2017 separate and consolidated financial statements. Our opinion is not modified in respect of this matter.



Our audit approach

Overview



Materiality

For 2018:

- Overall Company materiality is EUR 4.1 million
- Overall Group materiality is EUR 4.9 million

For 2017:

- Overall Company materiality is EUR 5.0 million
- Overall Group materiality is EUR 5.3 million

Audit Scope

For 2018:

- We conducted audit work at 6 reporting units, all of them are in Lithuania
- Our full scope audit addressed 87% of group assets and 95% of revenue.

For 2017:

- We conducted audit work at 8 reporting units, all of them are in Lithuania
- Our full scope audit addressed 94 % of group assets and revenue.

Key Audit matters

Group:

- Correction of errors and policy changes
- Property, plant and equipment accounted for at revalued amount

Company:

- Impairment of investments in subsidiaries
-

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

Materiality

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

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



Overall Company materiality EUR 4.1 million (2017: EUR 5.0 million)

Overall Group materiality EUR 4.9 million (2017: EUR 5.3 million)

How we determined it Overall Company materiality for 2018 and 2017 represents 5% of average profit before tax for 3-year period (2018: for the years 2016-2018; 2017: for the years 2015-2017)

Overall Group materiality for 2018: represents 5% of average adjusted profit before tax for the years 2016-2018: 2017 profit before tax was adjusted for impairment losses of property, plant and equipment (EUR 32 million) and one-off recalculation of revenue from regulated activities (EUR 17 million); and 2018 profit before tax was adjusted for the impact of connection fees accounting policy changes on revenue (EUR 12 million), correction of an error in regulatory activities revenue (EUR 7 million), revaluation loss (EUR 68 million) and impairment (EUR 3 million) of property, plant and equipment.

Overall Group materiality for 2017: represents 5% of profit before tax adjusted for one-off losses of impairment of property, plant and equipment (EUR 32 million) and one-off revenue from regulated activities (EUR 17 million).

Rationale for the materiality benchmark applied

We chose profit before tax as the benchmark for the Company and the Group because, in our view, it is the generally accepted measure and it is the measure against which the performance of the Company and the Group is most commonly assessed.

The Company's current year performance depends on results of its subsidiaries in the current and prior periods, and on subsequent dividend payments, thus we chose average figure to eliminate unusual deviations.

The Group's profit before tax depends on approved tariffs for regulated activities, which incorporate gas and electricity prices in the current and prior periods. Because of the specifics how tariffs are regulated in the market, we chose average of 3 years to eliminate the impact of annual fluctuations. We eliminated certain amounts as described above as in our view they had significant impact on earnings reported which caused profits before tax in these years volatile.

We chose 5%, which is within the range of acceptable quantitative materiality thresholds.



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Correction of errors and accounting policy changes (refer to notes 3.3, 4)</p> <p>The Group has corrected errors relating to accounting for regulatory and trading activities, as the result group revenue had decreased by EUR 28.9 million and net profit for the year improved by EUR 5.2 million</p> <p>The Group has changed accounting methods for new customer connection fees and, had reassessed its role with respect to certain revenue transactions concluded itself being an agent. As the result of these changes in accounting methods, group revenue has decreased by EUR 155.3 million and net loss increased by EUR 19.2 million.</p> <p>Correction of errors, accounting policy changes and planned capital market transactions are the reasons</p>	<p>We have discussed the nature of errors and the nature and reasons for the accounting policy changes with the management and successor auditor.</p> <p>We have consulted with our internal IFRS experts whether correction of errors and accounting policy changes are compliant with IFRS and existing application practices and whether the treatments are properly disclosed in the financial statements.</p> <p>The have performed audit tests for the adjustments the extend applicable:</p> <ul style="list-style-type: none"> • Traced adjustments to supporting evidence obtained during 2018 full scope audit of Group subsidiaries; • Performed audit tests for adjustments related to subsidiaries outside our full scope audit for Group reporting purposes.

for reissue of these financial statements.

We also considered the adequacy of disclosures in Notes 2, 3.3, 4 and in the other affected notes.

Key audit matter	How our audit addressed the key audit matter
------------------	----------------------------------------------

Property, plant and equipment accounted at revalued amount
(refer to notes 4, 6, 24)

Property, plant and equipment is the most significant item of assets on the consolidated statement of financial position and amounted to EUR 2,091 million as at 31 December 2018.

The property, plant and equipment accounted for at revalued amount had a net book value of EUR 1,318 million and the most significant component was the electricity distribution network with a net book value of EUR 1,206 million.

In 2018, the Group's management performed a valuation of the assets attributed to the electricity distribution network. Valuation was performed as at 31 August 2018 with reference to the valuation report delivered by independent valuers.

Based on the valuation performed, management has determined that fair

Our procedures in relation to property, plant and equipment revaluation included as follows:

- We evaluated the independent external valuers' competence, capabilities and objectivity.
- We obtained the cash flow model used by the management to determine the value of assets employed in electricity businesses.
- We tested the model as to whether it is mathematically accurate, discussed with management key inputs and assumptions, traced them to external or Group's internal information, where appropriate, and assessed sensitivity of the cash flow model to changes in selected assumptions.
- We also involved PwC valuation expert who assessed the appropriateness of the model, inputs, assumptions used as the basis of the valuation and the



value of the property, plant and equipment of the electricity distribution network is higher than the net book value as at 31 December 2018 by EUR 46.3 million and accounted for it: increase of EUR 122.6 million was recognised directly in equity and decrease of EUR 76.3 million (net of write-off of grants of EUR 8.9 million) was recognised in profit or loss. The total revaluation gain of the group amounted to EUR 45.7 million, of which increase of EUR 122.3 million was recognised directly in equity and decrease of EUR 76.6 million (net of write-off of grants of EUR 8.9 million) was recognised in profit or loss.

Valuation of electricity distribution network assets was carried out in the following stages: (i) replacement cost of new assets (RCN) was estimated; (ii) physical and functional obsolescence of assets was determined; (iii) economic obsolescence of assets was assessed (using the income method).

In determining the replacement cost, the external valuers took into account property- specific current information such as cost of materials, installation works, labour, transportation and handling fees, overall costs of

reasonableness of the discount rate applied.

- We obtained the model for calculating the replacement cost new (RCN) and depreciated replacement cost (DRC), tested the reasonableness of inputs used and the determination of physical and functional obsolescence of assets for selected items, by comparing to recent construction prices of comparable new assets and verifying formulas and data used to arrive from RCN to DRC.
- We also checked the allocation of fair value surplus or reduction to individual items based on economic obsolescence principles and performed detailed allocation testing for selected items.

We also considered whether or not there was bias in determining fair value.

We also considered the adequacy of disclosures in Notes 4 and 6.

contractor, also indirect costs, such as engineering and design costs.

Then physical and functional obsolescence of assets was determined to estimate depreciated replacement cost (DRC) for each individual asset.

Finally, income method was used to determine the economic obsolescence of assets. Based on the results of the economic obsolescence test, the values of assets determined by DRC method were reduced on a pro rata basis, except for assets for which such allocation would have resulted in a value lower than the asset's regulated asset base (hereinafter – RAB) value. For such assets the RAB value was considered to be its fair value. The amount of reduction that would otherwise have been allocated to an asset was allocated pro rata to the other assets.

Assessment of fair values of property, plant and equipment is an area of significant management judgements, and they are, therefore, given special audit attention.



Key audit matter

Impairment of investments in subsidiaries

(refer to notes 4, 8)

The carrying value of investments in subsidiaries (EUR 1,207 million) as at 31 December 2018 represents 58% of total assets of the Company in the separate financial statements. During the year ended 31 December 2018, the Company has recognised an impairment loss of investments in subsidiaries of EUR 6.8 million.

The management of the Company applied significant judgement in assessment whether impairment indications exist and made significant assumptions in determining recoverable amounts of investments using discounted cash flows analysis or net asset value.

We focused on this area because of the magnitude of the balances and significant dividends paid by subsidiaries, which might be considered as impairment indicator.

How our audit addressed the key audit matter

We obtained understanding of the management's process for the monitoring of the performance of the subsidiaries and for assessment of the recoverable value of investments in subsidiaries.

We have obtained the management's assessment whether impairment indicators exist, analysed and discussed it with the management. For those entities, where impairment indicators were identified, we obtained impairment tests, discussed with management the basis for expected future performance, analysed the major inputs in the calculations including profitability, discount rate assumptions and sensitivity to selected assumptions.

When assessing impairment indicators and analysing the inputs used in the impairment tests, we leveraged our knowledge from audit of subsidiaries and audit procedures applied to property, plant and equipment as discussed in key audit matter below.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises more than 20 subsidiaries which operate in Lithuania, Latvia, Estonia and Poland (refer to note 8).

For 2018:

For Group audit purposes, based on our risk and materiality assessment we determined that a full scope audit was required for the following Group entities:

- Lietuvos Energija UAB
- Energijos Skirstymo Operatorius AB
- Lietuvos Energijos Gamyba AB
- Energijos Tiekimas UAB
- Litgas UAB
- Lietuvos Energijos Tiekimas UAB

The audit of these entities was performed by PwC Lithuania and covered 95% of Group's revenue and 87% of Group's assets. In addition, the group engagement team carried out selected audit procedures on significant remaining items such as property, plant and equipment held by subsidiaries Vilniaus Kogeneracinė Jėgainė UAB and Kauno Kogeneracinė Jėgainė UAB in the amount of EUR 108 million, and assessed other significant areas that may impact consolidated financial statements, such as compliance with debt covenants by Vilniaus Kogeneracinė Jėgainė UAB. For other subsidiaries, the Group audit team performed group level analytics to obtain sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.



For 2017:

For Group audit purposes, based on our risk and materiality assessment we determined that a full scope audit was required for the following Group entities:

- Lietuvos Energija UAB
- Energijos skirstymo operatorius AB
- Lietuvos energijos gamyba AB
- NT Valdys UAB
- Energetikos paslaugų ir rangos organizacija UAB
- Energijos tiekimas UAB
- Litgas UAB
- Lietuvos dujų tiekimas UAB

The audit of these entities was performed by PwC Lithuania and covered 94 % of Group's revenue and assets. For other subsidiaries, the Group audit team performed group level analytics to obtain sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

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

Management is responsible for the preparation of the financial statements that give a true and fair view 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 the 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 the 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 the 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 the 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 the 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 the 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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes

public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in blue ink, appearing to read 'Radzevičienė', is written in a cursive style.

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
22 April 2020

Lietuvos Energija UAB, company code 301844044, address: Žvejų g. 14, LT-09310, Vilnius, Lithuania

STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(All amounts in EUR thousands unless otherwise stated)

	Notes	Group	
		At 31 December 2018 (restated*)	At 31 December 2017**
ASSETS			
Non-current assets			
Intangible assets	5	106,330	36,360
Property, plant, and equipment	6	2,091,386	1,761,082
Prepayments for non-current assets	14	23,621	21,911
Investment property	7	6,494	14,878
Amounts receivable after one year	9,10	160,606	170,488
Other financial assets	11	2,008	426
Other non-current assets	12	6,094	3,239
Deferred income tax assets	23	14,468	7,084
Total non-current assets		2,411,007	2,015,468
Current assets			
Inventories	13	43,137	56,866
Prepayments and deferred expenses	14	30,655	38,119
Trade receivables	15	143,120	112,563
Other amounts receivable	16,10	25,436	27,800
Other current assets		2,147	1,093
Prepaid income tax		4,192	2,102
Other financial assets	11	656	-
Cash and cash equivalents	18	127,835	171,756
		377,178	410,299
Non-current assets held for sale	19,10	65,706	79,301
Total current assets		442,884	489,600
TOTAL ASSETS		2,853,891	2,505,068

	Notes	Group	
		At 31 December 2018 (restated*)	At 31 December 2017**(restated)
EQUITY AND LIABILITIES			
Equity			
Share capital	20	1,212,156	1,212,156
Reserves	21	212,802	99,380
Retained earnings (deficit)		(169,994)	(13,706)
Equity attributable to owners of the parent		1,254,964	1,297,830
Non-controlling interest		47,558	45,796
Total equity		1,302,522	1,343,626
Liabilities			
Non-current liabilities			
Non-current borrowings and bonds	22	735,410	480,068
Finance lease liabilities	22	14,334	187
Grants and subsidies	24	208,874	200,311
Deferred income tax liability	23	36,409	36,049
Provisions	26	35,355	7,367
Deferred revenue	25	136,438	54,509
Other non-current amounts payable and liabilities	27	1,887	1,832
Total non-current liabilities		1,168,707	780,323
Current liabilities			
Current portion of non-current borrowings	22	61,819	119,599
Current borrowings	22	47,727	14,082
Current portion of finance lease liabilities	22	5,220	145
Trade payables	28	93,237	98,338
Advance amounts received	25	49,766	27,765
Income tax liabilities		4,545	3,695
Provisions	26	5,558	2,498
Deferred revenue	25	9,122	5,242
Other current amounts payable and liabilities	29	102,682	109,421
		379,676	380,785
Liabilities related to non-current assets held for sale		2,986	334
Total current liabilities		382,662	381,119
Total liabilities		1,551,369	1,161,442
TOTAL EQUITY AND LIABILITIES		2,853,891	2,505,068

* Part of amounts does not agree with the financial statements of 2018 due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

** Reclassified upon enactment of IFRS 15 as of 1 January 2018 (Note 2.1)

Lietuvos Energija UAB, company code 301844044, address: Žveju g. 14, LT-09310, Vilnius, Lithuania

STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(All amounts in EUR thousands unless otherwise stated)

	Notes	Company	
		At 31 December 2018	At 31 December 2017
ASSETS			
Non-current assets			
Intangible assets	5	1,874	-
Property, plant, and equipment	6	427	421
Prepayments for non-current assets	14	816	3,899
Investments in subsidiaries	8	1,206,921	1,148,917
Amounts receivable after one year	9.10	679,593	492,938
Other financial assets	11	2,008	426
Deferred income tax assets	23	1,077	549
Total non-current assets		1,892,716	1,647,150
Current assets			
Prepayments and deferred expenses	14	62	42
Other amounts receivable	16.10	631	5,322
Prepaid income tax		15	147
Short-term loans	17	189,324	169,395
Cash and cash equivalents	18	231	52,517
		190,263	227,423
Non-current assets held for sale	19.10	7,141	14,717
Total current assets		197,404	242,140
TOTAL ASSETS		2,090,120	1,889,290

	Notes	Company	
		At 31 December 2018	At 31 December 2017
EQUITY AND LIABILITIES			
Equity			
Share capital	20	1,212,156	1,212,156
Reserves	21	19,811	14,516
Retained earnings (deficit)		78,231	117,103
Total equity		1,310,198	1,343,775
Liabilities			
Non-current liabilities			
Non-current borrowings and bonds	22	671,245	433,668
Provisions	26	-	2,903
Other non-current amounts payable and liabilities	27	378	9,807
Total non-current liabilities		671,623	446,378
Current liabilities			
Current portion of non-current borrowings	22	57,401	95,013
Current borrowings	22	47,721	2,794
Trade payables	28	947	506
Prepayments received	25	51	1
Provisions	26	806	-
Other current amounts payable and liabilities	29	1,373	823
Total current liabilities		108,299	99,137
Total liabilities		779,922	545,515
TOTAL EQUITY AND LIABILITIES		2,090,120	1,889,290

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2018 (restated*)	2017**	2018	2017
Revenue from contracts with customers	30	1,024,278*	1,081,219**	3,188	2,972
Other income	31	45,782	19,612**	703	516
Dividend income	37	-	-	67,378	124,704
		1,070,060	1,100,831	71,269	128,192
Operating expenses					
Purchases of electricity, gas for trade, and related services	32	(768,462)*	(712,298)	-	-
Purchases of gas and heavy fuel oil		(26,545)	(28,193)	-	-
Depreciation and amortisation	5,6,19,24	(87,664)*	(87,357)	(7)	(3)
Wages and salaries and related expenses		(79,741)	(81,336)	(5,067)	(4,105)
Repair and maintenance expenses		(21,200)	(21,318)	-	-
Result of revaluation of property, plant and equipment	6,7,24	(67,671)	(7,103)	-	-
(Impairment)/reversal of impairment of investments in subsidiaries		-	-	(6,815)	(9,414)
Reversal (impairment) of amounts receivable and loans (expected credit losses)		(9,876)	1,003	(11,198)	(2,701)
Impairment of property, plant and equipment	6.19	(3,151)*	(33,387)	-	-
Other expenses	33	(26,143)	(33,709)	(1,357)	(5,810)
Total operating expenses		(1,090,453)	(1,003,698)	(24,444)	(22,033)
Finance income	34	1,621	2,163	10,069	3,588
Finance costs	35	(14,899)	(9,098)	(12,169)	(4,291)
Results of the revaluation and closing of derivative financial instruments		(573)	-	(572)	-
Profit/(loss) before income tax		(34,244)	90,198	44,153	105,456
Current year income tax (expenses)/benefit	36	(4,604)*	(2,682)	7	2
Deferred income tax (expenses)/benefit	36	16,877*	6,009	528	456
Profit (loss) for the year		(21,971)	93,525	44,688	105,914
Attributable to:					
Owners of the parent		(22,440)*	89,103	44,688	105,914
Non-controlling interest		469*	4,422	-	-

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

** Reclassified upon enactment of IFRS 15 as of 1 January 2018 (Note 2.1)

	Notes	Group		Company	
		2018 (restated*)	2017*	2018	2017
Other comprehensive income (loss) Items that will not be reclassified to profit or loss					
Gain/(loss) on revaluation of property, plant and equipment		123,139	259	-	-
Recalculation of the defined benefit plan obligation, net of deferred income tax		77	(187)	-	-
Items that will not be reclassified subsequently to profit or loss, total		123,216	72	-	-
Items that will be reclassified subsequently to profit or loss					
Translation of net investments in foreign operations into the Group's presentation currency		(26)	42	-	-
Items that will be reclassified subsequently to profit or loss, total		(26)	42	-	-
Total other comprehensive income		123,190	114	-	-
Total comprehensive income for the period		101,219	93,639	44,688	105,914
Attributable to:					
Owners of the parent		94,964*	89,217	44,688	105,914
Non-controlling interest		6,255*	4,422	-	-

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Group	Notes	Equity attributable to owners of the Company					Subtotal	Non-controlling interest	Total
		Share capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings			
Balance as at 1 January 2017		1,212,156	34,696	57,475	-	(35,952)	1,268,375	51,172	1,319,547
Revaluation of property, plant and equipment, net of deferred income tax effect		-	-	218	-	-	218	41	259
Translation of net investments in foreign operations into the Group's presentation currency		-	-	-	42	-	42	-	42
Result of change in actuarial assumptions		-	-	-	-	(187)	(187)	-	(187)
Total other comprehensive income (loss)		-	-	218	42	(187)	73	41	114
Profit for the reporting period		-	-	-	-	89,103	89,103	4,422	93,525
Total comprehensive income for the period		-	-	218	42	88,916	89,176	4,463	93,639
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(4,867)	-	4,867	-	-	-
Transfer to reserves and movement in reserves		-	11,816	-	-	(11,816)	-	-	-
Dividends	37	-	-	-	-	(59,752)	(59,752)	(5,598)	(65,350)
Change in non-controlling interest due to changes in the Group's structure		-	-	-	-	31	31	(31)	-
Acquisition of shares from non-controlling interest in Eurakras UAB		-	-	-	-	-	-	(5,182)	(5,182)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB		-	-	-	-	-	-	972	972
Balance as at 31 December 2017		1,212,156	46,512	52,826	42	(13,706)	1,297,830	45,796	1,343,626
Balance as at 1 January 2018		1,212,156	46,512	52,826	42	(13,706)	1,297,830	45,796	1,343,626
Effect of change in accounting policies following the adoption of new IFRS	2	-	-	-	-	(59,647)	(59,647)	(3,144)	(62,791)
Restated balance as at 1 January 2018 (restated*)		1,212,156	46,512	52,826	42	(73,353)	1,238,183	42,652	1,280,835
Revaluation of non-current assets, net of deferred income tax effect		-	-	117,357	-	-	117,357	5,781	123,138
Translation of net investments in foreign operations into the Group's presentation currency		-	-	-	(26)	-	(26)	-	(26)
Result of change in actuarial assumptions		-	-	-	-	73	73	4	77
Total other comprehensive income (loss)		-	-	117,357	(26)	73	117,404	5,785	123,189
Net (loss) for the reporting period (restated*)	3.3	-	-	-	-	(22,440)*	(22,440)	469*	(21,971)
Total comprehensive income for the period (restated*)		-	-	117,357	(26)	(22,367)	94,964	6,254	101,218
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(6,746)	-	6,746	-	-	-
Emission allowances utilised		-	-	(473)	-	473	-	-	-
Depreciation of the revaluation reserve of emission allowances		-	-	(29)	-	29	-	-	-
Transfer to reserves, movement in reserves		-	3,339	-	-	(3,339)	-	-	-
Dividends	37	-	-	-	-	(78,265)	(78,265)	(2,596)	(80,861)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB		-	-	-	-	-	-	1,172	1,172
Acquisition of subsidiary		-	-	-	-	82	82	-	82
Part of the increase in the authorised share capital of Lietuvos Energijos Gamyba AB by way of in-kind contribution attributable to non-controlling interest		-	-	-	-	-	-	76	76
Balance as at 31 December 2018 (restated*)		1,212,156	49,851	162,935	16	(169,994)	1,254,964	47,558	1,302,522

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Company	Note	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as 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)		-	-	-	-	-
Net profit for the reporting period		-	-	-	105,914	105,914
Total comprehensive income for the period		-	-	-	105,914	105,914
Transfers to legal reserve		-	4,758	-	(4,758)	-
Dividends	37	-	-	-	(59,752)	(59,752)
Balance as at 31 December 2017		1,212,156	14,516	-	117,103	1,343,775
Balance as at 1 January 2018		1,212,156	14,516	-	117,103	1,343,775
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	-	-
Total other comprehensive income/(loss)		-	-	-	-	-
Net profit for the reporting period		-	-	-	44,688	44,688
Total comprehensive income for the period		-	-	-	44,688	44,688
Transfer to legal reserve		-	5,295	-	(5,295)	-
Dividends	37	-	-	-	(78,265)	(78,265)
Balance as at 31 December 2018		1,212,156	19,811	-	78,231	1,310,198

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2018 (restated*)	2017 (restated)	2018	2017
Cash flows from operating activities					
Net profit for the period		(21,971)*	93,525	44,688	105,914
Adjustments for non-cash items:					
Depreciation and amortisation expenses	5,6,19	96,934*	107,579	7	3
Impairment of property, plant and equipment	6.19	3,151*	106,259	-	-
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	24	(10,003)	(72,872)	-	-
Result of revaluation of property, plant and equipment	6	76,617	(1,379)	-	-
Result of revaluation of investment property	7	(18)	3,929	-	-
Revaluation of derivatives		(354)	(2,165)	-	-
Impairment/(reversal of impairment) of financial assets		9,876	(1,003)	11,198	2,701
Impairment/(reversal of impairment) of investments in subsidiaries		-	-	6,815	9,414
Income tax expenses	36	(12,273)*	(3,327)	(535)	(458)
(Depreciation) of grants	24	(9,270)	(20,222)	-	-
Increase (decrease) in provisions		2,484*	(5,888)	(2,097)	2,903
Inventory write-down allowance/(reversal)		(718)	(98)	-	-
Expenses/(income) of revaluation of emission allowances		(8,933)*	(2,296)	-	-
Emission allowances utilised		908	932	-	-
Elimination of results of investing activities:					
- Dividend (income)	37	-	-	(67,378)	(124,704)
- (Gain)/loss on disposal and/or write-off of property, plant and equipment		477	2,258	-	-
- (Gain) loss on disposal of investments in subsidiaries and associates		-	(352)	-	(24)
Results of the revaluation and closing of derivative financial instruments		-	-	572	-
Other (income)/expenses of investing activities		82	-	15	217
Elimination of results of financing activities:					
- Interest (income)	34	(1,427)	(1,520)	(10,040)	(3,147)
- Interest expenses	35	12,442	7,858	11,217	3,802
- Other (income)/expenses of financing activities		2,263	597	924	48
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		(21,603)	3,672	106	(891)
(Increase) decrease in inventories, prepayments and other current assets		18,896	(55,678)	(20)	(32)
Increase (decrease) in amounts payable, deferred income and advance amounts received		47,281*	(15,586)	(463)	347
Income tax (paid)		(6,309)	(9,663)	-	15
Net cash flows generated from (used in) operating activities		178,532	134,560	(4,991)	(3,892)

	Notes	Group		Company	
		2018 (restated*)	2017	2018	2017
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets	5,6	(416,205)	(232,548)	(6,454)	(10,011)
Disposal of property, plant and equipment and intangible assets		48,162	5,525	-	-
Loans granted		-	-	(351,160)	(218,983)
Loan repayments received		-	34,759	140,117	51,091
(Acquisition) disposal of investments in subsidiaries	8	(23,509)	62	(46,254)	(19,060)
Grants received	24	25,523	7,798	-	-
(Acquisition) of bonds		-	-	-	-
Interest received		1,105	1,498	5,389	1,910
Dividends received		-	-	67,378	124,704
Other increases (decreases) in cash flows from investing activities		(1,582)	-	(1,582)	-
Net cash flows used in investing activities		(366,506)	(182,906)	(192,566)	(70,349)
Cash flows from financing activities					
Proceeds from borrowings	22	57,810	97,305	-	-
Issue of bonds	22	294,346	293,759	294,346	293,759
Repayments of borrowings	22	(155,421)	(284,904)	(95,052)	(106,662)
Finance lease payments	22	(544)	(158)	-	-
Interest paid	22	(10,402)	(4,436)	(7,746)	(786)
Dividends paid		(80,608)	(65,350)	(78,265)	(59,752)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB	8	7,840	-	-	-
Redemption of shares from non-controlling interest		-	(4,284)	-	-
Result of the closing of derivative financial instruments		(573)	(1,050)	(572)	126
Other increases (decreases) in cash flows from financing activities		-	-	(9,699)	-
Net cash generated from financing activities		112,448	30,882	103,012	126,685
Increase (decrease) in cash and cash equivalents (including overdraft)		(75,526)	(17,464)	(94,546)	52,444
Cash and cash equivalents (including overdraft) at the beginning of the period		161,101	178,565	52,517	73
Cash and cash equivalents (including overdraft) at the end of period	18	85,575	161,101	(42,029)	52,517

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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	At 31 December 2018		At 31 December 2017	
	Share capital, in EUR '000	%	Share capital, in EUR '000	%
Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania	1,212,156	100	1,212,156	100

As at 31 December 2018, the Group and the Company had 3,813 and 125 employees, respectively (31 December 2017: 4,513 and 104 employees, respectively).

During 2019 the Company and its subsidiaries changed their legal names as stated below:

New name	Former name
UAB „Ignitis grupė“	Lietuvos Energija, UAB
AB „Ignitis gamyba“	Lietuvos Energijos Gamyba AB
UAB „Ignitis“	Lietuvos Energijos Tiekimas UAB (former Lietuvos Dujų Tiekimas UAB)
UAB „Ignitis grupės paslaugų centras“	Technologijų ir Inovacijų Centras UAB
Ignitis Eesti OÜ	Geton Energy OÜ
Ignitis Latvija SIA	Geton Energy SIA
Ignitis Polska Sp.z.o.o.	Geton Energy Sp. z o.o.

All references to subsidiaries in this financial statement are retained in former names.

The Company’s management approved these financial statements on 20 April 2020. These financial statements have been prepared for the special purpose of debt transaction and are not subject for approval by the Company’s shareholders.

2 Summary of significant accounting policies

These financial statements have been prepared for the purpose of potential debt or equity capital market transaction / debt or equity fund raising.

The principal accounting policies applied in the preparation of these separate and consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These Group’s consolidated financial statements and certain notes herein have been restated to correct misstatements and to present changes in accounting policies retrospectively and reissued and supersede consolidated financial statements versions previously issued and dated 16 April 2019 for the year ended 31 December 2018. The Group concluded that its previously issued audited financial statements and related notes contained misstatements for the matters described. The group also changed accounting policies in 2019 and applies these retrospectively to 2018 figures for matters described below.

The management of the Group during 2019 have corrected errors and changed accounting treatment applied for:

- presentation of revenue received from new customers connection fees (Note 3.3)
- presentation of revenue relating to rendering of Public Service Obligations (hereinafter “PSO services”) (Note 3.3)
- presentation of incomes of Liquefied Natural Gas Terminal’s (hereinafter “LNGT”) security component collected from customers (Note 3.3) and
- presentation of incomes of electricity transfer (includes both transmission and distribution) and gas distribution services in Latvia (Note 3.3)
- accounting principles for revenue, receivables and payables related to regulated activities (Note 3.3)
- presentation of revenue and costs related to electricity trading exchange market through the forward and future contracts (Note 3.3)

Correction of errors and change of accounting treatment for the Group’s financial statements for the year ended 31 December 2019 are applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, therefore comparative figures of year 2018 are subject to correction and restatement in Group’s financial statements for the year 2019.

Following the above the Company issues these special purpose financial statements to reflect those corrections of errors and changes of accounting treatments (Note 3.3) in these consolidated financial statements prepared for the year ended 31 December 2018. In these financial statements the figures in the statement of financial position, profit or loss and other comprehensive income, cash flows and other relevant explanatory notes are presented as corrected and restated.

These separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). References to IFRS hereafter should be construed as references to IFRS as adopted by the EU. The separate and consolidated financial statements for financial years ending 31 December 2018, 31 December 2017 in this report have been prepared in accordance with International Financial Reporting

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Standards as adopted by the European Union and its interpretations and amendments ("IFRS") that were effective as at 31 December 2018 and 31 December 2017, accordingly.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The Group's and the Company's financial statements as at and for the year ended 31 December 2018 have been prepared on a historical cost basis, except for property, plant and equipment measured at revaluated amount, investment property, emission allowances and certain financial instruments measured at fair value.

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

IFRSs and their amendments adopted by the Group and the Company for the first time in the financial year ended 31 December 2018 are as follows:

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018). The main features of the new standard are as follows:

- 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.

On 1 January 2018, the Group and the Company adopted IFRS 9, *Financial Instruments* for the first time.

The Company estimated expected credit losses on trade receivables and loans receivable by assessing the clients on an individual basis as all services are provided to the subsidiaries and the loans are also mainly granted to the subsidiaries. The Company's management assessed the impact of the adoption of IFRS 9, *Financial Instruments* and amendments thereto on the Company's financial statements and established that the requirements of the new standard do not have a significant impact on the measurement results of trade receivables and loans receivable that were applied prior to the effective date of this standard.

The Group accounted for the impact of the first-time adoption of IFRS 9 starting from 1 January 2018 using the modified retrospective approach. The first-time adoption of the standard had no impact on the measurement of financial assets and financial liabilities, except that impairment of amounts receivable, which was recalculated under the requirements of the new standard, increased by EUR 471 thousand. The impact of the adoption of this standard was reported in the statement of financial position of 2018 by reducing retained earnings and recognising additional impairment of amounts receivable.

On 1 January 2018, the Group and the Company assessed debt financial assets compliance to criteria "solely payments of principle and interest on the principal amount outstanding" and, which business models are applied to financial assets held and reclassified financial instruments into respective categories established by IFRS 9.

The main impact of this reclassification for Company and Group is as follows:

	FAAC	FAFVOCI	FAFVPL
Amount receivable for the sale of LITGRID AB	174,535	-	(4,679)
Balance at 31 December 2017 under IAS 39	174,535	-	(4,679)
Reclassification of assets measured at amortised cost to financial assets measured at fair value through profit and loss	(174,535)		174,535
Balance at 1 January 2018 under IFRS 9	-	-	169,856

FAAC – financial assets subsequently measured at amortised cost;
FAFVOCI – financial assets subsequently measured at fair value through other comprehensive income;
FAFVPL – financial assets subsequently measured at fair value through profit or loss.

The first-time adoption of IFRS 9 affected the reclassification of the amount receivable for the sale of LITGRID AB from financial assets measured at amortised cost to financial assets subsequently measured at fair value through profit or loss. Other financial assets of the Company comprising trade receivables and loans granted are classified under the category of financial assets that are subsequently measured at amortised cost.

IFRS 15, Revenue from Contracts with Customers.

As at 1 January 2018, the Group and the Company adopted for the first time IFRS 15, *Revenue from Contracts with Customers* and amendments thereto. The Group and the Company accounted for the

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

impact of the adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach.

The Group's management assessed the impact of the adoption of IFRS 15, *Revenue from Contracts with Customers* and amendments thereto on the Group's financial statements and established that the requirements of the new standard will affect the recognition of revenue from new customer connection. Following the application of IFRS 15 with respect to revenue from new customer (NC) connection to the electricity system, the Group recognises such revenue over time, unlike the approach applied until 1 January 2018 (where revenue is recognised upon the fulfilment of an obligation). As effective legal acts require that a new customer conclude the transmission or public/guaranteed supply agreement with the Group, it means that a customer's connection to the network is not a separate performance obligation under IFRS 15, but it is interdependent with the electricity transmission service, therefore, NC connection revenue should be recognised over a period during which the electricity distribution service is provided. In view of this change, accrued NC connection revenue that had been recognised as revenue immediately between the period from 2 July 2009 and 31 December 2017 has been recalculated retrospectively and recognised over the estimated period of the provision of electricity distribution services to NC. Such a method of revenue recognition reduced the Group's retained earnings by EUR 73,318 million and will increase deferred revenue by a respective amount. The tax impact was estimated to be equal to EUR 10,997 thousand and was accounted for within retained earnings as well. The entry into force of IFRS 15 did not affect revenue from NC connection to the electricity networks that was accrued before 1 July 2009, because such revenue was recognised over time. Following the transfer of electricity public supply activities of Energijos Skirstymo Operatorius AB to Lietuvos Energijos Tiekimas UAB as of 1 October 2018, new customer connection is treated as a separate performance obligation under IFRS 15. This entails that inflows received from new customers will from 1 October 2018 be recognised as revenue upon connecting the customer to electricity distribution networks.

As a result of the application of IFRS 15 to the NC connection to gas network service revenue that was accrued and recognised in the statement of financial position over the useful life of property, plant and equipment created during the connection (i.e. deferred revenue) will from 1 January 2018 be recognised upon fulfilment of the connection obligation. Such estimation made by management is based on the fact that the Company's customers have a possibility to ensure the provision of natural gas distribution services by concluding a supply agreement with a natural gas supply company. A majority of the Group's customers make use of such a possibility. Consequently, the sole agreement concluded with the consumer is the NC connection agreement, under which all obligations assumed with respect to the consumer are deemed to be fulfilled when the connection service has been provided. Such a method of revenue recognition increased the Group's retained earnings by EUR 10,356 thousand and reduced deferred revenue by a respective amount. However, deferred NC connection revenue had an impact on the value of property, plant and equipment used in the gas segment (i.e. the impairment test showed that deferred NC connection revenue increased the carrying amount of property, plant and equipment used of the gas distribution network. As a result, such an accounting treatment of revenue had an impact on the carrying amount of property, plant and equipment used in the gas segment as it had exceeded the recoverable value, and value adjustment was reported within the Group's retained earnings (deficit) upon the initial adoption of IFRS 15. The total amount of these reclassifications in the gas segment, including a tax impact, is equal to zero.

The impact of the first-time adoption of IFRS 9 and IFRS 15 on the items of the Group's statement of financial position is shown in the table below:

	At 31 December 2017	IFRS 15	IFRS 9	At 1 January 2018
ASSETS				
Non-current assets				
Property, plant, and equipment	1,761,082	(10,356)	-	1,750,726
Deferred income tax assets	7,084	10,997	-	18,081
Current assets				
Trade receivables	112,563		(471)	112,092
EQUITY AND LIABILITIES				
Equity				
Retained earnings (deficit)	(13,706)	(59,194)	(453)	(73,353)
Non-controlling interest	45,796	(3,127)	(18)	42,651
Non-current liabilities				
Deferred revenue	54,509	63,839	-	118,348
Current liabilities				
Other current amounts payable and liabilities	114,663	(877)		113,786
<i>Deferred revenue</i>	5,243	(877)	-	4,366

The adoption of IFRS 15 affected the classification and presentation of the Group's revenue under contracts with customers and other income, therefore, as of 1 January 2018, income items *Repair services, IT and communications services, and Electricity equipment relocation income* are included within *Revenue under contracts with customers* in the statement of comprehensive income; comparative figures for 2017 have been also reclassified. Upon the enactment of the standard, the line item *Other income* of the statement of comprehensive income also comprises income from derivative financial instruments; comparative figures for 2017 have been also reclassified.

Statement of profit or loss and other comprehensive income

The impact of IFRS 15 on the comparative figures as at 31 December 2017 of the Group's statement of profit or loss and other comprehensive income due to the reclassification is presented in the table below:

	At 31 December 2017	IFRS 15	Reclassified as at 31 December 2017
Revenue from contracts with customers	1,064,459	16,760	1,081,219
Other income	36,372	(16,760)	19,612
	1,100,831	-	1,100,831

The application of IFRS 15 affected the presentation of the current portion of the Group's deferred revenue liabilities related to the connection of new customers to the gas and electricity distribution networks in the statement of financial position. As described in Note 2.20, revenue from the connection of new customers to the electricity and/or gas distribution networks is recognised immediately upon completion of the connection works. Therefore, the largest portion of the Group's deferred revenue as presented in the statement of financial position comprises liabilities recognised until 1 October 2018. Based on estimates of the Group, current deferred revenue liabilities comprise a significant portion of the Group's liabilities and are therefore presented separately from other amounts payable and liabilities in the statement of financial position at 31 December 2018. In this respect, current deferred revenue

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

liabilities of the comparative period are presented in the Group's statement of financial position also separately from other amounts payable and liabilities.

The impact of IFRS 15 on the comparative figures as at 31 December 2017 of the Group's statement of financial position due to the reclassification is presented in the table below:

	At 31 December 2017	IFRS 15	Reclassified as at 31 December 2017
Deferred revenue	-	5,242	5,242
Other current amounts payable and liabilities	114,663	(5,242)	109,421

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

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

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

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

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

IFRS 16: Leases (New)
(published 31 January 2016, effective from 1 January 2019)

The Company and the Group first-time adopted IFRS 16 Lease in the financial year ended 31 December 2019, which had a significant impact on the Company's and the Group's financial statements.

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 are required to recognize:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

(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 statement of profit or loss and other comprehensive income 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. When the Group/Company is a leasee, the value of assets being transferred under the lease agreement and related lease liabilities is stated in the Group and the Company's statement of financial position.

The Company and the Group accounted for the impact of the first-time adoption of IFRS 16 starting from 1 January 2019 using the modified retrospective approach.

The Company and the Group performed the calculation of assets transferred according to the lease agreement and related liabilities under IFRS 16. At 1 January 2019, the Company and the Group recognized assets and liabilities managed under the right-of-use, which indicates the impact of the first-time adoption of IFRS 16 on the Group's and the Company's financial statements.

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

	As at 31 December 2018	IFRS 16	As at 1 January 2019
ASSETS			
Non-current assets	2,411,007	14,566	2,425,573
Property, plant and equipment	2,091,386	(35,969)	2,055,417
Right-of-use assets	-	50,535	50,535
Current assets	442,884	-	442,884
TOTAL ASSETS	2,853,891	14,566	2,868,457
EQUITY AND LIABILITIES			
Equity	1,302,522	-	1,302,522
Retained earnings (deficit)	(169,994)	-	(169,994)
Non-current liabilities	1,168,707	12,281	1,180,988
Non-current lease liabilities	14,334	12,281	26,615
Current liabilities	382,662	2,285	384,947
Lease liabilities	5,220	2,285	7,505
TOTAL EQUITY AND LIABILITIES	2,853,891	14,566	2,868,457

The impact of the first-time adoption of IFRS 16 on the Company's financial statements is shown in the table below:

	As at 31 December 2018	IFRS 16	As at 1 January 2019
ASSETS			
Non-current assets	1,892,716	1,024	1,893,740
Right-of-use assets	-	1,024	1,024
Current assets	197,404	-	197,404
TOTAL ASSETS	2,090,120	1,024	2,091,144
EQUITY AND LIABILITIES			
Equity	1,310,198	-	1,310,198
Retained earnings (deficit)	78,231	-	78,231
Non-current liabilities	671,623	253	671,876
Non-current lease liabilities	-	253	253
Current liabilities	108,299	771	109,070
Lease liabilities	-	771	771
TOTAL EQUITY AND LIABILITIES	2,090,120	1,024	2,091,144

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows::

	Group	Company
The future minimum lease payments under irrevocable operating lease agreements as at 31 December 2018 are as follows:	21,464	1,033
Less: Commitments relating to short-term leases	(23)	-
Less: Commitments relating to leases of low-value assets	(6)	-
Corrected future minimum lease payments under irrevocable operating lease agreements as at 31 December 2018 are as follows:	21,435	1,033
The weighted average interest rate as at 1 January 2019, %	3,44	0,42
The lease liability is recognized on 1 January 2019 by applying the interest rate	14,566	1,024
Lease liabilities as at 1 January 2019	14,566	1,024
whereof:		
Short-term lease liabilities	2,285	771
Long-term lease liabilities	12,281	253

Practical expedient when the Group and the Company is a lessee:

Upon adoption of IFRS 16, the Group and the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The following specific transition requirements and available practical expedients that the standard provides were applied by the Group and the Company:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics,
- For initial application applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date and to leases for which a new underlying asset is of low value amounted to thousand 3 EUR or less,
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application,
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The first-time adoption of the interpretation did not have any significant impact on the Group's and the Company's financial statements for twelve-month period ended 31 December 2019.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; on 22 March 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The first-time adoption of the amendment did not have any significant impact on the Group's and the Company's financial statements for twelve-month period ended 31 December 2019.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The first-time adoption of the amendment did not have any significant impact on the Group's and the Company's financial statements for twelve-month period ended 31 December 2019.

Annual Improvements to the IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The first-time adoption of the improvements did not have any significant impact on the Group's and the Company's financial statements prepared for twelve-month period ended 31 December 2019.

Conceptual Framework for Financial Reporting (published on 29 March 2018; effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The Framework sets out the fundamental concepts for the preparation of financial statements that guide the publisher of the standards in developing the International Financial Reporting Standards. The Framework also assists

companies in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to understand and interpret the Standards. The revised Framework establishes the definitions of assets and liabilities as well as criteria for recognising assets and liabilities in financial statements. The Framework sets out the following improvements:

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

The revised Framework provides additional explanations related to the principles of prudence and substance over form, measurement uncertainty, and management's stewardship of the entity's economic resources. According to the Group's and the Company's management, the first-time adoption of the updated Framework did not have any significant impact on the Group's and the Company's financial statements.

Definition of a Business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendment to the standard was prepared with an aim to facilitate companies in determination whether they have acquired a business or a group of assets. The amendment confirms that a business is comprised of inputs and processes and clarifies that these processes must be substantial, and that inputs and processes must be used together to contribute to the ability to create outputs. The amendment narrows the definition of a business by focusing on goods and services provided to customers and other income from ordinary activities, rather than the provision of dividends or other benefits to investors or reduction of costs. In performing an assessment on the activities and assets acquired, companies may apply a test that permits a conclusion on whether an acquired group of assets is not a business if substantially the value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. According to the Group's and the Company's management, the first-time adoption of the amendment did not have any significant impact on the Group's and the Company's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (published 7 February 2018, effective from 1 January 2019)

The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The first-time adoption of the amendment did not have any significant impact on the Group's and the Company's financial statements for twelve-month period ended 31 December 2019.

Amendments to IAS 1 and IAS 8: Definition of a Material (published 31 October 2018, effective from 1 January 2020)

The amendments are effective annual reporting periods beginning on or after 1 January 2020. 1 January. or later with the option to apply earlier. The amendments clarify the definition of 'material' and how it should be applied. New definition clarifies that 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRSs. The amendments have not yet been endorsed by the EU. According to the Group's and the

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Company's management, the first-time adoption of the amendment did not have any significant impact on the Group's and the Company's financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (published 26 September 2019, effective from 1 January 2020)

Amendments to IFRS 9, IAS 39 and IFRS 7 conclude phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. According to the Group's and the Company's management, the first-time adoption of the amendment did not have any significant impact on the Group's and the Company's financial statements.

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

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2019 or later and that have not been adopted when preparing these financial statements:

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

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

impact on the Group's and the Company's financial position or results of operations as insurance services are not provided.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published 11 September 2014)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IFRS 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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that adoption of new standard will have no significant effect on financial statements of the Company and the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current (published 23 January 2020, effective from 1 January 2022)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. The management of the Group is currently assessing the impact of this amendment on their financial statements. These Amendments have not yet been endorsed by the EU.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

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.

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 in profit (loss). Afterwards, decrease/increase in contingent consideration is accounted through 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.

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 at initial recognition are

carried 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. Profit and other distributions received by the Group from an associate reduce the carrying amount of the investment in the associate. Adjustments to the investment's carrying amount are also performed for changes in the Group's share of the net assets in the associate arising from changes in the associate's other comprehensive income

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 profit or loss. 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.

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. 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. 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 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

carrying amount of an asset arising on revaluation are recognised in profit or loss; decreases that offset previous increases of the same asset area 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:

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

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 recognised 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 a business combination (license to produce electricity with incentive tariff), useful life is determined to be 12 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

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 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.

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 valuers. Investment property is not depreciated, and gain or loss on change in the fair value of investment property is recognised in profit or loss for the reporting period.

Transfers to and from investment property are made only when there is an evidence of change in the purpose of use of assets. 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 Company/Group recognises a financial asset in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised using trade date accounting.

Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of a financial asset.

Transaction costs comprise all charges and commission that the Company/Group would not have paid if it had not entered into an agreement on the financial instrument.

Following the adoption of IFRS 9 *Financial instruments* from 1 January 2018, the Company and the Group classify their financial assets into the following three new categories:

- (i) financial assets subsequently measured at amortised cost;
- (ii) financial assets subsequently measured at fair value through other comprehensive income;
- and
- (iii) financial assets subsequently measured at fair value through profit or loss.

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

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

Financial assets measured at amortised cost

Loans granted by the Company/Group, amounts receivable, and cash and cash equivalents are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows. These assets are stated at amortised cost using the effective interest method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses. Effective interest rate method is a method applied to allocate interest income over the relevant period so as to achieve a constant periodic rate of interest (effective interest) on the carrying amount. The effective interest rate exactly discounts estimated future cash inflows or outflows (excluding future expected credit losses) to gross carrying amount of the financial instrument over the expected life of the financial instrument or a shorter period, if necessary.

Financial assets are recognised as 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.

Assets held in order to collect contractual cash flows that represent solely payments of principal and interest (SPPI) are carried at amortised cost. Interest income calculated on these financial assets is recognised as finance income and amortised using the effective interest rate method. Any gain or loss arising from the write-off of assets is recognised in the statement of profit or loss and other comprehensive income. Impairment losses are accounted for as impairment and write-off expenses in the statement of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss

Debt instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at fair value through other comprehensive income (FVOCI) are stated as financial assets to be measured at fair value through profit or loss (FVPL).

To this category, the Company/Group attributes amounts receivable from disposal of business or equity instruments that do not meet the SPPI conditions. The Company/Group attributes financial assets to assets measured at fair value through profit or loss, if this eliminates or significantly reduces

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising gains or losses thereof on different bases. A gain or loss on fair value measurement of debt investment is recognised in profit or loss in the period in which it arises.

Effective interest method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss over the relevant period.

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

Impairment of financial assets – expected credit losses

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators.

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

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

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

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

For short-term trade receivables without a significant financing component the Company/Group applies a simplified approach required by IFRS 9 and measures the loss allowance at expected lifetime credit losses from initial recognition of the receivables.

The Company/Group assesses all material amounts receivable individually, and all immaterial amounts collectively.

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

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company/Group uses the loss coefficient matrix (on a collective basis). The loss coefficient matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss coefficients are updated during the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years or of customer types. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics. The non-recoverability analysis is conducted for the last several years in order to determine the general default ratio. As regards different groups of consumers, a different loss coefficient matrix is used.

The lifetime expected credit losses of other amounts receivable are assessed based on the individual assessment basis. The Company's/Group's management performs the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower.

Recognition stages of expected credit losses:

1. Upon granting of a loan or concluding a finance lease agreement, the Company/Group recognises the expected credit losses for the twelve-month period. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
2. Upon establishing that the credit risk related to the borrower or lessee has significantly increased, the Company/Group accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Interest income from loans (finance leases) is calculated on the carrying value of the financial assets, without adjusting it by the amount of expected credit losses.
3. Where the Company/Group establishes that the recovery of the loan is doubtful or that the condition of the lessee shows that the loan of this lessee needs to be classified as doubtful debts, the Company/Group classifies this loan (finance lease receivables) as credit-impaired financial assets (doubtful loans and other receivables). Interest income from the loan (finance lease) is

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

calculated on the carrying amount of financial assets which is reduced by the amount of expected credit losses.

In stage 2, an assessment of the significant deterioration in the borrower's financial situation is performed by comparing the financial situation as at the time of the assessment and the financial situation as at the time of issuing the loan.

The latest point at which the Company/Group recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company/Group accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- a) significant financial difficulty of the borrower;
- b) a breach of contract, such as a default or past due event for more than 90 days;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties;
- f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

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

Derecognition of financial assets

A financial asset (or, where applicable a part of financial asset or 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:
 - if control is not retained, the financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised separately as assets or liabilities;
 - if control is retained, it shall continue to recognise the financial asset is continued to be recognised to the extent of continuing involvement in the financial asset.

Whether the control of the transferred asset is retained depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party

and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, control is not retained. In all other cases, control is retained.

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

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 Financial liabilities and equity instruments issued

Recognition of instruments as debt or equity instruments

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Equity instruments

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

Financial liabilities

Liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings and bonds issued at the moment of initial recognition, are recognised at fair value, less transaction costs.

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

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

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

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.

Derecognition of financial liabilities

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

2.17 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 2018 and 2017, a standard income tax rate of 15 per cent was applicable to the companies in Lithuania.

Tax losses can be carried forward for indefinite period, except for losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company terminates the activities that caused these losses, except when the Company discontinues its activities due to the reasons that are beyond the Company's control. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax

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

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.

2.18 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

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. 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.

2.19 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 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 servitudes

Provisions for servitudes are recognised only when the Group and the Company have a legal obligation or irrevocable commitment as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses related to provision for servitudes are recognised as non-current intangible assets in view of amounts to be compensated. 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 obligation. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provisions for onerous contracts

Provisions for onerous contracts 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.

2.20 Revenue and expense recognition

Revenue from contracts with customers

The Group and the Company in the contracts with customers identifies performance obligations (stated either explicitly or implied) to transfer either distinct goods or services or series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Promised goods or services represent separate performance obligation if the goods or services are distinct. A promised good or service is considered distinct if both of the following criteria are met:

- (i) customer can benefit from the good or service on its own or with other readily available resources and
- (ii) the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract).

Group's major distinct performance obligations identified in the contracts with customers are: sale of electricity and gas, supply, transmission, distribution, new customers connection fees, provision of Public Service Obligations (hereinafter "PSO services") and provision of Liquefied Natural Gas Terminal Security Component Obligations (hereinafter "LNGT services"). PSO services are described in this Note under heading "Public Service Obligations", LNGT services – under heading "LNGT security component".

Where contracts with customers include variable consideration, the Group and the Company estimate such considerations over the life of the respective contracts and updates that estimate at each reporting period

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. When recognising revenue, the Group and the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

Revenue from sale of electricity

The Group's sale of electricity to end customers includes production, distribution, supply, electricity-related services, Public Service Obligations Fee (hereinafter "PSO fee") and other services rendered in the process of sale of electricity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Revenue from sale of electricity to household customers is recognised in each reporting period according to issued invoices, in which the volume of electricity consumed is calculated. The volume of electricity consumed is calculated on the basis of declared or actual readings. If declared or actual readings are not available, revenue from sale of electricity is recognised based on the average method. Revenue from sale of electricity to business customers is recognised upon sale of electricity based on the actual consumption of electricity which is determined according to the readings of electricity meters. Revenue from electricity distribution services is recognised on a monthly basis referring to the readings of measuring devices as submitted by customers.

Electricity tariff

Final electricity tariff to end customers comprise of the following components:

- (a) Electricity price itself (import or price of manufactured)
- (b) Electricity supply services' price
- (c) Electricity transfer services' price, which include two components: transmission over high voltage grid and distribution over medium and low voltage grid
- (d) PSO fee

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

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

Electricity supply is provided by the Group and the revenue from them is recognised over time based on the actual electricity supplied. Electricity transmission services are provided by transmission system operator which is not a part of Group. The Group collects electricity transmission fees from business customers and private individuals and transfer them to transmission system operator. In Lithuania the Group having contracts with end users, where it is clearly stated that for operations of electricity transfer services (includes transmission and distribution) and meters is responsibility of the Group, consider itself as a Principal and therefore the revenue from transmission services is recognized on a gross basis (Note 4). In Latvia for the operations of electricity transmission and distribution services and meters is responsibility of the transmission/distribution system operator which is not a part of the Group, therefore in relation of these services the Group consider itself as an Agent (see Note 4). In Lithuania electricity distribution services are provided by the Group.

Public Service Obligations

The purpose of PSO services' provision is to implement the strategic objectives of the energy, economic and environmental policy of the Republic of Lithuania, ensuring the implementation of the interests of all electricity consumers. Under the public service obligation scheme approved by Ministry of Energy PSO fees are collected by electricity suppliers from end users through the electricity tariff and transferred then to the budget, from which the Public Service Obligation Funds (hereinafter "PSO funds") are distributed (i.e. disbursed) to PSO service providers. The list of services supported by PSO

is determined by the Government of the Republic of Lithuania.

Collection of PSO fees

PSO fee is an integral part of electricity tariff to the customer. As well as transmission service fees the Group collects PSO fees from business customers and private individuals, connected to electricity distribution grid, and transfer them to the operator of energy exchange Baltpool UAB, which also acts as the administrator of PSO services and is engaged in the collection of PSO fees, payments and administration of PSO funds.

The Group acting as an electricity supplier, who collects PSO fees through the electricity tariff from end users and then transfers them to operator of electricity exchange, consider itself as an Agent due to lack of control over PSO fees and therefore the income of PSO fees is recognized on a net basis (Note 4), i.e. an income and disbursements of PSO fees are recognized under the "Purchases of electricity, gas for trade and related services" item in a statement of profit or loss and other comprehensive income.

Revenue from PSO service provision

The Group provides PSO services that are approved by the Government of the Republic of Lithuania and is entitled to the PSO funds. PSO funds are recognized as revenue under the "Revenue from contracts with customers' item in a statement of profit or loss and other comprehensive income. The Group obtains the income of PSO funds from the provision of the following PSO services:

- (i) the Group commits to render the services that serve the public interest in accordance with the procedures and terms established by the regulatory legal acts, including ensuring power system reserves in predetermined power plants, the activity of which is essential for the purpose of ensuring energy security of the state (see Note 4). The benefits of the services of ensuring power system reserves are brought to customers throughout the period of the service, during which, accordingly, the seller carries out its performance obligation.

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

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

- (ii) the Group produces electricity from renewable energy sources which are public interest services and is qualified for subsidies financed by the PSO fund budget. The support is granted over a period of 12 years at a premium to the market price. The revenue of PSO funds is calculated according to factual produced volume of electricity. PSO funds are paid under a public service obligations scheme based on pre-determined annual quantities and prices of services set by NERC. The tariff is established by NERC based on the estimates of variable electricity production costs provided by the producers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Revenue from sale of electricity

Sales of self-generated electricity

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

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

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

Electricity trading on stock exchange

Revenues from the sale of electricity are recognized in the period in which the buy / sell transaction took place on the stock exchange. Revenues from the sale of electricity on stock exchanges are recognized in accordance with IFRS 9 and presented as the balance within the costs of energy purchase.

The Group participates in electricity trading exchange market through forward and future contracts. The purpose of these deals is to earn profits from short-term fluctuations in electricity prices on the exchange. In such deals the Group does not provide supply of electricity to final customers. Settlements are made by settling liabilities between the Group and the other party to the exchange transaction, and by making a cash payment for the remaining outstanding debt. The Group accounts for contract balances in the financial statements at fair value, and income and expenses are presented in one item "Purchases of electricity, gas for trade, and related services" in Profit or loss and other comprehensive income as profit or loss. Presentation of revenue and costs in one item is based on the fact that, under IFRS 9, transactions made by the Group cannot be classified under the own use' exception, and therefore only the result of those transactions should be recognized in profit or loss. (Note 4).

Revenue from electricity-related services

Other revenue from the services related to energy supply comprises the following:

- 1) revenue from generation of electricity of the active capacity reserve,
- 2) revenue from assurance of the capacity reserve,
- 3) revenue from reactive power and voltage management services,

4) system recovery after the total accident, including isolated operation testing (hereinafter 'the Services').

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

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

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

Revenue from supply and transfer of electricity

Revenue from supply and transfer (includes both transmission and distribution) of electricity to household customers is recognised in each reporting period according to issued invoices, in which the presented volume of electricity consumed is calculated on the basis of declared or actual readings, i.e. determined upon inspection or received via smart meters. If declared or actual meter readings are not available, revenue from supply and transfer of electricity is recognised based on the average usage estimation method.

Revenue from supply and transfer of electricity to business customers is recognised over time based on the actual electricity supplied which is determined according to the readings of electricity meters.

The Group has concluded that it is acting as an Agent in the provision of (i) electricity transfer, which includes both transmission and distribution in Latvia and (ii) gas distribution services, provided in Latvia because the Group has no control over these service obligations (Note 4).

Tariffs for electricity transmission, distribution and supply are regulated by regulation institutions by establishing the upper limit for tariffs of the transmission, distribution and supply services. Specific prices for the transmission, distribution, supply are established by the supplier of the service within the limits approved by regulation institution.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Revenue from electricity-related services: electricity balancing services

Revenue from electricity balancing services is recognized when the services are provided. In order to balance the electricity supply schedule, the Group provides service of electricity balancing: provides the missing electricity to or accept the excess from electricity transmission system, thus ensuring the optimal amount of electricity in the transmission system.

Revenue from electricity balancing services is recognized as income in the statement of profit or loss and other comprehensive income on a monthly basis based on monthly reported amounts of electricity received / supplied.

Revenue from supply of thermal energy

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

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

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

Revenue from sale of natural gas

The Group's sale of natural gas to end customers includes gas price, distribution, supply, LNGT security component and other services rendered in the process of sale of natural gas.

Natural gas tariff

Final natural gas tariff to end customers comprise of the following components:

- (a) Cost of gas import
- (b) Natural gas transfer cost, which includes transmission over high-pressure and distribution over medium and low pressure grids costs
- (c) LNGT security component

In Lithuania natural gas distribution services are provided by the Group and the revenue from them is recognised over time based on the actual natural gas supplied. In Latvia natural gas distribution services are provided by the operator of distribution system which is not a part of the Group. Natural gas transmission services are provided by the gas transmission system operator.

LNGT security component

The Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania (Article 5.2) provides that contribution so-called security component related to the following securities of natural gas supply shall be collected from end users and added to the natural gas transmission price:

- for the installation of LNGT, its infrastructure and connection and all fixed operating costs that are not included in other state regulated prices, and
- to compensate for the reasonable costs of supplying the minimum quantity required to ensure the necessary operation of the LNGT

Similarly to PSO services, LNGT security component is collected by natural gas suppliers from end users through the natural gas tariff and transferred then to the budget, from which the LNGT funds are distributed (i.e. disbursed) to LNGT service providers.

The Group acts as a natural gas supplier that collects LNGT security component from end users and as designated liquefied natural gas (hereinafter "LNG") supplier the function of which is to ensure the necessary operation of the LNGT by supplying the minimum quantity of natural gas.

Group's action as natural gas supplier to end users

LNGT security component and natural gas transmission services are an integral part of natural gas tariff to the customer. Payments for LNGT security component and gas transmission services are collected directly from customers or natural gas suppliers, if the customers don't have a direct contract with the operator of transmission system. Collected amounts of LNGT security component are transferred to operator of transmission system AB Amber Grid which is appointed to perform the function of administering the LNGT security component. In accordance of IFRS 15 the Group in providing these services consider itself by acting as an Agent and recognises the revenue on a net basis, because the Group is not exposed to any inventory risk, as well as the Group has no legal power to establish pricing of this component. The income of LNGT security component is recognized on a net basis (Note 4), i.e. an income and disbursements of LNGT security component are recognized under the 'Purchases of electricity, gas for trade and related services' item in a statement of profit or loss and other comprehensive income.

Group's action as designated LNG supplier to gas market

In order to maintain the LNG Terminal infrastructure in minimum mode, a certain amount of natural gas, which is to be supplied through the LNG Terminal, is required for filling, regasification or transshipment and supply to the Lithuanian natural gas system or the international LNG market.

The Law on the LNG Terminal and the Description of the Natural Gas Supply Diversification Procedure determines that the required quantity shall be supplied by the designated supplier (nominated by the Ministry of Energy for 10 years) by concluding a contract with the LNG supplier.

To ensure the operation of LNG terminal the designated supplier shall sell the required quantity on a competitive market and therefore its costs which due to the nature of its activities are exclusively borne (whereas other suppliers don't incur) are compensated by operator of transmission system paying LNGT funds that are paid from the budget of LNGT security component collected by natural gas suppliers from end customers. Therefore the Group receives the revenue of these LNGT funds. LNGT funds are recognized as revenue under the "Revenue from contracts with customers' item in a statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Revenue from distribution of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised over time based on the readings of measuring devices provided by users or, if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, as agreed with NERC (an accrual basis).

Revenue from household customers is recognised over time based on the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas distributed to them (an accrual basis). Revenue from household consumers does not form a significant part of revenue from natural gas distribution activities.

In relation of distribution services provided in Latvia the Group considers itself as an Agent. The Group is not responsible for development/maintenance of gas distribution network in Latvia, accordingly not responsible that these funds are used for their intended purpose. The Company is not exposed to any inventory risk, as well as the Group has no legal power to establish the pricing of gas distribution services provided in Latvia (Note 4).

Revenue from supply of natural gas

Revenue from supply of natural gas to non-household customers is recognised on a monthly basis referring to the readings of measuring devices provided by them and verified by the distribution system operator (an accrual basis). Revenue from supply of natural gas to household customers is recognised on a monthly basis referring to the readings of measuring devices provided by them and adjustments to estimated mismatches between quantities of gas declared by household customers and quantities of gas used by them (an accrual basis).

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

Revenue from gas-related services: gas balancing services

The transaction of the balancing of natural gas provides two parts: the transmission of liquefied natural gas at the fixed value of natural gas as established in the agreement with an obligation to repurchase it, and the balancing service, which comprises the supplied/accepted quantity of natural gas at the fee established in the agreement. The recipient of the service assumes the natural gas price risk.

Since the Group has an obligation to repurchase the transmitted quantity of gas or to return the accepted quantity of gas, such a transaction is not regarded as a sale of goods, and revenue is recognised only for the balancing service rendered.

Revenue from sale of services for the quantity of natural gas supplied/accepted, i.e. the balancing service, is recognised as sales revenue in the statement of profit or loss and other comprehensive income each month with reference to the data on the quantity of natural gas accepted/supplied each month submitted on a monthly basis.

Natural gas price risk is recognised as revenue or cost in the statement of profit or loss and other comprehensive income by each time accepting the returned quantity of natural gas. The change in

price is assessed on the basis of the fixed value of natural gas as established in the agreement and the actual gas price prevailing in the market at the moment of the return.

Revenue from gas-related services: gas reload and storage services

The Group, acting as an intermediary in the provision of LNG reloading and storage services, is not exposed to the risk of stock price fluctuations, and therefore does not register LNG gas purchased for reloading purposes as its own inventory, and recognizes the service income in the statement of profit or loss and other comprehensive income.

Regulation of tariffs and profitability

Profitability of some individual Group companies and their individual activities is regulated by NERC 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 only through the provision of services in the future.

Tariffs for electricity and gas distribution are regulated by NERC 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 NERC.

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

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

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 NERC.

Tariffs for import and export of electricity are not regulated.

Revenue from new customers connection fees

Until 1 January 2018

Fees paid by new customers for connection to the electricity network were recognised upon the connection of the customer's equipment to the electricity distribution networks. Payments made by users for the connection to the Group's gas system are recorded as deferred income in the statement of financial position and recognised as income over the depreciation period of the capitalised property,

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

plant and equipment concerned. This revenue is included in the statement of comprehensive income as revenue from customers

From 1 January 2018

From 1 January 2018 to 30 September 2018, fees received for the connection of new customers were recognised as income for the period in which the Group ensured the connection of a new customer to the electricity distribution networks. Following the transfer of electricity public supply activities as of 1 October 2018, new customer connection in electricity segment was reconsidered as a separate performance obligation under IFRS 15, accordingly related revenue from 1 October 2018 was recognized when connection service was fully provided.

From 1 January 2018, the fees paid by new customers for the connection to the Group's gas system are recognised as revenue upon connecting the customer to the gas distribution pipeline.

In 2019 year management has applied a significant judgment and as further discussed in Note 4 concluded that all gas and electricity connection fees should be deferred over the useful lives of the related assets.

Other revenue sources

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 and other 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.

2.21 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 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 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 in the statement of comprehensive income. Upon the realisation of emission units, the positive balance in the revaluation reserve is recognised directly within 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.

2.22 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

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.

2.23 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.

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.

2.24 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.

2.25 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.

2.26 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.

2.27 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.

2.28 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.

2.29 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.

2.30 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.

2.31 Financial guarantee contracts

The Company provides financial guarantees in relation to loans or other liabilities of the subsidiaries for compensation, which is recognised in profit and loss on an 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.

2.32 Put option arrangements

The Group has a written put option over the equity of subsidiary UAB Kauno Kogeneracinė Jėgainė which permit the holder to put their shares in the subsidiary back to the group in a deadlock situation

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

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 the euro as its official currency. The sale/purchase contracts of the Group and the Company are mainly denominated in the euro. Foreign exchange risk is mainly characteristic to contracts concluded by the Company's subsidiaries for the purchase of natural gas from third parties. Aiming to reduce foreign exchange risk the agreement on natural gas purchase and supply is concluded in the same currency. As foreign exchange risk is insignificant to the Group - sensitivity analysis information is not provided.

In 2017, the Company's subsidiary Energijos Tiekimas UAB established in Poland a company controlled by the Group Geton Energy Sp. z o.o. whose assets and liabilities are recorded in Polish zloty. The expansion of the subsidiary's activities in the future may expose the Group to foreign exchange risk due to fluctuations in exchange rates of the Polish zloty against the euro.

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 at 31 December 2018. The Company has financial liabilities measured at amortised costs with fixed interest rates, therefore, its exposure to interest rate risk is limited. .

Interest rate risk is substantially related to the risk that the interest rate of the credits held by the Group might be subjected to adverse changes. In managing its financial liabilities, the Group aims to keep the average maturities of the Group's non-current liabilities to not be less than 10 years. In exceptional cases relating to the specific nature of the business of projects being implemented, a shorter maturity of non-current liabilities assumed is also available.

In assuming debt obligations, it is aimed that non-current liabilities would bear a fixed interest rate. If the fixing of the interest rate is not possible due to objective reasons and the liability assumed comprises a significant amount (in the context of the Company or the Group), interest rate derivatives are used for the purpose of interest management, including interest rate swaps, interest rate options, interest rate collars, and interest rate swaptions. The aim must be that non-current borrowings with fixed interest rates comprised no less than 50% of the Group's consolidated long-term loan portfolio.

The usage of any of the interest rate derivatives requires the expiry date of the derivative to correspond to the maturity date of the debt obligation.

The risk of adverse changes in interest rates of investments is not actively managed. Risk management measures are applied only when the market has obvious indications that the interest rate might significantly decrease, resulting in negative investment returns.

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
2018	0.3/-0.3	(40)/40
2017	0.3/-0.3	(65)/65

Company	Increase/decrease, percentage points	(Decrease)/increase in profit
2018	0.3/-0.3	52/(52)
2017	0.3/-0.3	60/(60)

As at 31 December 2018, the Group and the Company had no significant valid interest rate swaps.

Fair values of financial instruments

The Company's and the Group's derivative financial instruments (Levels 1 and 2), the Company's and the Group's equity instruments (Level 1), the Company's and the Group's price premium payable and amounts receivable in relation to acquisitions of subsidiaries (Level 3) are measured at fair value.

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 measured at amortised cost approximated their fair value, except for bond issue debts and debt obligations to OP Corporate Bank Plc and SEB Bankas AB taken over from Energijos Skirstymo Operatorius AB.

The bond issue debt of EUR 588,999 thousand (31 December 2017: EUR 293,981 thousand) (Note 22), the fair value of which was equal to EUR 599,261 thousand as at 31 December 2018 (31 December 2017: EUR 297,680 thousand), was reported in the Company's statement of financial position at 31 December 2018. The fair value was calculated by discounting future cash flows related to the coupon payments with reference to the interest rate observable in the market and the payment of EUR 300,000 thousand on 14 July 2027, as well as the payment of EUR 300,000 thousand on 10 July 2028. The cash flows were discounted using a discount rate of 1.9%. The bond issue debt is attributed to Level 2 of the fair value hierarchy.

As at 31 December 2017, the fair value of the Company's amounts receivable related to EUR 100,000 thousand green bond amounts receivable of the subsidiary Energijos Skirstymo Operatorius AB was approximately equal to EUR 101,283 thousand as at 31 December 2017. The fair value is estimated by discounting cash flows with reference to the interest rate observable in the market – 2,0865%.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

As at 31 December 2018, the fair value of the Company's amounts receivable related to EUR 366,288 thousand green bond amounts receivable of the subsidiary Energijos Skirstymo Operatorius AB was approximately equal to EUR 372,238 thousand as at 31 December 2018. The fair value is estimated by discounting cash flows with reference to the interest rate observable in the market – 2,143%.

On 8 November 2017, the Company took over debt liabilities of its subsidiary Energijos Skirstymo Operatorius AB to creditors, i.e. the banks OP Corporate Bank Plc and SEB AB. As at 31 December 2018, the subsidiary's debt to the Company amounted to EUR 136,649 thousand (31 December 2017: EUR 234,700 thousand) (Notes 9 and 17). Accordingly, the carrying amount of debt liabilities to OP Corporate Bank Plc and SEB Bankas AB that were taken over by the Company was equal to EUR 136,649 thousand as at 31 December 2018 (31 December 2017: EUR 234,700) (Note 22). The fair value of financial assets and financial liabilities related to the debts taken over, which is calculated by discounting future cash flows with reference to the interest rate observable in the market, is equal to EUR 141,881 thousand. The cash flows were discounted using a discount rate of 0.809%. The measurement of financial assets and financial liabilities related to the debts taken over is attributed to Level 2 of the fair value hierarchy.

The carrying amount of the loans of Lietuvos Energijos Gamyba AB was equal to EUR 38,036 thousand (31 December 2017: EUR 55,247 thousand). The fair value of these borrowings was approx. EUR 34,655 thousand as at 31 December 2018 (31 December 2017: EUR 50,064 thousand). The fair value was measured as present value of discounted cash flows at a discount rate of 3.22% (31 December 2017: 2.37%).

As at 31 December 2018, the Group and the Company accounted for an amount receivable for the sale of Litgrid AB at fair value through profit or loss. The carrying amount of the amount receivable was equal to EUR 158,658 thousand. Their fair value is attributed to Level 3 in the fair value hierarchy. As at 31 December 2017, the carrying amount of the Group's and the Company's amounts receivable for the sale of Litgrid AB (Note 9) was equal to EUR 169,856 thousand. Their fair value approximated their carrying amount. Fair value was estimated on the basis of discounted cash flows using the rate of 0.614%.

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 loans granted, trade receivables and other amounts receivable of the Company are due from related parties (see Note 39). As at 31 December 2018 and 2017, other receivables of the Group principally consisted of the EPSO-G outstanding receivables for the sale of Litgrid AB shares in 2012 (Note 9).

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 maximum exposure to credit risk as at 31 December 2018 and 2017 is equal to the carrying amount of financial assets and the nominal value of guarantees issued.

Note	Group		Company		
	At 31 December 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017	
Financial assets measured at amortised cost:					
Amounts receivable after one year	9	489	632	520,935	323,082
Trade receivables	15	143,120	112,563	-	-
Other amounts receivable	16	11,814	22,007	629	3,547
Short-term loans	17	-	-	189,324	169,395
Cash and cash equivalents	18	127,835	171,756	231	52,517
Amounts receivable under finance lease agreements					
Non-current portion	10	10,904	8,062	-	-
Current portion	10	3,029	3,217	-	-
Financial assets at fair value through profit or loss in the statement of comprehensive income					
Amount receivable on disposal of Litgrid AB (Notes 2,3,4)	9	158,658	169,856	158,658	169,856
Investments into convertible bonds	11	500	-	500	-
Derivative financial instruments	29	2,046	1,084	-	-
Total		458,395	489,177	870,277	718,397
Open guarantees issued	38	-	-	98,845	15,428
Total		458,395	489,177	969,122	733,825

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 2018, the Group's current liquidity ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 1.157 and 1.045, respectively (31 December 2017: 1.285 and 1.135). As at 31 December 2018, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 469,939 thousand (31 December 2017: EUR 382,645 thousand).

As at 31 December 2018, the Company's current ratio (total current assets / total current liabilities) was 1.823 (31 December 2017: 2.442). As at 31 December 2018, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 157,740 thousand (31 December 2017: EUR 180,000 thousand).

The Company issued securities and guarantees in the amount of EUR 98,845 thousand as at 31 December 2018 (31 December 2017: EUR 15,428 thousand) to secure the fulfilment of obligations of the Group companies to credit institutions and other creditors (Note 38).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The table below summarises the Group's and the Company's financial liabilities by category:

	Note	Group		Company	
		At 31 December 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017
Amounts payable measured at amortised cost					
Borrowings	22	844,956	613,749	776,367	531,475
Finance lease liabilities	22	19,554	332	-	-
Non-current trade payables	27	729	852	-	-
Trade payables	28	93,236	98,338	947	506
Other current amounts payable and liabilities	29	73,575	80,387	1,045	108
Financial liabilities at fair value through profit or loss in the statement of comprehensive income					
Amounts payable for shares acquired		-	-	-	9,699
Derivative financial instruments	29	35	57	-	-
Off-balance sheet commitments:					
Open guarantees issued	38	-	-	98,845	15,428
Total		1,032,085	793,715	877,204	557,216

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	2018				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Borrowings and finance lease liabilities	31,112	98,796	162,130	703,095	995,133
Trade payables and non-current amounts payable to suppliers	23,309	69,928	729	-	93,966
Other amounts payable	18,488	55,464	-	-	73,952
Derivative financial instruments	35	-	-	-	35
At 31 December 2018	72,944	224,188	162,859	703,095	1,163,087

Group	2017				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Borrowings and finance lease liabilities	34,864	104,592	167,633	378,140	685,229
Trade payables and non-current amounts payable to suppliers	24,585	73,754	852	-	99,191
Other amounts payable	20,097	60,290	-	-	80,387
Derivative financial instruments	57	-	-	-	57
At 31 December 2017	79,603	238,636	168,485	378,140	864,864

Company	2018				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Borrowings and finance lease liabilities	28,411	90,694	106,245	675,111	900,460
Trade payables and non-current amounts payable to suppliers	947	-	378	-	1,325
Open guarantees issued	18,475	55,426	5,147	19,796	98,845
At 31 December 2018	47,833	146,120	111,770	694,907	1,006,630

Company	2017				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Borrowings and finance lease liabilities	25,815	77,445	132,629	364,585	600,474
Trade payables and non-current amounts payable to suppliers	506	-	108	-	614
Amounts payable for shares acquired	-	-	9,699	-	9,699
Open guarantees issued	15,428	-	-	-	15,428
At 31 December 2017	41,749	77,445	142,436	364,585	626,215

3.2 Capital management

Pursuant to the Lithuanian Republic 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 2018, the Company and all the companies of the Group, except for VVP Investment UAB, complied with these requirements. On 31 December 2018, VVP Investment UAB 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. As at 31 December 2017, the Company and all the companies of the Group complied with these requirements.

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.

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 dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for payment of dividends, implementation of economic projects

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

important for the State and other significant circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period.

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

3.3 Change in management judgment on applying accounting methods and corrections of errors

Change in management judgment on applying accounting methods

Connection fees

Group accounted for the impact of the first-time adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach. Due to adoption of IFRS 15 the Group reduced its retained earnings to EUR 73 million (which represented the deferred new customers connection fees for electricity segment) and increased deferred revenue to EUR 118 thousand and additional impairment loss of EUR 10 million was recognised for Property, plant and equipment. Increase of deferred tax asset equal to EUR 11 million was accounted for within retained earnings as well.

Upon initial application of IFRS 15 with respect to revenue from new customer connection the Group assessed the existence of separate performance obligation from the legal point of view, i.e. if the distribution service provider had a new connection contract with a customer and the distribution as a service was provided to the end customer through the customer's contract with a supply company (not the distribution service provider itself), the new connection contract was treated as a separate performance obligation. Accordingly, consideration received from the customer was recognized as revenue, when the connection service was provided. In case the distribution service provider signed two separate agreements with the customer – one for connection service, another for distribution service, these two were treated as a single contract and a single performance obligation. Accordingly, the connection fees paid by customers were deferred as contract liability and recognized as revenue through the useful life of the new infrastructure created.

Following this approach starting from January 2018 the connection fees in gas segment were recognized when connection service was provided and completed. In electricity segment from 1 January 2018 to 1 October 2018 connection fees were deferred over the period of estimated customer relationship, which was determined based on the useful life of the related newly created connection infrastructure.

Following 1 October 2018 new customer connection in electricity segment was reconsidered as a separate performance obligation under IFRS 15, accordingly related revenue from 1 October 2018 was recognized when connection service was provided. The accumulated deferred connection fee for electricity segment as at 1 October 2018 continued to be recognized over time.

Management of the Group has extensively analysed IFRS 15 accounting policies, which were also reviewed by the Bank of Lithuania as an oversight body of listed entities, also auditors were involved in the discussions. The accounting policy applied upon initial adoption of IFRS 15 was assessed as

appropriate after evaluating management judgement made in a number of areas. However, one year after mandatory implementation of the new standard, the Group observed the development of relevant industry practice, referred to the developing guidance on IFRS 15 implementation and application, analysed "implied contract" concept (as per IFRS 15 requirements), and consulted with its auditors, and as a result the Group has reconsidered its accounting treatment for connection services.

The Group changed the accounting treatment of new customer connection fees by deferring all gas and electricity fees over the useful lives of the related assets (which represents the best management estimate for customer relationship period). According to the management such accounting treatment would more fairly reflect the Group financial performance and ongoing provision of access to distribution service to its customers, as well as will allow the Group to be better comparable to its peers within the industry. Adjustments to the Group restated the statement of financial position as at 1 January 2018 (see 1st table of this note), restated the statement of financial position as at 31 December 2018 (see 2nd table of this note) and restated the statement of profit or loss and other comprehensive income for the year ended 31 December 2018 (see 3rd table of this note) are recoded under caption "Change in judgment on Connection fees".

Public Service Obligations

PSO fee is an integral part of electricity tariff to the customer.

Final electricity tariff to end customers comprise of the following components:

- (a) Electricity price itself (import or price of manufactured)
- (b) Electricity supply services' price
- (c) Electricity transfer services' price, which include two components: transmission over high voltage grid and distribution over medium and low voltage grid
- (d) PSO fee

Invoice to private customers contain the one united tariff with no further split, the customer does not see in invoice the split of the final electricity tariff by which is calculated total payment for electricity consumed.

Electricity supply and distribution services are provided by the Group and the revenue from them is recognised over time based on the actual electricity supplied. Electricity transmission services are provided by transmission system operator which is not a part of the Group. The Group collects electricity transmission fees from business customers and private individuals and transfer them to transmission system operator. The Group having contracts with end users, where is clearly stated that for network operations and meters is responsible the Group, consider itself as principal and therefore the revenue from transmission services is recognized on a gross basis (Note 4).

As well as transmission service fees the

Group collects PSO fees from business customers and private individuals, connected to electricity distribution grid, and transfer them to the operator of energy exchange Baltpool UAB, which also acts as the administrator of PSO fees and is engaged in the payments and administration of PSO funds. PSO funds are used to support and promote local production from renewable energy sources, to secure reserves of the electricity system at designated power plants, which is necessary for ensuring the state's energy security and to ensure other services related to the public interest. The list of services supported by PSO is determined by the Government of the Republic of Lithuania.

PSO fee as an integral part of the distribution service tariff was not identified as a separate performance obligation. The distribution service as a whole, including transmission, distribution and PSO was treated as one performance obligation (PSO fee cannot be separated). PSO fee generally

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

is treated as a tax collected from customers, however this tax cannot be treated as sales tax, or value-added tax (VAT), since: (1) PSO fee is exposed based on production or distributed energy unit, rather than sales amount, as is applied in VAT case; (2) the Group cannot claim a refund of the tax in the event the respective customer fails to pay for the services being sold; (3) the Group is exposed to the price risk - in case of illegal consumption, the Group's settlement amount as PSO fee to Baltpool UAB will be determined based on current period's prices, however, the customer will be charged based on historical prices. Following the above, management originally treated the Group as a Principal in relation to PSO fee.

During the year 2019 the Group changed the method of accounting for PSO fee by treating the Group as an agent in relation to the PSO fee (Note 4). Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the facts, that the Group is not responsible for PSO projects / initiatives, accordingly not responsible that collected PSO fees are used for their intended purpose. The Group is not exposed to any inventory risk, as well as the Group has no legal power to establish pricing of this component.

The changed accounting methods allows the Group to be better comparable to its peers within the electricity industry (especially, where such PSO fee is excluded from the final electricity tariff). This change in accounting treatment is applied retrospectively from 1 January 2018 with adjustments presented in the tables below.

Liquefied natural gas terminal (hereinafter "LNGT") security component

The Group acts as a natural gas supplier which collects LNGT security component from the users and as a designated liquefied natural gas supplier, which ensures the operation of LNGT and consequently its costs due to the nature of its activities are exclusively borne (whereas other suppliers don't incur) are compensated by gas transmission system operator paying LNGT funds from the budget consisting of collected LNGT security component.

The Group acts as a natural gas supplier which collects LNGT security component from the users and as designated liquefied natural gas supplier, which ensures the operation of LNGT and consequently its costs due to the nature of its activities are exclusively borne (whereas other suppliers don't incur) are compensated by gas transmission system operator paying LNGT security component that are collected by it from suppliers of natural gas to end customers.

LNGT security component is an integral part of natural gas tariff to the customer. Final natural gas tariff to end customers comprise of the following components:

- (a) Cost of gas import
- (b) Natural gas transfer cost, which includes transmission over high-pressure and distribution over medium and low-pressure grids costs
- (c) LNGT security component

Invoice to private customers contain the one united tariff with no further split, the customer does not see in invoice the split of the final gas tariff by which is calculated total payment for gas consumed.

In Lithuania natural gas distribution services are provided by the Group and the revenue from them is recognised over time based on the actual natural gas supplied.

Pursuant to Article 5.2 of the Law on the LNGT, all users of the natural gas distribution system, including end-users, have to pay an additional security component along with other payments for natural gas distribution services. As a natural gas supplier to end users the Group collects payments for LNGT security component directly from private individuals or business customers (other natural gas suppliers), if the customers don't have a direct contract with the transmission system operator. The Group acting as a natural gas supplier to end users collects LNGT security component from them and transfers it to transmission system operator.

LNGT security component as integral part of gas tariff originally was not identified as a separate performance obligation. The distribution service as a whole, including transmission, distribution and LNGT component was treated as one performance obligation (LNGT component was not be separated). LNGT component generally was treated as a tax collected from customers, however this tax cannot be treated as sales tax, or value-added tax (VAT), since: (1) LNGT component is charged based on production or distributed energy unit, rather than sales amount, as is applied in VAT case; (2) the Group cannot claim a refund of the tax in the event the respective customer fails to pay for the services being sold; (3) the Group is exposed to the price risk - in case of illegal consumption, the Group's settlement amount as LNGT component to Amber Grid UAB will be determined based on current period's prices, however, the customer will be charged based on historical prices. Following the above, management treated the Group as principal in relation to LNGT component. This LNGT security component collected from end users was recognised by the Group in the statement of profit or loss and other comprehensive income under the item "Revenue", and at the same time under the caption "Expense".

In year 2019, the Group changed the method of accounting for the LNGT security component by treating the Group as an Agent in relation to LNGT security component (Note 4). Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the fact, that:

- (i) the Group is not responsible for LNGT projects/initiatives, because scheme for collection of money to finance strategic projects is approved by the Government,
- (ii) the Group is not responsible how LNGT security component is used for its intended purpose, because the scheme, how the costs of the Group are compensated due to function of designated gas supplier, is approved by Government (i.e. the scheme by which costs are compensated by paying LNGT funds is established and approved by Government),
- (iii) the Group is not exposed to any inventory risk as there is no service to be obtained and controlled before delivery to customers,
- (iv) the Group has no legal power to establish the price of LNGT security component, because the price is approved by Regulator and the Group has no latitude in establishing this component to end tariff.

The change in accounting treatment allows the Group to be better comparable to its peers within the gas industry (especially, where LNGT security component is excluded from the final gas tariff). The change in accounting treatment was applied retrospectively from 1 January 2018 with adjustments shown in the tables below.

Electricity transfer (includes both transmission and distribution) and gas distribution services in Latvia

In Latvia electricity transfer, which includes transmission and distribution, and gas distribution services are provided by the company which is not a part of the Group. Electricity transmission and distribution services are an integral part of electricity tariff to end users. Gas distribution services are an integral part of gas tariff to end users. Providing the provision of electricity and gas services as a whole to end users in Latvia, the Group did not identified electricity transfer and gas distribution services as a separate performance obligations. The Group considered itself as a principal which provides one performance obligation by treating that customer cannot benefit alone from supplied electricity without transfer and gas without distribution and vice versa. As well as the Group considered itself as providing a significant service of integrating the electricity transfer and gas distribution services promised in the contract with customers into a bundle of services that represent the combined output for which the customer has contracted.

In the course of its electricity and gas trading activities in Latvia, the Group collects funds from customers for the electricity transfer and gas distribution service and transfers these funds to the operator of electricity transfer network and operator of gas distribution system. The Group recognised

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

these funds in the statement of Profit or Loss and Other Comprehensive Income under the caption "Revenue", and at the same time under the caption "Expense".

In year 2019, in relation of collected funds for electricity transfer which includes both transmission and distribution and gas distribution service in Latvia the Group changed the method of accounting for these funds in Latvia by treating itself as an agent (Note 4). Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the fact, that the Group is not responsible for development/maintenance of electricity transfer and gas distribution network in Latvia, accordingly not responsible that these funds are used for their intended purpose. Moreover, the Group is not exposed to any inventory risk, as well as the Group has no legal power to establish the pricing of electricity transfer and gas distribution services provided in Latvia.

The change in the accounting treatment allows better comparison of the Group's performance with that of similar entities (especially when the electricity transfer and natural gas distribution components are excluded from the tariff). This change in the accounting treatment was applied retrospectively from 1 January 2018 with corrections presented in the tables below.

Corrections of errors

Regulatory activities

In 2019, the Group reviewed accounting principles for recognition of revenues, receivables, and payables related to secondary active capacity reserve, tertiary capacity reserve, accident prevention and mitigation, and power handling services (hereinafter 'the Regulatory activities'), which prices are regulated by the NERC, in financial statements. Tariffs for these regulatory activities for the next calendar (financial) year are set by NERC based on the Group expenses forecasted for the next financial year, taking into account planned and factual revenue and expense differences in the prior financial year period.

When preparing its annual Financial statements for the year ended 31 December 2018, the Group reported these regulatory activities revenues in the financial statements using the accrual principle based on factual expenses incurred, i.e. regulatory activities' revenues were recognized by the Group in such amount, which, under NERC revenue calculation methodology, are permissible to take into consideration, by also taking into account permissible return on investment and factual expenses incurred for services provided during the period. Difference between the amount set by NERC and factual revenue and expenses incurred was recognized as the Group's payables or receivables. As at 31 December 2018, the Group recognised amounts payable related to regulated services in the amount of EUR 4,603 thousand within the other non-current payables and liabilities and EUR 2,789 thousand within the non-current advances received.

As of 31 December 2018, the Methodology by-laws did not contain any legal provisions if and how the Group should meet its obligation raised from coverage of amount payable and how the Group should be reimbursed in the event when the same regulated services were no longer provided in the following financial year. When preparing financial statements for the year ended 31 December 2018, the Group's management applied the principle of conservatism to recognise the difference between planned and actual revenues from 2017 to 2018 and costs and has recognized in its statement of financial position. Based on management's assessment, if the same regulated services cease to be provided in the coming periods, it is likely that legislative changes would be made that would determine a requirement to reimburse such obligation and would determine the principles based on which the Group should meet such obligation.

On 14 November 2019, NERC adopted a resolution No O3E-715 'On Approval of the Methodology for Establishing the Prices for Electricity, Capacity Reserve Services and Services Ensuring Isolated

Operation of the Power System' (hereinafter 'the Methodology'). This Resolution stipulates that entities that discontinue capacity reserve services shall reimburse any discrepancies between the projected and actual costs of providing these services to the transmission system operator if the costs actually incurred by the entity were less than the revenues received from the transmission system operator. If the actual costs incurred by the entity were higher than the income of the transmission system operator, the transmission system operator shall reimburse this amount to the entity.

The Group's management has reassessed how the provisions of International Financial Reporting Standards and the applicable regulatory framework for regulated services, including the Methodology, should have been applied in financial statements for the year ended 31 December 2018. Given that there was no provision in the legislation in force prior to the approval of the updated Methodology on how/if the Group should refund or recover any difference between the planned and actual revenues and expenses of the regulated services for past periods, if the services are not provided prior to the entry into force of the Methodology, the Group's management concluded that there was no basis to recognise this difference as an asset or a liability under the financial reporting framework and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. When correcting this error additional regulatory revenue of EUR 7,392 thousand was recognised in the statement of profit or loss and other comprehensive income for the year ended 31 December 2018, respectively reducing liabilities by the same amount. Together with this adjustment related current and deferred income tax corrections were made in 2018.

In addition to the above, the Group identified that in previously issued financial statements, the Group had classified as financial liabilities certain regulatory amounts (related to public service obligations), which by their nature, should have been classified as provisions as at 31 December 2018. Due to this, when correcting an error in these re-issued financial statements 'Provisions' in non-current liabilities in the statement of financial position were increased by EUR 4,784 thousand, and 'Provisions' in current liabilities were increased by EUR 2,770 thousand, while 'Other non-current payables and liabilities' and 'Advances received' in the statement of financial position were reduced by corresponding amounts as at 31 December 2018.

For the financial statements to be comparable, the group has also reclassified EUR 5,474 thousand from other non-current liabilities to non-current provisions as at 31 December 2017.

Electricity trading revenue

The Group company Geton Energy sp.z.o.o. based in Poland, participates in electricity trading at commodity exchange market through forward and futures contracts. The purpose of these deals is to earn profits from short-term fluctuations in electricity prices on the exchange. Geton Energy sp.z.o.o. does not provide supply of electricity to final customers. Settlements are made by settling liabilities between the company and the other party to the exchange transaction, and by making a cash payment for the remaining outstanding liability. Geton Energy sp.z.o.o. measures outstanding contract balances in the financial statements at fair value, and income and expenses were presented in the separate line items of Profit or loss and other comprehensive income (on a gross basis). After reviewing contracts of Geton Energy sp.z.o.o. the Group has determined that gains or losses should be reported in the statement of Profit or loss and other comprehensive income as gain or loss on a net basis. Management's decision to amend presentation of income and costs is based on the fact that, under IFRS 9, transactions made by Geton Energy sp.z.o.o. cannot be classified under the 'own use' exception, and therefore only the net result (gain or loss) of those transactions should be recognized in profit or loss. Adjustment to the Group restated Statement of profit or loss and other comprehensive income for the year ended 31 December 2018 is recoded under caption "Correction in Electricity trading" (see the 3rd table of this note)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Effect of change in judgment on accounting of Connection fees is applied to the Group restated Statement of financial position as at 1 January 2018 following adoption of IFRS 15 and IFRS 9:

	At 31 December 2017	Effect of IFRS 15 adoption	Effect of IFRS 9 adoption	At 1 January 2018	Change in judgment on Connection fees revenue recognition	At 1 January 2018 restated
ASSETS						
Non-current assets						
Intangible assets	36.360			36.360		36.360
Property, plant, and equipment	1.761.082	(10.356)		1.750.726	10.356	1.761.082
Prepayments for non-current assets	21.911			21.911		21.911
Investment property	14.878			14.878		14.878
Amounts receivable after one year	170.488			170.488		170.488
Other financial assets	426			426		426
Other non-current assets	3.239			3.239		3.239
Deferred income tax assets	7.084	10.997		18.081		18.081
Total non-current assets	2.015.468	641	-	2.016.109	10.356	2.026.465
Current assets						
Inventories	56.866			56.866		56.866
Prepayments and deferred expenses	38.119			38.119		38.119
Trade receivables	112.563		(471)	112.092		112.092
Other amounts receivable	27.800			27.800		27.800
Other current assets	1.093			1.093		1.093
Prepaid income tax	2.102			2.102		2.102
Cash and cash equivalents	171.756			171.756		171.756
	410.299	-	(471)	409.828	-	409.828
Non-current assets held for sale	79.301			79.301		79.301
Total current assets	489.600	-	(471)	489.129	-	489.129
TOTAL ASSETS	2.505.068	641	(471)	2.505.238	10.356	2.515.594
EQUITY AND LIABILITIES						
Equity						
Share capital	1.212.156			1.212.156		1.212.156
Reserves	99.380			99.380		99.380
Retained earnings (deficit)	(13.706)	(59.194)	(453)	(73.353)		(73.353)
Equity attributable to owners of the parent	1.297.830	(59.194)	(453)	1.238.183	-	1.238.183
Non-controlling interest	45.796	(3.127)	(18)	42.651		42.651
Total equity	1.343.626	(62.321)	(471)	1.280.834	-	1.280.834
Liabilities						
Non-current liabilities						
Non-current borrowings and bonds	480.068			480.068		480.068
Finance lease liabilities	187			187		187
Grants and subsidies	200.311			200.311		200.311
Deferred income tax liability	36.049			36.049		36.049
Provisions	1.893			1.893		1.893
Deferred revenue	54.509	63.839		118.348	10.356	128.704
Other non-current amounts payable and liabilities	7.306			7.306		7.306
Total non-current liabilities	780.323	63.839	-	844.162	10.356	854.518
Current liabilities						
Current portion of non-current borrowings	119.599			119.599		119.599
Current borrowings	14.082			14.082		14.082
Current portion of finance lease liabilities	145			145		145
Trade payables	98.338			98.338		98.338
Advance amounts received	27.765			27.765		27.765
Income tax liabilities	3.695			3.695		3.695
Provisions	2.498			2.498		2.498
Deferred revenue	5.242	(877)		4.365		4.365
Other current amounts payable and liabilities	109.421			109.421		109.421
	380.785	(877)	-	379.908	-	379.908
Liabilities related to non-current assets held for sale	334			334		334
Total current liabilities	381.119	(877)	-	380.242	-	380.242
Total liabilities	1.161.442	62.962	-	1.224.404	10.356	1.234.760
TOTAL EQUITY AND LIABILITIES	2.505.068	641	(471)	2.505.238	10.356	2.515.594

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Effect of change in judgment on accounting of Connection fees and correction of errors related to the Regulatory activities applied to the Group restated Statement of financial position as at 13 December 2018:

	At 31 December 2018	Correction in Regulatory activities	Change in judgment on Connection fees	At 31 December 2018 corrected and restated
ASSETS				
Non-current assets				
Intangible assets	106,330			106,330
Property, plant, and equipment	2,091,590		(204)	2,091,386
Prepayments for non-current assets	23,621			23,621
Amounts receivable after one year	160,606			160,606
Other financial assets	2,008			2,008
Other non-current assets	6,094			6,094
Deferred income tax assets	14,468			14,468
Total non-current assets	2,411,211	-	(204)	2,411,007
Current assets				
Inventories	43,137			43,137
Prepayments and deferred expenses	30,655			30,655
Trade receivables	143,120			143,120
Other amounts receivable	25,436			25,436
Other current assets	2,147			2,147
Prepaid income tax	4,192			4,192
Other financial assets	656			656
Cash and cash equivalents	127,835			127,835
	377,178	-	-	377,178
Non-current assets held for sale	65,706			65,706
Total current assets	442,884	-	-	442,884
TOTAL ASSETS	2,854,095	-	(204)	2,853,891
EQUITY AND LIABILITIES				
Equity				
Share capital	1,212,156			1,212,156
Reserves	212,802			212,802
Retained earnings (deficit)	(156,763)	5,009	(18,240)	(169,994)
Equity attributable to owners of the parent	1,268,195	5,010	(18,240)	1,254,964
Non-controlling interest	48,356	165	(963)	47,558
Total equity	1,316,551	5,174	(19,203)	1,302,522
Liabilities				
Non-current liabilities				
Non-current borrowings and bonds	735,410			735,410
Finance lease liabilities	14,334			14,334
Grants and subsidies	208,874			208,874
Deferred income tax liability	38,688	1,109	(3,388)	36,409
Provisions	30,571	4,784		35,355
Deferred revenue	115,261		21,176	136,438
Other non-current amounts payable and liabilities	11,274	(9,387)		1,887
Total non-current liabilities	1,154,412	(3,494)	17,788	1,168,707
Current liabilities				
Current portion of non-current borrowings	61,819			61,819
Current borrowings	47,727			47,727
Current portion of finance lease liabilities	5,220			5,220
Trade payables	93,237			93,237
Advance amounts received	55,325	(5,559)		49,766
Income tax liabilities	3,436	1,109		4,545
Provisions	2,788	2,770		5,558
Deferred revenue	7,912		1,211	9,122
Other current amounts payable and liabilities	102,682			102,682
	380,146	(1,680)	1,211	379,676
Liabilities related to non-current assets held for sale	2,986			2,986
Total current liabilities	383,132	(1,680)	1,211	382,662
Total liabilities	1,537,544	(5,174)	18,999	1,551,369
TOTAL EQUITY AND LIABILITIES	2,854,095	-	(204)	2,853,891

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Effect of change in management judgment on accounting methods and correction of errors applied to the Group corrected and restated Statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

		2018 initial	Change in management judgment on applying accounting methods				Corrections of errors		2018 corrected and restated
			Change in judgment on Connection fees revenue recognition	Netting of PSO fee income and expenses	Netting of electricity transfer and gas distribution in Latvia	Netting of LNGT security component	Correction in Regulatory activities	Correction in Electricity trading	
Revenue from contracts with customers	30	1,208,444	(12,031)	(118,530)	(4,841)	(19,904)	7,392	(36,252)	1,024,278
Other income	31	45,782							45,782
Dividend income	37	-							-
		<u>1,254,226</u>	<u>(12,031)</u>	<u>(118,530)</u>	<u>(4,841)</u>	<u>(19,904)</u>	<u>7,392</u>	<u>(36,252)</u>	<u>1,070,060</u>
Operating expenses									
Purchases of electricity, gas for trade, and related services	32	(947,989)		118,530	4,841	19,904		36,252	(768,462)
Purchases of gas and heavy fuel oil		(26,545)							(26,545)
Depreciation and amortisation	5,6,19,24	(87,460)	(204)						(87,664)
Wages and salaries and related expenses		(79,741)							(79,741)
Repair and maintenance expenses		(21,200)							(21,200)
Result of revaluation of property, plant and equipment	6,7,24	(67,671)							(67,671)
Reversal (impairment) of amounts receivable and loans		(9,876)							(9,876)
Impairment of property, plant and equipment	6,19	7,205	(10,356)						(3,151)
Other expenses	33	(26,143)							(26,143)
Total operating expenses		<u>(1,259,420)</u>	<u>(10,560)</u>	<u>118,530</u>	<u>4,841</u>	<u>19,904</u>	<u>-</u>	<u>36,252</u>	<u>(1,090,453)</u>
Finance income	34	1,621							1,621
Finance costs	35	(14,899)							(14,899)
Results of the revaluation of derivative financial instruments		(573)							(573)
Profit/(loss) before income tax		<u>(19,045)</u>	<u>(22,591)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,392</u>	<u>-</u>	<u>(34,244)</u>
Current year income tax (expenses)/benefit	36	(3,495)					(1,109)		(4,604)
Deferred income tax (expenses)/benefit	36	14,598	3,388				(1,109)		16,877
Profit for the year		<u>(7,942)</u>	<u>(19,203)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,174</u>	<u>-</u>	<u>(21,971)</u>
Attributable to:									
Owners of the parent		(9,209)	(18,240)				5,009		(22,440)
Non-controlling interest		1,267	(963)				165		469
Other comprehensive income (loss)									
Items that will not be reclassified to profit or loss									
Gain/(loss) on revaluation of property, plant and equipment		123,139							123,139
Recalculation of the defined benefit plan obligation, net of deferred income tax		77							77
Items that will not be reclassified subsequently to profit or loss, total		<u>123,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,216</u>
Items that will be reclassified subsequently to profit or loss									
Translation of net investments in foreign operations into the Group's presentation currency		(26)							(26)
Items that will not be reclassified subsequently to profit or loss, total		<u>(26)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26)</u>
Total other comprehensive income/(loss)		<u>123,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,190</u>
Total comprehensive income (loss) for the period		<u>115,248</u>	<u>(19,203)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,174</u>	<u>-</u>	<u>101,219</u>
Attributable to:									
Owners of the parent		108,195	(18,240)				5,009		94,964
Non-controlling interest		7,053	(963)				165		6,255

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Effect of change in management judgment on accounting methods and correction of errors applied to the Group restated Statement of cash flows for the year ended 31 December 2018:

	2018	Effect of error correction in Regulatory activities	Change in judgment on Connection fees revenue recognition	2018 restated		2018	Effect of error correction in Regulatory activities	Change in judgment on Connection fees revenue recognition	2018 restated
Cash flows from (to) operating activities					Cash flows from/(used in) financing activities				
Net profit	(7,942)	5,174	(19,203)	(21,971)	(Purchase) of property, plant and equipment and intangible assets	(416,205)	-	-	(416,205)
Adjustments to non-cash items:					Proceeds from sale of property, plant and equipment and intangible assets	48,162	-	-	48,162
Depreciation and amortisation expenses	96,730	-	204	96,934	Acquisition of investments in subsidiaries	(23,509)	-	-	(23,509)
Impairment of property, plant and equipment	(7,205)	-	10,356	3,151	Grants received	25,523	-	-	25,523
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	(10,003)	-	-	(10,003)	Interest received	1,105	-	-	1,105
Revaluation of property, plant and equipment	76,617	-	-	76,617	Other increases (decreases) in cash flows from investing activities	(1,582)	-	-	(1,582)
Revaluation of investment property	(18)	-	-	(18)	Net cash flows used in investing activities	(366,506)	-	-	(366,506)
Revaluation of derivatives	(354)	-	-	(354)	Cash flows from/(used in) financing activities				
Impairment/(reversal of impairment) of financial assets	9,876	-	-	9,876	Loans received	57,810	-	-	57,810
Corporate income tax expenses	(11,103)	2,218	(3,388)	(12,273)	Issue of bonds	294,346	-	-	294,346
(Depreciation) of grants	(9,270)	-	-	(9,270)	Repayments of borrowings	(155,421)	-	-	(155,421)
Increase (decrease) in provisions	404	2080	-	2484	Lease payments	(544)	-	-	(544)
Inventory write-down allowance/(reversal)	(718)	-	-	(718)	Interest paid	(10,402)	-	-	(10,402)
Expenses/(income) of revaluation of emission allowances	(8,933)	-	-	(8,933)	Dividends paid	(80,608)	-	-	(80,608)
Emission allowances utilised	908	-	-	908	Increase in issued capital of Kauno Kogeneraciné Jégainé UAB	7,840	-	-	7,840
Elimination of results of investing activities:					Redemption of shares from non-controlling interest	-	-	-	-
- (Gain)/loss on disposal and/or write-off of property, plant and equipment	477	-	-	477	Result of the closing of derivative financial instruments	(573)	-	-	(573)
Other (income)/expenses of investing activities	82	-	-	82	Other increases (decreases) in cash flows from financing activities	-	-	-	-
Elimination of results of financing activities:					Net cash flows from (used in) financing activities	112,448	-	-	112,448
- Interest received	(1,427)	-	-	(1,427)	Increase (decrease) in cash and cash equivalents (including overdraft)	(75,526)	-	-	(75,526)
- Interest paid	12,442	-	-	12,442	Cash and cash equivalents (including overdraft) at the beginning of the period	161,101	-	-	161,101
- Other (income)/expenses of financing activities	2,263	-	-	2,263	Cash and cash equivalents (including overdraft) at the end of period	85,575	-	-	85,575
Changes in working capital:									
(Increase) decrease in trade receivables and other amounts receivable	(21,603)	-	-	(21,603)					
(Increase) decrease in inventories, prepayments and other current assets	18,896	-	-	18,896					
Increase (decrease) in amounts payable, deferred income and advance amounts received	44,722	(9472)	12,031	47,281					
Corporate income tax (paid)	(6,309)	-	-	(6,309)					
Net cash flows from (to) operating activities	178,532	-	-	178,532					

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 revaluations performed
Land	2013
Buildings	2018
Structures and machinery	2018
Motor vehicles	2014
Other property, plant and equipment	2014
Construction in progress	2014

In 2018, the Group performed the revaluation of Buildings and Structures and machinery stated at revalued amount. Revaluations were performed by independent valuers using the cost approach and the income approach. Based on the revaluation results, increase in value in the amount of EUR 45,669 thousand was recognised. Detailed revaluation results are disclosed in Note 6.

As at 31 December 2018, 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 2018, the Group performed a separate assessment for buildings, structures and machinery and construction in progress which are used in electricity supply and distribution activities performed by subsidiary Energijos Skirstymo Operatorius AB, i.e. assessed whether there was an indication that the market value of these assets had changed significantly due to internal or external factors. The carrying amount of the assessed assets was EUR 1,206 million as at 31 December 2018. The fair value of these assets was determined using the income approach and the cost approach. The fair value of these assets was tested by making cash flow forecast for the period until 2058, 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 2018 were as follows:

- From 2019, the amount of electricity distributed will rise by half of the GDP, e.g. the projected GDP growth would be at 2,8%; therefore, the projected growth of the amount of electricity distributed would be at 1.4%;

- Setting the price cap of the electricity distribution service for 2019, in the Certificate of 17 October 2018, NERC approved the rate of return on investments equal to 5.04% for this period. This rate is used to determine the return on investments for the period of 2019–2020. For the upcoming regulatory period of 2021–2025, the return on investments is calculated as the average between the rate of return on investments of 3.59% that was newly established by NERC for the gas sector (for 2019–2023) and the rate of pre-tax return on investments of 5.96% that is estimated in the long term for the electricity sector. From 2026 (in the long term), the rate of return on investments of 5.96% is to be applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on NERC's website, the WACC Methodology as approved by NERC, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate;
- The cash flows were discounted using a pre-tax discount rate of 5.96%;
- Operating expenses for 2019 are planned under the approved budget and operating expenses for 2020–2030 are planned on the basis of the planned directions for expense reduction set forth in the strategy of Energijos Skirstymo Operatorius AB. Starting from 2031, changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
- A part of operating expenses incurred is not included in the regulated prices of the electricity distribution and supply activity in accordance with the provisions of the Electricity Description;
- The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Electricity Methodology);
- Investments are shown under the ten-year investment plan for 2018–2027. More extensive investing is planned starting from 2028 and until 2035, i.e. all the investments that were not made in prior periods with reference to the amount calculated in accordance with the long-run average incremental cost (LRAIC) model approved by NERC ("the Model") are expected to be performed. It is planned that all items of technological assets that are currently depreciated or will become depreciated over the period until 2058 will be recovered until 2058;
- The cost of capital (return on investments and depreciation of non-current assets) is calculated and included when determining the prices of the distribution services for other regulatory periods in accordance with the Model approved by NERC and in view of paragraph 7 of the Electricity Methodology;
- The valuation provides that the difference in the level of revenue in the amount of EUR 26.5 million, which resulted from the fact that the calculations of the 2016–2017 return on investments in excess of the level set by NERC were based on the 2016–2017 actual historical return on investments and depreciation, rather than the actual return on investments and depreciation calculated on the basis of the LRAIC model, will be returned to Energijos Skirstymo Operatorius AB by NERC's Resolution of 17 October 2018 (establishing the price caps for electricity distribution services through medium and low voltage networks for 2019). These reduced amounts are expected to be returned to Energijos Skirstymo Operatorius AB during the upcoming regulatory period (starting from 2021). For the purposes of the calculation of return on investments for the year 2020 and upcoming periods, the rate of return on investments calculated on the basis of the LRAIC model will be applied.

The discount rate was determined using the Capital Asset Pricing Model (CAPM). It was assumed that the market player will not apply any unsystematic risk premium due to the following reasons:

- size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania);
- monopolised and securely regulated business;
- this model also complies with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The after-tax WACC is equal to 5.07% (it was used when for discounting to present value), and the supposed pre-tax WACC is equal to 5.96%. The pre-tax WACC of 5.96% was used in estimating return on RAB (included in annual income) starting from 2026.

Having assessed all above-mentioned assumptions and having performed the fair value assessment, the Group has identified that the carrying amount of property, plant and equipment attributed to the Electricity Business Segment as at the reporting date of 31 December 2018 would increase materially. Consequently, the Company's management decided to make adjustments to the fair value of the assets. The Group performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

1. By calculating the level of revenue and performing regular assessment of the adjustments of the return on investments arising between the actual return on investments, as calculated on the basis of the LRAIC model, and the actual (historical) return on investments, as calculated on the basis of the performance of investments, and depreciation, the value of property, plant and equipment would decrease by EUR 339 million;
2. If judicial authorities rejected the complaint concerning NERC's resolution under which the income from distribution services for 2019 of Energijos Skirstymo Operatorius AB was reduced by EUR 26.5 million and interest in the amount of EUR 0.5 million was additionally charged, and also having regard to the fact that return on investments and depreciation calculated on the basis of the LRAIC model will be applied in the calculations of the return on investments for upcoming regulatory periods, the income for the forecast period (2019–2058) would decrease by the said amounts of EUR 26.5 million and EUR 0.6 million and the fair value of PP&E would decrease to EUR 1,119 million;
3. Sensitivity analysis scenario: had NERC established the level of revenue starting from 2026 and applied a 20% lower rate of return on investments, i.e. equal to 4.78% (which is the average rate of return on investments effective for the electricity sector and the gas sector for the new regulatory period as established by NERC in respect of Energijos Skirstymo Operatorius AB), the fair value of property, plant and equipment would decrease by EUR 308 million;
4. Sensitivity analysis scenario: if the (pre-tax) discount rate was applied within the interval of +/- 20%, the value of assets would correspondingly decrease or increase. The sensitivity of the value of assets to the discount rate is presented in the table below:

Change in discount rate (after-tax)	-20%	-10%	0%	10%	20%
Discount rate (pre-tax), %	4.78%	5.36%	5.96%	6.56%	7.15%
Discount rate (after-tax), %	4.06%	4.56%	5.07%	5.58%	6.08%
Change in value of property, plant and equipment	521	242	0	-205	-376

In 2017, the Group performed the revaluation of Buildings. The valuation was carried out by independent property valuers using the sales comparison approach and the income approach. Based on the revaluation results, loss in the amount of EUR 471 thousand was recognised.

As at 31 December 2018, 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.

Impairment test for assets carried at cost

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 2018 and 2017, the Group considered impairment of property, plant and equipment as described below.

a) Impairment test for property, plant and equipment of Gas distribution pipelines, Gas technological equipment and installations in 2018

The Group's property, plant and equipment of Gas distribution pipelines, Gas technological equipment and installations with the carrying amount of EUR 201,453 thousand as at 31 December 2018 are owned by the Company's subsidiary Energijos Skirstymo Operatorius AB. In 2018, the recoverable amount of these assets was tested for impairment by making forecast of Energijos Skirstymo Operatorius AB cash flow in natural gas distribution activities for the period until 2073, because the gas distribution activity is regulated on the basis of regulated asset base, which mainly 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 2018 were as follows:

1. In setting the price cap of the gas distribution service for 2019–2023, NERC approved the rate of return on investments equal to 3.59% for this period; From 2024 (in the long term), the rate of return on investments of 5.96% is to be applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on NERC's website, the WACC Methodology as approved by NERC, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate;
2. The cash flows were discounted using a pre-tax discount rate of 5.96%;
3. The Company's subsidiary Energijos Skirstymo Operatorius AB operating expenses for 2019 are planned under the approved budget and operating expenses for 2020–2030 are planned on the basis of the planned directions for expense reduction set forth in the strategy of Energijos Skirstymo Operatorius AB. Starting from 2031" changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
4. A part of operating expenses incurred by the Company's subsidiary Energijos Skirstymo Operatorius AB is not included in the regulated prices of the gas distribution activity in accordance with the provisions of the Gas Description;
5. The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Gas Methodology);
6. Investments are shown under the ten-year investment plan for 2018–2027. Starting from 2028 and until 2073, gradual decrease is expected to occur with each year.

Having assessed all above-mentioned assumptions and having performed the fair value assessment, the Company's subsidiary Energijos Skirstymo Operatorius AB has identified that the increase in the value of property, plant and equipment attributed to the gas distribution activity as at 31 December 2018 was equal to EUR 29.8 million. Since the group has EUR 0,6 million of accumulated impairment available for reversal in the Gas Business Segment, the whole amount was reversed in 2018.

The assessment was based on discounted cash flows and the requirements of legal acts and methodologies regulating gas distribution and supply activities effective as at the 31 December 2018.

b) Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant and Structures and machinery of Thermal Power Plant

Structures and machinery of Hydro Power Plant and Pumped Storage Power Plant, and Structures and machinery of Thermal Power Plant" are owned by the Company's subsidiary Lietuvos Energijos Gamyba AB.

As at 31 December 2017, 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 identified impairment indications for the Group's property, plant and equipment category 'Structures and machinery of Thermal Power Plant' consisting of the Reserve Power Plant, Combined-Cycle Unit and new Biofuel and Steam Boiler Plants

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

(hereinafter "the Elektrėnai Complex"). No impairment indications were identified for the Group's property, plant and equipment category 'Structures and machinery of Hydro Power Plant and Pumped Storage Power Plant' consisting of Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant.

Considering the resolutions adopted by NERC in relation to the establishment of prices of PSO services for the year 2018, and in view of the position taken by the Ministry of Energy in relation to the scope and future demand for the PSO services rendered by Lietuvos Energijos Gamyba AB, the Group's management decided to divide the category 'Structures and Machinery of Thermal Power Plant' into two separate cash generating units: (1) the Elektrėnai Complex's Combined-Cycle Unit together with the Biofuel and Steam Boiler Plants, including the Elektrėnai Complex's commonly shared infrastructure necessary for electricity generation, and (2) the Elektrėnai Complex's Units 7 and 8. In addition, the Group's management decided to review the assumptions pertaining to the expected earnings from the Elektrėnai Complex's Units 7 and 8.

The Elektrėnai Complex's Combined-Cycle Unit together with Biofuel and Steam Boiler Plants, including the Elektrėnai Complex's commonly shared infrastructure, are treated as a single cash generating unit based on the following:

1. The Elektrėnai Complex's commonly shared infrastructure, which is necessary for electricity generation facilities, is expected to be required only for the services rendered by the Combined-Cycle Unit as from 2020, and therefore, the major portion of cash flows generated from those commonly shared facilities will be linked only with the Combine-Cycle Unit in a long run perspective;
2. Without actively operating the Combined-Cycle Unit, the Elektrėnai Complex's commonly shared facilities would not be able to generate cash flows pertaining to electricity market services;
3. The electricity and thermal power generation as well as the provision of capacity reserve services at the Elektrėnai Complex are considered to be regulated activities;
4. The Biofuel and Steam Boiler Plants share the same infrastructure with other facilities of the Elektrėnai Complex (electricity connections, thermal power networks, other pipelines, pumps, chemical bar, etc.), which represents the major part of all assets operated by the Elektrėnai Complex. The steam boilers have been mounted in the same building, which is used for the services provided by Combined-Cycle Unit, 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;
5. The Biofuel and Steam Boiler Plants also supply thermal power that is necessary to support the infrastructure of the Elektrėnai Complex and to activate the electricity generation units of the Elektrėnai Complex.

Units 7 and 8 of the Elektrėnai Complex are treated as a single cash generating unit based on the following:

1. The Government has established the PSO service scope in respect of both Units 7 and 8 of the Elektrėnai Complex for the year 2018 in view of the projected performance of these facilities in the year 2019 and considering the information that the tertiary power reserve services are rendered by the Combined-Cycle Unit;
2. Units 7 and 8 of the Elektrėnai Complex share common infrastructure, which is not used by the Combined-Cycle Unit;
3. The Government's resolution regarding the establishment of the PSO service scope for the year 2018 stipulates that the facilities rendering PSO services (Units 7 and 8) and tertiary power reserve services shall not be treated as substitutable for one another;
4. Based on NERC's resolution regarding the establishment of the prices for the PSO services for the year 2018, the resulting projected negative cash flow generated from Unit 7 pertains to the provision of the PSO services. Accordingly, if Units 7 and 8 were assessed individually, in isolation,

the cash flow generated from electricity generation facilities would be reflected inaccurately, i.e. relatively underestimated in terms of Unit 7, and relatively overestimated in terms of Unit 8;

5. In view of the position taken by the Ministry of Energy that Units 7 and 8 should be kept until the testing of operating mode to be carried out in 2019, and in view of the lack of an actively operating long-term strategic power reserve mechanism, in the Company's opinion, Units 7 and 8 are not likely to generate any revenue as from 2020.

The recoverable amount of cash generating units was estimated with reference to the value in use calculations. These calculations take into account the forecasts of financial performance results prepared by the management for the period of seven years. Continuous cash flow is estimated using the discounted cash flow in the seventh year.

The management estimated the projected operating profit in view of historical data, forecasts of market position and the legal acts in effect, as well as based on the relevant resolutions of NERC, the Ministry of Energy, and the Government. An impairment test was performed as at 31 December 2017. As at 31 December 2018 management checked presence of impairment indications and as no impairment indications were identified, no new tests performed. Key assumptions used in performing the impairment test as at 31 December 2017 were as follows:

1. The value in use was estimated with reference to the most up-to-date budget for the year 2018 and the management's forecast covering the period 2019-2024, the projected pre-tax discounted cash flows using a pre-tax weighted average capital cost (WACC) of 4.07%. The WACC was estimated with reference to long-term borrowing cost in the market, based on the terms and conditions of the new credit agreement, and equity cost;
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 forecast 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 return on investments, the management used the rate of return on investments set by NERC for the year 2018, which was 4.95%. Cash flow forecasts were prepared in view of the position taken by the Ministry of Energy that Units 7 and 8 should be kept until the testing of operating mode to be carried out in 2019, and in view of the lack of an actively operating long-term strategic power reserve mechanism. For this reason, in the Company's opinion, Units 7 and 8 are not likely to generate any revenue as from 2020.

As a result of the analysis, the Group's management determined that it was necessary to account for an impairment loss as of 31 December 2017 based on the net book amount of assets attributed to Units 7 and 8 of the Elektrėnai Complex. The impairment loss relating to Units 7 and 8 of the EC amounted to EUR 31,384 thousand, impairment of assets amounted to EUR 104,256 thousand, and impairment of a grant, designated for assets in respect of which impairment was identified, amounted to EUR 72,872 thousand. Had the WACC (discount rate) increased/decreased by 0.5 p.p., the value in use of Units 7 and 8 of the Elektrėnai Complex would not change.

As at 31 December 2017, impairment test was carried out for property, plant and equipment of the Elektrėnai Complex's Combined-Cycle Unit and Biofuel and Steam Boiler Plants together with the Elektrėnai Complex's commonly shared infrastructure. As a result of the impairment test, it was determined that the recoverable amount of assets exceeded their carrying amount of EUR 377,055 million. Accordingly, no impairment was recognised. Had the WACC (discount rate) increased/decreased by 0.5 p.p., the value in use of the Elektrėnai Complex's Combined-Cycle Unit and Biofuel and Steam Boiler Plants together with the Elektrėnai Complex's commonly shared infrastructure would significantly exceed the carrying amount of assets. The value in use is not sensitive to assumptions regarding the volume of investments, because any growth in the volume of investments would lead to growth of return on investments from assets used in the provision of

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

regulated services and growth of depreciation expenses (as well as growth of the respective cash flows).

As at 31 December 2017, impairment of EUR 1,096 thousand and reversal of impairment of EUR 45 thousand was recognised in respect of individual items of assets of Lietuvos Energijos Gamyba AB.

As at 31 December 2018, the independent property valuers APUS TURTAS UAB determined the market value of the assets of the Company's subsidiary Lietuvos Energijos Gamyba AB stated at revalued amount. The valuation was performed using the comparable prices or cost method.

Having assessed all assumptions and reviewed the value of the assets, the Group has determined impairment of property, plant and equipment amounting to EUR 660 thousand as at 31 December 2018. As the value had decreased materially, the Group decided to reverse the assets revaluation established in the previous periods.

As at 31 December 2018, the management of the Company's subsidiary Lietuvos Energijos Gamyba AB assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in the purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets. No impairment indications were identified for property, plant and equipment accounted for using the cost method or, following the performance of the impairment test, it was determined that the recoverable amount exceeded its carrying amount, less grants.

Depreciation rates of property, plant and equipment

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

In 2018 and in 2017, the Group's management reviewed the depreciation rates used for property, plant and equipment. As from 1 January Company recognised goodwill of EUR 1,461 thousand y 2018, new useful lives of energy units No 7 and 8 of the Reserve Power Plant were established. For the remaining categories of property, plant and equipment, for which useful lives were not reduced for from 1 January 2017, these were reduced in view of technical depreciation of the units and introduction of more stringent environmental requirements applicable as from 2024.

Name	Previously applied useful life (number of years)	Newly established useful life (number of years)
High pressure steam boilers and equipment	40	13
Equipment for mechanical, chemical and electrical treatment of flue-gas	40	13
Other equipment of the boiler plant	40	13
Computerised technological systems	15	11

As a result of the application of new depreciation rates, depreciation of non-current assets, less depreciation of grants, increased by EUR 4,980 thousand, depreciation of grants increased by EUR 8,713 thousand, and depreciation, excluding grants, increased by EUR 13,693 thousand during 2018.

Impairment test for investments into subsidiaries and amounts receivable (note 8)

Although the shares of the Company's subsidiaries Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB are traded on Nasdaq Vilnius Stock Exchange, the Group's management

believes this market is not active enough so that the quoted stock price could be treated as equivalent to the fair value of investments in subsidiaries at the reporting date.

As at 31 December 2018, the Company's management carried out an impairment test to determine existence of indications of impairment for investments into subsidiaries and amounts receivable with reference to the external factors (changes in economic and regulatory environment, market composition, interest rate, etc.) and internal factors (return on investments, results of operations, etc.) that might have impact on impairment of investments into subsidiaries and amounts receivable. Having identified impairment indications for investments in subsidiaries and amounts receivable as at 31 December 2018, the Company performed impairment testing for the following subsidiaries: Energijos Skirstymo Operatorius AB, Energijos Tiekimas UAB, Eurakras UAB, Tuulenergija OÜ, Energetikos Paslaugų ir Rangos Organizacija UAB.

Energijos Skirstymo Operatorius AB

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Energijos Skirstymo Operatorius AB and determined no impairment for investments into Energijos Skirstymo Operatorius AB as at 31 December 2018.

As at 31 December 2018, the Company tested for impairment its investment in subsidiary Energijos Skirstymo Operatorius AB using the following key assumptions:

1. The cash flow of gas distribution activity forecast covered the period until 2073, with reference to the fact that gas distribution activity is focused on regulated activity property plant and equipment base with a long time useful life assets (55 years); after 2073 calculated terminal cash flow;
2. The cash flow of electricity distribution activity forecast covered the period until 2058, with reference to the fact that electricity distribution activity is focused on regulated activity property plant and equipment base with a long time useful life assets (40 years); after 2058 calculated terminal cash flow;
3. The cash flows forecasted with the Weighted Average Cost of Capital - WACC of 5.96 % (electricity since 2026 and gas since 2024). WACC calculated according public information and methods, approved by regulatory institution and planned market trends;
4. Discount rate of 5,07% (after tax) was used to calculate discounted cash flows;
5. Forecasted operating expenses for the year 2019 according to approved budget, for the year 2020-2030 period according to Energijos Skirstymo Operatorius AB strategy and expected reduction in operating costs (forecasted operating expenses reduction approximately lower by 16 % compared to the level approved by regulatory institution till 2030 (calculations based using forecasted macroeconomic assumptions: increase of payroll expenses and inflation also performance of activity excellence tools: process review, robotization, improvements and data-driven solution that will enable to run business more efficiently. Forecasted changes since 2031 according the projected average annual consumer price index (CPI) and wage developments;
6. Forecasted revenue level is not affected by the additional profit generated due to the planned efficiency of Energijos Skirstymo Operatorius AB;
7. Capital investments forecasted using approved 10 year capital investments plan, after 10 years using management assumptions provided.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The discount rate change has a significant impact for the result of impairment test. The sensitivity analysis showed that a 0.5 p.p. change in the discount rate would result in a decrease of the investment by up to EUR 213,9 million (at discount rate of 5.57%) or would have no impact for the value of investments (at discount rate of 4.57%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

2. The WACC change has a significant impact for the result of impairment test. The sensitivity analysis showed that a 0.5 p.p. change in the WACC would result in a decrease of the investment by up to EUR 154,9 million (at WACC of 5.46%) or would have no impact for the value of investments (at WACC of 6.46%).

Energijos Tiekimas UAB

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Energijos Tiekimas UAB and determined no impairment for investments into Energijos Tiekimas UAB as at 31 December 2018.

As at 31 December 2018, the Company tested for impairment its investment in subsidiary Energijos Tiekimas UAB using the discounted cash flow method. Discount rate of 7,0% (after tax) was used to calculate discounted cash flows.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Energijos Tiekimas UAB.

Eurakras UAB

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Eurakras UAB and determined no impairment for investments into Eurakras UAB as at 31 December 2018.

Impairment test for goodwill in EURAKRAS UAB

In 2016, the Group recognised goodwill of EUR 1,461 thousand relating to the acquisition of EURAKRAS UAB. As at 31 December 2018, the Company performed an impairment test for goodwill on a value-in-use basis and determined no impairment for goodwill.

The impairment test was performed using the discounted cash flow method and using the following key assumptions:

1. The cash flow forecast covered the period until 2045, with reference to the typical operational period of 30 years;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party;
3. During the first twelve months of operation, the price of electricity is set at 70.96 EUR/MWh based on the tariff established; After the expiry of the tariff, the electricity price forecast prepared by a third party is to be used.
4. The cash flows were discounted using a post-tax discount rate of 4.6%.

Based on the results of the tests performed as at 31 December 2018 and 31 December 2017, impairment of goodwill was not identified.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into EURAKRAS UAB and goodwill.

Tuuleenergia OÜ

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Tuuleenergia OÜ and determined no impairment for investments into Tuuleenergia OÜ as at 31 December 2018.

The impairment test was performed using the discounted cash flow method and using the following key assumptions:

1. The cash flow forecast covered the period until 2039;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party;

3. During the first twelve months of operation, the price of electricity is the market price plus 54.00 EUR/MWh feed-in premium;
4. The cash flows were discounted using a post-tax discount rate of 4.5%.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Tuuleenergia OÜ.

Energetikos Paslaugu ir Rangos Organizacija UAB

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Energetikos Paslaugu ir Rangos Organizacija UAB and determined impairment for investments into Energetikos Paslaugu ir Rangos Organizacija UAB in the amount of EUR 6,723 thousand (2017: EUR 1,626 thousand). Following the recognition of impairment, the investment's recoverable amount (which is equivalent to its fair value) is equal to EUR 0 thousand (31 December 2017: EUR 191 thousand).

As at 31 December 2017, the Company calculated impairment of loans receivable from Energetikos Paslaugu ir Rangos Organizacija UAB. In 2018, the Company made a number of decisions to cover the operating losses of Energetikos Paslaugu ir Rangos Organizacija UAB against monetary contributions (Note 8) by offsetting them against loans repayable by Energetikos Paslaugu ir Rangos Organizacija UAB to the Company as per the statement of financial position. The loans offset and their impairment were recognised in the Company's statement of financial position as 'Investments into subsidiaries'.

Impairment was largely caused by the decision passed by the Company's Board on 13 April 2018 concerning the discontinuation of non-core contract activity. Following the decision, consistent measures were taken to discontinue the provision of the services of construction, reconstruction, repair and maintenance of energy facilities by Energetikos Paslaugu ir Rangos Organizacija UAB. Energetikos Paslaugu ir Rangos Organizacija UAB will finalise the performance of existing contracts, will not accept new orders, and will settle with suppliers.

As at 31 December 2018, the subsidiary had obtained a loan of EUR 1,945 thousand from the Group's cash pool account. Given that Energetikos Paslaugu ir Rangos Organizacija UAB repaid the largest portion of funds borrowed from the Company's subsidiaries, the provision was reduced and the provision of EUR 806 thousand was recognised in the Company's statement of financial position as at 31 December 2018 in relation to the execution of the cash pool agreement signed between the Company and the Group companies.

As at 31 December 2018, the Company tested for impairment its investment in subsidiary Energetikos Paslaugu ir Rangos Organizacija UAB using the net assets view method. The value of the investment using the net assets view method determined this way: all current and non-current assets measured at market value and deducting from it all trade debts and all other liabilities.

The Company's other investments in subsidiaries

As at 31 December 2018, there were no indications of impairment in respect of other investments in the subsidiaries of the Company.

As at 31 December 2017, impairment testing was performed for the following subsidiaries: Energijos Skirstymo Operatorius AB, Lietuvos Energijos Gamyba UAB, Litgas UAB, VAE SPB UAB, Energetikos Paslaugu ir Rangos Organizacija UAB.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB

As at 31 December 2017, the Company tested for impairment its investments in the subsidiaries Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB and determined no impairment in respect of the investments in Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB as at 31 December 2017.

Litgas UAB

As at 30 June 2017, the Company tested for impairment its investment in subsidiary LITGAS UAB using the discounted cash flow method and recognised impairment of EUR 3,225.23 thousand, which largely resulted from the payment of dividends in 2017. As at 31 December 2017, the Company re-performed an impairment test for investment and determined no additional impairment. Following the impairment, the recoverable amount of the investment was equal to EUR 8,631 thousand as at 31 December 2017 (31 December 2016: EUR 11,586 thousand).

The impairment test of investment in LITGAS UAB as at 31 December 2017 was performed by the Company based on the following key assumptions:

1. The cash flows were discounted using a post-tax equity discount rate of 8.2%;
2. The assumption is used that the activities of the company are to be ceased as of 2025.

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 1.0 p.p. change in the discount rate would result in an increase in the value of the investment by up EUR 797 thousand (at discount rate of 7.2%) or decrease in the value of the investment by EUR 384 thousand (at discount rate of 9.2%).

VAE SPB UAB

As at 30 June 2017, the Company tested for impairment its investment in subsidiary VAE SPB UAB and recognised impairment of EUR 92 thousand. Following the recognition of impairment, the investment's recoverable amount (which is equivalent to its fair value) is equal to EUR 0 as at 31 December 2018 and 2017. On 11 October 2018, the liquidation procedures of the subsidiary VAE SPB UAB were finalised and the Company's investment in VAE SPB UAB and the established impairment were fully written off.

Energetikos Paslaugų ir Rangos Organizacija UAB

As at 31 December 2017, the Company performed an impairment test for investment into subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB and determined impairment for investments into Energetikos Paslaugų ir Rangos Organizacija UAB in the amount of EUR 1,626 thousand. Following the recognition of impairment, the investment's recoverable amount (which is equivalent to its fair value) is equal to EUR 191 thousand.

As at 30 June and 31 December 2017, the Company estimated impairment of EUR 7,001 thousand in respect of amounts receivable from Energetikos Paslaugų ir Rangos Organizacija UAB. In 2017, the Company made a number of decisions to cover the operating losses of Energetikos Paslaugų ir Rangos Organizacija UAB against monetary contributions (Note 8) by offsetting them against EUR 4,300 thousand loans repayable by Energetikos Paslaugų ir Rangos Organizacija UAB to the Company as per the statement of financial position. The loans offset and their impairment were recognised in the Company's statement of financial position as 'Investments into subsidiaries'.

Impairment was largely caused by worse results of operations for 2017 than those projected, and accordingly, by more conservative forecasts.

As at 31 December 2017, the subsidiary had obtained a loan of EUR 6,824 thousand from the Group's cash pool account. Given that the forecast of future cash flows of the subsidiary showed that the subsidiary would not be able to repay the loan in full, provision of EUR 2,903 thousand was recognised in the Company's statement of financial position as at 31 December 2017 in relation to the execution of the cash pool agreement signed between the Company and the Group companies.

As at 31 December 2017, impairment test of Energetikos Paslaugų ir Rangos Organizacija UAB was based on the following key assumptions:

1. Discount rate of 9.5% (after tax) was used to calculate discounted cash flows.
2. Annual growth rate of 2.0% was used.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. Changes in discount rates have a significant impact on the establishment of the provision in relation to the execution of the cash pool agreement signed between the Company and the Group companies. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would result in a decrease of the provision by up to EUR 2,020 thousand (at discount rate of 8.5%) or increase in the provision by up to EUR 3,577 thousand (at discount rate of 10.5%).

Judgements and accounting estimates pertaining to control over Kauno Kogeneracinė Jėgainė UAB

As at 31 December 2018, the Company held 51% shareholding in Kauno Kogeneracinė Jėgainė UAB, and the remaining 49% of shares was 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 consists of equal number of representatives 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, for the price, the calculation of which is defined in the Shareholders' Agreement.

In the Group's management view, the call option's exercise price that the Company will have to pay to FORTUM for buyout of KKJ shares owned by FORTUM, in case the Company opts to buy them, approximates the fair value of the shares within the limits of the materiality (materiality threshold is based on the best estimate practice, such as +/- 15% of the market value), and thus the call option gives to the Group control over KKJ.

At 31 December 2018, the Group accounted for EUR 16,660 thousand (31 December 2017: EUR 9,996 thousand) put option exercise liability (Note 29) measured as net present value of the single future cash outflow, which would be paid to FORTUM for KKJ shares in a deadlock situation in case the put option is exercised.

Deferred payment on disposal of shares of Litgrid AB

In 2012, the 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 the shares established by independent valuers. The purchase-sale agreement of shares of Litgrid AB provides for a premium to the final price, the amount of which depends on the return on regulated assets of the electricity transmission activity in 2014–2018. The Company assessed the price premium and concluded that according to the purchase-sale agreement of shares of Litgrid AB, the price premium was negative and amounted to EUR 4,679 thousand at 31 December 2018 (31 December 2017: EUR 4,679 thousand). UAB "EPSO-G" also prepared calculations and assessed that

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

the price premium was negative and amounted to EUR 27,075 thousand. The Company disagrees with UAB "EPSO-G" prepared calculations. There is currently a debate on how to resolve the situation. For the purposes of the statement of financial position, the Company's management has conservatively assessed, on the basis of a pessimistic scenario, that the possible agreement between the parties would be the average value of the Company's and UAB "EPSO-G" calculations, i.e. to EUR 15,877 thousand. After this assumption the receivable on disposal of the shares of Litgrid AB was reduced by EUR 15,877 thousand as the sales price will be adjusted by the price premium. As at 31 December 2018, the amount receivable on disposal of the shares of Litgrid AB totalled EUR 158,658 thousand (31 December 2017: EUR 169,856) (Note 9). In the opinion of the Group's management, the amount of the price premium was calculated with prudence in the pessimistic scenario and can range between EUR 4,679 thousand and EUR 15,877 thousand. The deferred payment receivable is attributed to Level 3 of the fair value hierarchy. Refer note 42 for subsequent developments.

Provisions for compensations for servitudes

On 1 November 2017, amendments to the Law on Electricity of the Republic of Lithuania came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Electricity Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensations for damages related with the establishment of statutory servitudes (which came into effect on 10 July 2004). The management of the Group did not have the possibility of reliably assessing and accounting for payments for servitudes as at 31 December 2017, i.e. upon enactment of the Amendments to the Law on Electricity of the Republic of Lithuania, since the methodology for the calculation of payments for servitudes, establishing the conditions for the payment of compensations, had not been approved yet. The methodology came into force as of 31 July 2018. Under this methodology, an estimated gross amount of payments for servitudes was assessed and accounted for in 2018.

According to the management of the Group, payments for servitudes were capitalised and recognised as intangible assets, since they give legal right to the Company's subsidiary Energijos Skirstymo Operatorius AB to access its distribution network and gives future benefit of free access to either repair or modify the network as and when needed. Consequently, in 2018, the Group recognised intangible assets in the amount of EUR 28,563 thousand. These assets are carried at cost less impairment, their useful life is indefinite, as, according to the management, the servitudes would be used for an indefinite period, since the rights to use the predefined land plots are granted for an indefinite period of time (pursuant to the Agreement on the Payments for Servitudes and Point 4.130 of the Civil Code).

The estimated amount of payments for servitudes was accounted for in the statement of financial position as a provision for non-current liability (under IAS 37) and was equal to EUR 28,725 thousand at initial recognition. The estimation of the amount of the provision took into account the expected time of settlement and the number of applicants. The provision was calculated at the discounted value. For the purpose of the calculation of the provision, the discount rate was applied with reference to the lending rate of similar liabilities and was equal to 1.135%. As at 31 December 2018, the amount of the provision was equal to EUR 27,982 (Note 26). The total amount of the provision is included in non-current liabilities pursuant to the provisions of the aforementioned methodology, according to which the one-off compensation for statutory servitudes is to be paid within 2 years from the date of the submission of an eligible application.

Accrued revenue

Revenue from household customers is recognised upon declaration of readings of the meters by customers and receipt of payments. 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. Accrued sales revenue is estimated as 1/3 of total payments for electricity received over the last month of the reporting period. Accrued revenue is based on past experience and average term of settlement for electricity, accrued revenue calculation methodology does not include revenue recognised according to average invoices formed for household customers.

Moreover, with changes in electricity prices for household customers and unusual developments in the declared quantity of electricity, the Group measures the actually consumed quantity, determining the overdeclared or underdeclared quantity.

Impairment of amounts receivable (lifetime expected credit losses)

The Company's/Group's management decides on the performance of the assessment of amounts receivable on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower. These estimates require significant judgement. Judgement is based on information about substantial financial difficulties experienced by the debtor, probability that the debtor will enter bankruptcy or any other reorganisation, default of delinquency in payments.

In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company/Group assesses the debt on a collective basis.

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company/Group uses the loss coefficient matrix (on a collective basis). The loss coefficient matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss coefficients are updated during the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years or of customer types. A different loss coefficient matrix is used for different groups of customers and within different subsidiaries of the Group.

These estimates require significant judgement. These estimates are based on the information on historical statistics, and annual reviews 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.

Accrued revenue from PSO funds and regulated capacity reserve service fees

Accrued revenue from PSO funds

A part of funds received for PSO services and tertiary capacity reserve services is allocated for the maintenance of the infrastructure of the Elektrėnai Complex and for the covering of expenses related to the testing of the necessary electricity generation facilities. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes. Allocated amount of PSO funds and the price for capacity reserve services are determined for the next calendar year by NERC in view of the projected costs of the Company's subsidiary Lietuvos energijos gamyba AB. In the Group's financial statements, income from these services is recognised on accrual basis based on actually incurred costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Regulated activity: regulatory provisions from capacity reserve and system services

The regulated activities are intended to eliminate the mismatches between the current year earnings and the regulated level, regardless whether the services will be provided in the future. As at 31 December 2018, the Group recognised PSO funds of EUR 7,554 thousand (whereof for non-current part – EUR 4,784 thousand and for current part – EUR 2,770 thousand) within the 'Provisions' (Note 26) to be refunded (31 December 2017: PSO funds of EUR 5,034 thousand to be refunded within Other payables, Note 27). PSO funds to be refunded arose from lower than established actual fixed and variable costs incurred in the provision of the regulated services. As at 31 December 2018, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 0.92% (31 December 2017: 0.92%) was used, and the discounting effect of EUR 86 thousand (31 December 2017: EUR 51 thousand) was recognised within 'Other financial income'.

As at 31 December 2018, the amount payable of EUR 2,765 thousand (31 December 2017: the amount receivable of EUR 8,198 thousand), which will be compensated in 2019, was recognised within current amounts payable.

The Group's and the Company's non-current assets held for sale

The Group and the Company classify property, plant and equipment and disposal groups as held for sale, if their carrying amount is recovered through a disposal rather than through continuing use, the assets and disposal groups are available for immediate sale, and a sale is considered highly probable in their current condition and under the conditions that are usual for sale of such assets and disposal groups. The Group and the Company are committed to a plan to sell these assets and disposal groups, and initiate an active programme to locate a buyer. The sale of assets is to be performed within one year of classification as held for sale and there are no indications that the plan will be significantly changed or withdrawn.

The Group's non-current assets held for sale consist of property, plant and equipment and disposal group, which includes transport business of the subsidiary Transporto Valdymas UAB (Note 17). The transport business comprises motor vehicles, agreements on lease of motor vehicles that are expected to be disposed all together, as well as other assets and liabilities related to transport business. The transport business is classified in the Group's financial statements as assets held for sale based on the Group's management decision to sell the business and initiation of location of the future investor to enter into sale transaction of transport business.

The line item 'Disposal group' also includes the subsidiary Duomenų Logistikos Centras UAB, which is intended to be disposed of by the Group.

The Group's non-current assets held for sale comprise investments in the subsidiaries Duomenų Logistikos Centras UAB and Transporto Valdymas UAB.

In November 2016, the Company's shareholder made a decision to launch the sale process of the Company's subsidiary Duomenų Logistikos Centras UAB. On 7 August 2017, the Company announced it has signed the agreement on the sale and purchase of the company's shares. On 21 June 2018, the Competition Council terminated the procedure for treatment of certain concentrations following the notice of the buyer on the abandonment of concentration. The Company passed the decision to agree with the termination of the agreement with the buyer. The Company does not withdraw from its plans to sell the company and continues to seek for a potential buyer and has renewed the sale process of Duomenų Logistikos Centras UAB.

For the purposes of the Company's statement of financial position at 31 December 2018, the investment into Duomenų Logistikos Centras UAB in the amount of EUR 4,705 thousand (31 December 2017: EUR 4,705 thousand) was accounted for under the line item 'Non-current assets held

for sale'.

In September 2018, the Company approved the decision to launch the sale process of the Company's subsidiary Transporto Valdymas UAB. In implementing its plans of selling the company, the Company seeks for a potential buyer and has renewed the sale process of Transporto Valdymas UAB.

For the purposes of the Company's statement of financial position at 31 December 2018, the investment into Transporto Valdymas UAB in the amount of EUR 2,359 thousand was accounted for under the line item 'Non-current assets held for sale'.

In 2019, the Group's and the Company's management plans to continue active sales of assets and expects the sale transactions started in 2017–2018 to be finalised in 2019.

Determining whether the Group acts as a principal or agent in relation to electricity transfer, which includes both transmission and distribution, and gas distribution services

Electricity transfer services

In providing electricity transfer service (includes both transmission and distribution) to end users, the Group in Lithuania and Latvia acquires electricity transmission services from transmission grid operator (not a part of the Group), and in Latvia acquires electricity distribution services from distribution grid operator which is not a part of the Group. Management of the Group analysed related contracts with electricity transmission and distribution grid operators and contracts with customers, also evaluated applicable regulatory environment for the conclusion whether the Group is acting as a Principal or as an Agent in relation of electricity transmission services in Lithuania and electricity transfer (includes both transmission and distribution) services in Latvia have considered arguments provided further:

- According to the legislation the electricity transfer service comprises of (i) electricity transmission over high voltage grid and (ii) distribution over low and mid-voltage grid services. Electricity distribution services are provided by the distribution grid operator. In Lithuania the distribution grid operator is the Group, in Latvia – a company which is not a part of the Group. Transmission services are provided by transmission system operator which is not a part of the Group.
- The Group controls transmission services in Lithuania before transferring it to the end customer on the following grounds:
 - The Group is primarily responsible against the end users for electricity transfer service towards end customers.
 - The Group bears a risk of loss in case of outage of electricity, regardless of whether there was transmission or distribution grid failure.
 - The Group has discretion in establishing the final distribution price and transmission component is not re-charged on a pass-through principle.
- The Group doesn't control transmission and distribution services in Latvia before transferring it to the end customer on the following grounds:
 - For all transfer services the Group is not ultimately responsible, since according to the laws and regulations and agreements with customers the owner of the transmission and distribution grid takes full responsibility;
 - The Group also does not bear inventory risk since price of transfer services is determined based on meter readings – i.e. transfer fee is charged to the Group only to the amount of electricity consumed by the end customer;
 - The prices of transfer components are determined by the grid operator, which is not a part of the Group, and approved by regulator.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Following the arguments presented above the Management has applied a significant judgment concluded that the Group acts:

- as an Agent in relation to electricity transmission and distribution services acquired from the Latvian operator of electricity transfer system (Note 3.3),
- as a Principal in relation to electricity transmission services acquired from the Lithuanian operator of transmission system.

Gas distribution services

In providing gas distribution services to customers in Lithuania the Group uses its own distribution network, in Latvia – the Group acquires these services from the company which is not a part of the Group. Management of the Group analysed related contracts with the Latvian gas distribution grid operator and contracts with customers, also evaluated applicable regulatory environment and for the conclusion whether the Group is acting as a Principal or as an Agent in relation to gas distribution services in Latvia have considered arguments provided further:

- For gas distribution services the Group is not ultimately responsible, since according to the laws and regulations and agreements with customers the owner of the distribution grid takes full responsibility;
- The Group also does not bear inventory risk since price of distribution services is determined based on meter readings – i.e. distribution fee is charged to the Group only to the amount of gas consumed by the end customer;
- The price of distribution component is determined by the grid operator, which is not a part of the Group, and approved by regulator.

Following the arguments presented above the Management has applied a significant judgment (see Note 3.3) and concluded that the Group acts as an Agent in relation to gas distribution services acquired from the Latvian operator of gas distribution system.

Determining whether the Group acts as a principal or agent in relation to PSO fees and LNGT security component

The management has applied a significant judgment (Note 3.3) and concluded that the Group acts as an agent in relation to collection of PSO fees and LNGT security component from customers due to the following argumentation:

- 1) the Group is not responsible for PSO and LNGT projects / initiatives, accordingly it is not responsible that PSO fees and LNGT security component are used for their intended purpose,
- 2) the Group is not exposed to any inventory risk,
- 3) the Group has no legal power to establish pricing of this component.

Determining whether connection of a new customer to the grid is a separate performance obligation from ongoing distribution service

Having considered that the Group has an ongoing distribution service contract with a new customer for both gas and electricity distribution, management of the Group also concluded that connection fees do not represent a separate performance obligation from the sale of ongoing distribution service (Note 3.3), since they are both highly interrelated due to the following:

- Majority of new customers pay the connection fees with the only reason being to get an ongoing access to the grid, so from the perspective of a customer there is one single service the Group is providing to its customers, which is ongoing access to the grid,

- connection fee does not represent 100% of connection costs incurred by the Group and significant part of connection costs is collected by the Group through the distribution tariff,
- connection and ongoing distribution services are highly interdependent, as ongoing access can not be provided without providing the connection of the customer to the grid first.

Determining whether liquefied natural gas terminal security component fee is a separate performance obligation from ongoing gas transmission services

The Group elected to change the method of accounting for to LNG Fee component by treating the Group as an Agent (Note 3.3). Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the facts, that the Group is not responsible for LNG projects / initiatives accordingly not responsible that the funds are used for their intended purpose. The Group is not charged to any inventory risk, as well as the Group has no legal power to establish pricing of this component.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

5 Intangible assets

Group	Patents and licences	Computer software	Emission allowances	Other intangible assets	Goodwill	Total
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
Net book amount at 1 January 2017	15,154	2,856	11,834	956	1,461	32,261
Additions	483	316	-	4,376	-	5,175
Reclassified to/from PP&E categories	89	3,202	-	(3,000)	-	291
Write-offs / Emission allowances utilised	-	(2)	(932)	-	-	(934)
Revaluation of emission allowances	-	-	2,808	-	-	2,808
Grant received on emission allowances	-	-	1,128	-	-	1,128
Reclassified to assets held for sale	-	(15)	-	-	-	(15)
Amortisation charge	(1,668)	(2,631)	-	(55)	-	(4,354)
Net book amount at 31 December 2017	14,058	3,726	14,838	2,277	1,461	36,360
At 31 December 2017						
Acquisition cost	19,370	17,002	14,838	2,773	1,461	55,444
Accumulated amortisation	(5,312)	(13,276)	-	(496)	-	(19,084)
Net book amount	14,058	3,726	14,838	2,277	1,461	36,360
Net book amount at 1 January 2018	14,058	3,726	14,838	2,277	1,461	36,360
Additions	1,889	429	-	5,431	5,370*	13,119
Revaluation	-	-	31,816	-	-	31,816
Recognition of statutory servitudes	-	-	-	28,564	-	28,564
Reclassified to/from PP&E categories	36	3,517	-	(3,163)	-	390
Write-offs	-	(5)	-	(8)	-	(13)
Reclassifications between categories	-	737	-	(737)	-	-
Emission allowances utilised	-	-	(908)	-	-	(908)
Disposals	-	(2)	-	-	-	(2)
Grant received on emission allowances	-	-	2,555	-	-	2,555
Reclassified to/from assets held for sale	-	(5)	-	(5)	-	(10)
Amortisation charge	(1,506)	(3,989)	-	(46)	-	(5,541)
Net book amount at 31 December 2018	14,477	4,408	48,301	32,313	6,831	106,330
At 31 December 2018						
Acquisition cost	21,295	21,523	48,301	32,845	6,831	130,795
Accumulated amortisation	(6,818)	(17,115)	-	(532)	-	(24,465)
Net book amount	14,477	4,408	48,301	32,313	6,831	106,330

* Goodwill arising on business combination (Note 41)

The fair value of emission allowances is determined using the prices quoted in an active market, therefore, it is attributable to Level 1 in the fair value hierarchy. At the end of each reporting period, emission allowances are measured with reference to year-end market prices.

In 2016, the Group accounted for patents and licences identified in business combination that comprise the licence to produce electricity with an incentive rate. The fair value of the licence, at the moment of business acquisition, was determined to be EUR 14,900 thousand, amortisation period of the licence was set to be 12 years. The net book amount of the licence was EUR 11,278 thousand at 31 December 2018 (31 December 2017: EUR 12,520 thousand).

The table below includes information on the results of revaluation of emission allowances conducted in 2018:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit and loss	Total revaluation effect
Increase (decrease) in carrying amount	22,883	8,933	31,816
	22,883	8,933	31,816

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Results of revaluation of emission allowances conducted in 2017:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit and loss	Total revaluation effect
Increase (decrease) in carrying amount	1,167	1,641	2,808
	1,167	1,641	2,808

The Company's intangible assets

Company	Other intangible assets	Total
At 31 December 2017		
Acquisition cost	-	-
Accumulated amortisation	-	-
Net book amount	-	-
Net book amount at 1 January 2018		
Reclassified (to) from assets held for sale	1,874	1,874
Amortisation charge	-	-
Net book amount at 31 December 2018	1,874	1,874
At 31 December 2018		
Acquisition cost	1,874	1,874
Accumulated amortisation	-	-
Net book amount	1,874	1,874

On 3 December 2018, in the intangible assets category 'Other intangible assets' the Company accounted for assets of EUR 1,874 thousand which indicate future synergies that were identified on the acquisition of assets of TE-3 from Vilniaus Šilumos Tinklai AB on 12 October 2017. The benefit of synergies will be realised by ensuring the connection of Vilnius co-generation power plant, which is constructed by the Group, and other objects of the Group to the heat distribution infrastructure of Vilnius city.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment

The Group's property, plant and equipment:

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations	Assets of Hydro Power Plant, Pumped Storage Power Plant and Lithuanian Power Plant	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
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
Net book amount at 1 January 2017	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
Additions	-	130	3,387	(118)	22	-	139	4,814	3,120	843	235,314	247,651
Revaluation	-	(642)	1,113	-	-	-	-	-	-	-	-	471
Disposals	-	(414)	(265)	(11)	-	-	-	(455)	(4)	(1)	(35)	(1,185)
Write-offs	-	(24)	(4,329)	(89)	-	-	(11)	(13)	(30)	(8)	(60)	(4,564)
Reclassifications between categories	-	1,760	164,035	29,911	835	-	1,265	-	1,483	3,119	(202,408)	-
Reclassified to assets, intangible assets	2	(13)	-	-	-	-	67	(71)	(3)	(217)	(235)	-
Reclassified to assets held for sale	(52)	(23,261)	(456)	(781)	(1)	-	-	(9,825)	(345)	(265)	-	(34,986)
Reclassified from (to) investment property	-	(1,601)	-	-	-	-	-	-	-	-	(1,264)	(2,865)
Reclassified to finance lease	-	-	-	-	-	-	-	(4,579)	-	-	-	(4,579)
Reclassified from inventories	-	-	(1)	-	(19)	-	(3)	20	(5)	-	-	(8)
Impairment	-	(87)	(388)	-	-	-	(105,352)	-	-	-	(513)	(106,340)
Reversal of impairment	-	98	-	-	-	-	45	-	-	-	-	143
Depreciation charge	-	(2,635)	(40,128)	(4,720)	(7,296)	(1,311)	(37,180)	(3,874)	(3,713)	(2,368)	-	(103,225)
Decrease on disposal of subsidiary	-	-	-	-	-	-	-	(4)	(3)	(3)	-	(10)
Net book amount at 31 December 2017	2,324	31,608	928,557	149,118	112,790	59,034	379,134	3,393	19,407	8,356	67,361	1,761,082
At 31 December 2017												
Cost or revalued amount	2,324	41,432	1,037,447	167,712	207,279	64,229	779,526	7,605	37,051	14,130	68,804	2,427,539
Accumulated depreciation	-	(9,824)	(108,890)	(18,019)	(94,489)	(5,195)	(293,722)	(4,212)	(17,644)	(5,774)	(1,108)	(558,877)
Accumulated impairment	-	-	-	(575)	-	-	(106,670)	-	-	-	(335)	(107,580)
Net book amount	2,324	31,608	928,557	149,118	112,790	59,034	379,134	3,393	19,407	8,356	67,361	1,761,082

(Cont'd on the next page)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

(continued)

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations (restated*)	Assets of Hydro Power Plant, Pumped Storage Power Plant and Lithuanian Power Plant	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
At 31 December 2017												
Acquisition cost	2,324	41,432	1,037,447	167,712	207,279	64,229	779,526	7,605	37,051	14,130	68,804	2,427,539
Accumulated depreciation	-	(9,824)	(108,890)	(18,019)	(94,489)	(5,195)	(293,722)	(4,212)	(17,644)	(5,774)	(1,108)	(558,877)
Accumulated impairment	-	-	-	(575)	-	-	(106,670)	-	-	-	(335)	(107,580)
Net book amount	2,324	31,608	928,557	149,118	112,790	59,034	379,134	3,393	19,407	8,356	67,361	1,761,082
IFRS 15 adoption impact – impairment**	-	-	-	(10,356)	-	-	-	-	-	-	-	-
Change in judgment on Connection fees*	-	-	-	10,356*	-	-	-	-	-	-	-	-
Net book amount at 1 January 2018 (restated*)	2,324	31,608	928,557	149,118	112,790	59,034	379,134	3,393	19,407	8,356	67,361	1,761,082
Additions	-	1	710	-	10	-	804	2,100	1,823	971	360,030	366,449
Revaluation	(35)	10,306	36,587	-	-	-	(96)	8	(1,149)	48	-	45,669
Disposals	-	(31)	(361)	-	-	-	(829)	(32)	(15)	(1)	(427)	(1,696)
Write-offs	-	(6)	(4,575)	(112)	(5)	(1)	(38)	(30)	(83)	(16)	(35)	(4,901)
Reclassifications between categories	-	1,717	195,023	57,009	3,666	14	1,766	-	3,825	585	(263,605)	-
Reclassified to assets, intangible assets	-	-	-	-	-	-	-	-	(71)	(2)	(317)	(390)
Reclassified to assets held for sale	-	(9,166)	(3,764)	-	-	-	-	(548)	(1,693)	(2,196)	-	(17,367)
Reclassified from (to) investment property	-	(4,502)	183	-	-	-	-	-	-	-	-	(4,319)
Reclassified to finance lease	-	-	-	-	-	-	-	(824)	-	(1,086)	-	(1,910)
Reclassified from inventories	-	-	2	-	(116)	-	(192)	-	(4)	(60)	1,960	1,590
Impairment	-	(15)	(17)	-	-	-	(195)	(56)	-	(16)	(1,066)	(1,365)
Reversal of impairment (restated*)	-	25	388	575*	-	-	-	-	-	-	-	988
Depreciation charge (restated*)	-	(1,868)	(45,868)	(5,341)*	(7,130)	(2,061)	(20,071)	(984)	(4,336)	(1,893)	-	(89,552)
Acquisition of subsidiaries	1,089	-	7,316	-	-	27,653	-	-	-	1,050	-	37,108
Net book amount at 31 December 2018 (restated*)	3,378	28,069	1,114,181	201,249	109,215	84,639	360,283	3,027	17,704	5,740	163,901	2,091,386
At 31 December 2018												
Cost or revalued amount	3,378	28,504	1,274,877	238,940	210,834	92,922	774,145	5,643	29,611	7,955	165,302	2,832,111
Accumulated depreciation (restated*)	-	(435)	(160,696)	(37,691)*	(101,619)	(8,283)	(307,550)	(2,616)	(11,907)	(2,215)	-	(633,012)
Accumulated impairment	-	-	-	-	-	-	(106,312)	-	-	-	(1,401)	(107,713)
Net book amount (restated*)	3,378	28,069	1,114,181	201,249	109,215	84,639	360,283	3,027	17,704	5,740	163,901	2,091,386

* Restated due to changes in accounting methods as disclosed in Note 3.3.

** IFRS 15 adoption impact (Note 2.1)

In 2018 and 2017, 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 plants, and IT and telecommunication equipment) was accounted for at revalued amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

In the period from August to December 2018, the Group carried out the valuation of buildings, structures and machinery and construction in progress with the carrying amount of EUR 1,206 million as at 31 December 2018. Independent property valuer Ernst & Young Baltic UAB carried out the valuation of assets with the carrying amount of EUR 1,134,743 thousand using the cost and income methods. Independent property valuer APUS TURTAS UAB carried out the valuation of assets with the carrying amount of EUR 2,468 thousand using the comparable and cost method.

Results of the revaluation conducted in 2018 are given below:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit and loss	Total revaluation effect
Increase (decrease) in carrying amount	122,286	(76,617)	45,669
	122,286	(76,617)	45,669

Results of the revaluation conducted in 2017 are given below:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit and loss	Total revaluation effect
Increase (decrease) in carrying amount	(908)	1,379	471
	(908)	1,379	471

In the opinion of the Group's management, the carrying amount of substantially all assets stated at revalued amount as at 31 December 2018 did not differ significantly from their fair value. The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2018 (refer to Note 2.29 for the description of the 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	-	1,845	1,533	3,378
Buildings	-	596	27,473	28,069
Structures and machinery	-	1,890	1,112,291	1,114,181
Motor vehicles	-	66	2,961	3,027
Other property, plant and equipment	-	42	5,698	5,740
Construction in progress	-	-	163,901	163,901
Total	-	4,439	1,313,857	1,318,296

The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2017 (refer to Note 2.29 for the description of the 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	444	2,324
Buildings	-	7,286	24,322	31,608
Structures and machinery	-	3,114	925,443	928,557
Motor vehicles	-	1,329	2,064	3,393
Other property, plant and equipment	-	85	8,271	8,356
Construction in progress	-	-	67,734	67,734
Total	-	13,694	1,028,278	1,041,972

Land was largely 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 2018, the Group companies capitalised EUR 776 thousand of interest expenses on borrowings intended to finance development of non-current assets (2017: EUR 64 thousand). The average capitalised interest rate was 1.42% in 2018 and 0.82% in 2017.

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2018, the Group's commitments to purchase or construct property, plant and equipment amounted to EUR 490,432 million (31 December 2017: EUR 294.177 million).

As at 31 December 2018, the Group had pledged to the banks its property, plant and equipment in amount of EUR 58,583 thousand (31 December 2017: EUR 316,136 thousand) (Note 22).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The Company's property, plant and equipment

Company	Other PP&E	Construction in progress	Total
At 31 December 2016			
Cost or revalued amount	28	345	373
Accumulated depreciation	(25)	-	(25)
Net book amount	3	345	348
Net book amount at 1 January 2017			
Additions	40	36	76
Depreciation charge	(3)	-	(3)
Net book amount at 31 December 2017	40	381	421
At 31 December 2017			
Cost or revalued amount	69	381	450
Accumulated depreciation	(29)	-	(29)
Net book amount	40	381	421
Net book amount at 1 January 2018			
Additions	13	-	13
Depreciation charge	(7)	-	(7)
Net book amount at 31 December 2018	46	381	427
At 31 December 2018			
Cost or revalued amount	82	381	463
Accumulated depreciation	(36)	-	(36)
Net book amount	46	381	427

7 Investment property

Group	Investment property
Carrying amount at 1 January 2017	
Additions	46,207
Reclassification from property, plant and equipment	6,842
Increase in value	2,865
Decrease in value	7,009
Reclassification to assets held for sale	(10,938)
Carrying amount at 31 December 2017	14,878
Carrying amount at 1 January 2018	
Additions	14,878
Reclassification from property, plant and equipment	-
Increase in value	4,319
Decrease in value	133
Reclassification to assets held for sale	(115)
Carrying amount at 31 December 2018	6,494

In 2018, the Group's income from lease of investment property amounted to EUR 3,258 thousand (2017: EUR 3,086 thousand).

The Company had no investment property in 2018 and 2017.

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2018 (refer to Note 2.29 for the description of the 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	-	-	5,978	5,978
Structures	-	-	516	516
Total	-	-	6,494	6,494

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2017 (refer to Note 2.29 for the description of the 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	-	-	11,753	11,753
Structures	-	-	3,125	3,125
Total	-	-	14,878	14,878

The fair value of investment property as at 31 December 2018 and 31 December 2017 was determined in February–July 2018 and September–October 2017, 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 2018 and 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

8 Investments in subsidiaries and associates

Company	2018	2017
Net book amount at 1 January	1,148,917	1,172,187
Increase in share capital of subsidiaries	41,038	28,375
Decrease in share capital of subsidiaries	-	(50,862)
Acquisition of companies	21,016	-
Acquisition of shares from non-controlling interest	-	4,284
Disposal of investments	-	(123)
Coverage of losses	5,142	4,470
Liquidation of subsidiaries	(17)	-
Reclassification to assets held for sale	(2,359)	-
(Impairment) of investments in subsidiaries	(6,815)	(9,414)
Net book amount at 31 December	1,206,921	1,148,917

Increase and decrease in share capital of subsidiaries

The table below presents information on increase/(decrease) in share capital, coverage of operating losses, payments for share capital during the period from 1 January to 31 December 2018 and balances of unpaid share capital as at 31 December 2018.

Subsidiary	Issue date	Number of newly issued shares	Issue price per share, EUR	Total issue price	Amount paid up	Date of amendment to Articles of Association
Kauno Kogeneracinė Jėgainė UAB	19/01/2018	8,160,000	1.00	8,160	8,160	19/01/2018
Vilniaus Kogeneracinė Jėgainė UAB	21/12/2017	53,781,379	0.29	15,596	15,596	05/01/2018
Energetikos Paslaugų ir Rangos Organizacija UAB	30/01/2018	345,600	4.34	1,500	1,500	08/02/2018
Energijos Sprendimų Centras UAB	29/01/2018	600,000	1.50	900	900	10/04/2018
Elektroninių Mokėjimų Agentūra UAB	21/02/2018	370,000	1.00	370	370	27/02/2018
<i>Increase in authorised share capital by way of in-kind contribution</i>						
Lietuvos Energijos Gamyba AB	30/03/2018	12,919,014	0.62	8,062	8,062	31/03/2018
NT Valdros, UAB	01/08/2018	222,725	28.96	6,450	6,450	17/08/2018
<i>Change in authorised share capital due to reorganisation</i>						
Transporto Valdymas UAB	01/03/2018	81,470	28.96	2,359	2,359	
NT Valdros, UAB	01/03/2018	81,470	28.96	(2,359)	(2,359)	
Energijos Tiekimas UAB	31/10/2018	2,570,000	1.00	2,570	2,570	31/10/2018
Energijos Sprendimų Centras UAB	31/10/2018	(2,570,000)	1.00	(2,570)	(2,570)	02/11/2018
Energijos Tiekimas UAB	14/12/2018	(350,000)	1.00	(350)	(350)	14/12/2018
Gamybos Optimizavimas UAB	14/12/2018	350,000	1.00	350	350	14/12/2018
Total				41,038	41,038	

Offset prepayments made in 2017 for the increase of authorised share capital during 2018:

Subsidiary	Issue date	Number of newly issued shares	Issue price per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
<i>Offsetting of prepayments</i>							
Vilniaus Kogeneracinė Jėgainė UAB	21/12/2017	53,781,379	0.29	15,596	3,898	11,698	05/01/2018
Total				15,596	3,898	11,698	

On 21 December 2017, the Company and its subsidiary Vilniaus Kogeneracinė Jėgainė UAB entered into the Share Subscription Agreement and increased the subsidiary's share capital by EUR 15,597 thousand by way of issuing additional 53,781,379 ordinary registered shares with the nominal value of EUR 0.29 each. Based on the agreement, the Company's initial contribution represented ¼ of the subscribed value of shares or EUR 3,899 thousand. The increase in the subsidiary's share capital had not been registered with the Centre of Registers at 31 December 2017. Accordingly, the Company's contribution of EUR 3,899 thousand was accounted for as the Company's prepayments. On 31 August 2018, the Company paid up a EUR 11,698 thousand share of the authorised share capital of subsidiary Vilniaus Kogeneracinė Jėgainė UAB. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 5 January 2018.

On 19 January 2018, the share capital of the Company's subsidiary Kauno Kogeneracinė Jėgainė UAB was increased from EUR 24,000 thousand to EUR 40,000 thousand by issuing 16,000 thousand ordinary shares with the nominal value of EUR 1 each. The Company was granted the right to acquire (subscribe) 8,160,000 new shares and FORTUM HEAT LIETUVA UAB was granted the right to acquire 7,840,000 new shares. The Company fully paid up for the newly issued shares. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 19 January 2018.

On 30 January 2018, the Company and its subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB entered into the Share Subscription Agreement and increased the subsidiary's share capital from EUR 1,000 thousand to EUR 1,100 thousand by way of issuing additional 345,600 ordinary registered intangible shares with the nominal value of EUR 0.29 each and the issue price per share equal to EUR 4.34. The nominal issue price of all newly issued shares is EUR 1,500 thousand. On 31 January 2018, the Company fully paid up the total price of the new issue of shares. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 08 February 2018.

On 15 February 2018, the Company established subsidiary Transporto Valdymas UAB that starting from 1 March 2018 took over the transport activity that was conducted by another subsidiary NT Valdros UAB until that date. The share capital of the subsidiary was formed by transferring to the established company an in-kind contribution that comprised the assets of NT Valdros UAB. The Company's investments in Transporto Valdymas UAB amount to EUR 2,359 thousand and investments in NT Valdros UAB were reduced by the respective amount.

The ordinary general meeting of shareholders of the Company's subsidiary Lietuvos Energijos Gamyba AB was held on 26 March 2018, during which a decision was passed to increase the share capital of the subsidiary by issuing new shares and paying for shares by the Company's in-kind contribution by way of transferring the set of assets of the third co-generation power plant in Vilnius to the ownership of the subsidiary. On 30 March 2018, the Company and the subsidiary entered into the Share Subscription Agreement which stipulates that the Company transfers the ownership right to the

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

set of assets of the third co-generation power plant in Vilnius (TE-3) with effect from 31 March 2018. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 11 April 2018.

On 1 August 2018, the Company paid up a EUR 600 thousand share of the authorised share capital of subsidiary Energijos Sprendimų Centras UAB and share premium of EUR 300 thousand.

On 1 August 2018, the Company and its subsidiary NT Valdovs, UAB signed the share subscription agreement on the issue of new 222,725 ordinary registered shares with the nominal value of EUR 28.96 each. The Company acquired all shares of the new issue for EUR 6,450 thousand by paying the issue price through an in-kind (non-cash) contribution. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 17 August 2018.

On 8 October 2018, the Company approved the reorganisation terms of subsidiaries Energijos Tiekimas UAB and Energijos Sprendimų Centras UAB, under which Energijos Sprendimų Centras UAB, which ceased its activities without the liquidation procedure, is merged with Energijos Tiekimas UAB which continues its activities. Assets, rights and obligations of Energijos Sprendimų Centras UAB were taken over by Energijos Tiekimas UAB that continues its activities. The reorganisation of the companies was finalised on 31 October 2018. The Company's additional investments in Energijos Tiekimas UAB amount to EUR 2,570 thousand and the total investment held in Energijos Sprendimų Centras UAB was reduced by the respective amount.

On 10 October 2018, the Competition Council of the Republic of Lithuania passed the decision clearing the concentration by the acquisition of 100% of shares of Vėjo Vatas UAB and 100% of shares of Vėjo Gūsis UAB by the Company and acquisition of a full control over the latter companies according to the presented announcement on concentration. On 5 November 2018, the Company entered into the share purchase and sale agreement regarding the acquisition of 100% of shares of Vėjo Vatas UAB and Vėjo Gūsis UAB and the shareholder's claim rights. The Company's investment in Vėjo Vatas UAB and Vėjo Gūsis UAB amounted to EUR 6,132 thousand and EUR 12,919 thousand, respectively. Both investments were fully paid as at 31 December 2018.

Liquidation procedures of subsidiary VAE SPB UAB were finalised on 11 October 2018. On 18 April 2018, the Company passed a decision to liquidate dormant subsidiary VAE SPB UAB. The Ministry of Finance, which is a shareholder of the Company, approved the decision to liquidate VAE SPB UAB. The Ministry of Energy also approved of the termination of the company's activities. On 1 October 2018, prior to the liquidation VAE SPB UAB transferred to the Company shares of subsidiary Verslo Aptarnavimo Centras UAB with the nominal value of EUR 3 thousand. The liquidation statement was registered with the Register of Legal Entities on 11 October 2018 and the Company's total investment in VAE SPB UAB and impairment provision established were fully written off.

On 22 October 2018, the Company announced about its plan to initiate the transfer of the optimisation activity of operations of power plants of Energijos Tiekimas UAB to a company being established Gamybos Optimizavimas UAB. The Articles of Association of the new company of the Group were registered with the Register of Legal Entities on 14 December 2018 and the Company owns 100% of shares of Gamybos Optimizavimas UAB. The Company's investments in Gamybos Optimizavimas UAB amount to EUR 350 thousand and investments in Energijos Tiekimas, UAB were reduced by the respective amount.

On 27 December 2018, the Company acquired a 100% shareholding in VVP Investment UAB from the group of natural and legal persons. As at 31 December 2018, ownership rights of shares were held by the Company and the total investment in VVP Investment UAB amounted to EUR 1,962 thousand. As at 31 December 2018, the paid up part of the investment amounted to EUR 1,237 thousand, diluted price premium amounted to EUR 150 thousand, suspended payment – EUR 100 thousand and a respective unpaid part of the investment – EUR 475 thousand. The remaining unpaid part of the investment will be paid in 2019-2021.

Increase in share capital of the Group companies in 2017:

Subsidiary	Issue date	Number of newly issued shares*	Nominal value per share, EUR	Total issue price	Amount paid up	Date of amendment to Articles of Association
Energijos Sprendimų Centras UAB	29/08/2016	520,000	1.00	520	322	07/09/2016
Vilniaus Kogeneracinė Jėgainė UAB	19/12/2016	68,965,518	0.29	20,000	15,000	19/01/2017
Kauno Kogeneracinė Jėgainė UAB	28/12/2016	6,753,000	1.00	6,753	6,753	26/06/2017
Energijos Sprendimų Centras UAB	20/06/2017	700,000	1.00	1,000	1,000	22/09/2017
Elektroninių Mokėjimų Agentūra UAB	18/07/2017	300,000	1.00	300	300	01/08/2017
<i>Offsetting of prepayments</i>						
Vilniaus Kogeneracinė Jėgainė UAB	19/12/2016	68,965,518	0.29	20,000	5,000	19/01/2017
Total				48,573	28,375	

* Newly issued shares attributable to the Company

Contributions made to increase the share capital were accounted for at the end of the previous reporting period within prepayments:

Subsidiary	Issue date	Number of newly issued shares	Nominal value per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Vilniaus Kogeneracinė Jėgainė UAB	21/12/2017	53,781,379	0.29	15,596	3,898	11,698	-
Total				15,596	3,898	11,698	

Acquisitions of subsidiaries

Acquisitions of new subsidiaries made in 2018 were accounted for within investments in subsidiaries:

Subsidiary	Date of acquisition of shares	Number of shares acquired	Nominal value per share, EUR	Total issue price	Paid up amount of the acquisition cost of shares	Unpaid amount of the acquisition cost of shares
Verslo Aptarnavimo Centras UAB	01/10/2018	9,987	0.29	3	3	
<i>New acquisitions of the Group companies</i>						
Vėjo Vatas UAB	31/10/2018	100,000	28.96	2,896	6,132	
Vėjo Gūsis UAB	31/10/2018	257,000	28.96	7,443	12,919	
VVP Investment UAB	27/12/2018	8,640	28.96	250	1,237	725
Total				10,592	20,291	725

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Decrease in share capital

There were no decreases in share capital of the Group companies during 2018.

Decrease in share capital of the Group companies in 2017:

Subsidiary	Carrying amount at 31 December 2016	Decrease in share capital	Acquisition of non-controlling interest	Carrying amount at 31 December 2017
NT Valdos, UAB	80,337	(48,256)	-	32,081
EURAKRAS UAB	17,057	(2,606)	4,284	18,735
	97,394	(50,862)	4,284	50,816

On 19 April 2017, the Company passed a decision to reduce the share capital of NT Valdos UAB from EUR 85,550 thousand to EUR 37,295 thousand by way of annulment of 1,666,284 ordinary registered intangible shares with the nominal value of EUR 28.96 each. The total nominal value of the annulled shares of NT Valdos UAB was EUR 48,256 thousand. The share capital of NT Valdos UAB was reduced to pay out funds to the Company. On 14 July 2017, the Company received a partial payment for share capital reduction in amount of EUR 10,000 thousand. Based on the agreement signed between the Company and NT Valdos UAB on 12 October 2017, the remaining amount of EUR 38,256 thousand will be paid to the Company no later than by 11 August 2022. The amendments to the Articles of Association were registered on 11 July 2017.

On 5 May 2017, the Company and Renargo UAB (the holder of non-controlling interest in Eurakras UAB) passed a decision to reduce the share capital of Eurakras UAB from EUR 8,096 thousand to EUR 4,621 thousand by way of annulment of 120,000 ordinary registered intangible shares with the nominal value of EUR 28.96 each. The total nominal value of the annulled shares of Eurakras UAB was EUR 3,475 thousand. The share capital of Eurakras UAB was reduced to pay out funds to the Company. On 28 July 2017, the Company received a partial payment for the share capital reduction in amount of EUR 2,606 thousand, which represented 75% of the Company's interest in Eurakras UAB. The amendments to the Articles of Association were registered on 20 July 2017.

Acquisition of shares from non-controlling interest

On 26 March 2018, the Company increased the authorised share capital of Lietuvos Energijos Gamyba AB by EUR 3,747 thousand through the issue of 12,919,014 shares with the nominal value of EUR 0.29 each. Lietuvos Energija UAB committed to pay for the acquired shares by way of an in-kind contribution, i.e. Vilnius Thermal Power Plant No 3, as a whole complex of technological equipment and territories, the value of which was EUR 8,061,465. Following the change in the number of shares of Lietuvos Energijos Gamyba AB non-controlling interest decreased from 3.25% to 3.18%. The change in the number of shares of Lietuvos Energijos Gamyba AB resulted in the change in non-controlling interest in Verslo Aptarnavimo Centras UAB, which decreased from 1.60% to 1.59%. The non-controlling interest in Technologijų ir Inovacijų Centras UAB has also changed decreasing from 2.11% to 2.09%.

On 18 May 2017, the Company acquired 1,000 ordinary shares of Technologijų ir Inovacijų Centras UAB from Litgrid AB (the holder of non-controlling interest in Technologijų ir Inovacijų Centras UAB) with the nominal value of EUR 290 each, for the amount of EUR 847.

On 16 September 2017, the Company acquired 25% of ordinary registered shares of Eurakras UAB from Renagro UAB (the holder of non-controlling interest in Eurakras UAB) for the amount of EUR 4,283 thousand. The Company is the sole shareholder of Eurakras UAB.

Disposal of VšĮ Energetikų Mokymų Centras

On 8 August 2017, the Company sold its investment into VšĮ Energetikų Mokymų Centras with the carrying amount of EUR 123 thousand for the price of EUR 147 thousand. In the Group's consolidated financial statements at 31 July 2017, net assets of VšĮ Energetikų Mokymų Centras was negative and amounted to EUR 205 thousand. The result of disposal amounting to EUR 352 thousand was accounted for in the Group's consolidated statement of comprehensive income within 'Other income'.

Contributions against losses and impairment

Contributions against losses of the Group companies and impairment of investments in the subsidiaries during the period from 1 January to 31 December 2018:

Subsidiary	Carrying amount at 31 December 2017	Increase in share capital	Coverage of losses	(Impairment) / reversal of impairment	Carrying amount at 31 December 2018
Energetikos Paslaugų ir Rangos Organizacija UAB	191	1,500	5,072	(6,763)	-
VAE SPB UAB	-	-	70	(70)	-
Cash received upon liquidation of VAE SPB UAB				15	15
Shares of Verslo Aptarnavimo Centras UAB received upon liquidation of VAE SPB UAB				3	3
	191	1,500	5,142	(6,815)	18

On 28 September 2018, the Company passed a decision to cover retained deficit of subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB through the shareholder's contribution of EUR 3,237 thousand by offsetting loans payable by the subsidiary to the Company and accrued interest payable. The carrying amount of loans offset, net of impairment of EUR 2,700 thousand recognised in 2017, is equal to EUR 535 thousand.

On 21 December 2018, the Company passed a decision to cover retained deficit of subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB through the shareholder's contribution of EUR 4,537 thousand by offsetting loans payable by the subsidiary to the Company and accrued interest payable.

Contributions against losses of the Group companies and impairment of investments in the subsidiaries during the period from 1 January to 31 December 2017:

Subsidiary	Carrying amount at 31 December 2016	Coverage of losses	(Impairment) / reversal of impairment	Carrying amount at 31 December 2017
Energetikos Paslaugų ir Rangos Organizacija UAB	1,818	4,300	(5,927)	191
LITGAS UAB	11,855	-	(3,225)	8,630
VAE SPB UAB	92	170	(262)	-
	13,765	4,470	(9,414)	8,821

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Prepayments for investments

According to the decisions of the Company's Board of 11 October 2018 and 2 November 2018 and the approval of the Company's shareholder of 19 October 2018, on 2 November 2018 Lietuvos Energija, UAB concluded the conditional share purchase and sale agreement regarding the acquisition of 100% shareholding in and shareholder's claim rights of the company engaged in the development of the project on the wind power park from the Polish company that develops wind and solar power plant parks. On 31 December 2018, the Company accounted for a partial payment of EUR 671 thousand for newly acquired shares and the transaction fee of EUR 144 thousand paid under the Polish civil law in the statement of financial position within prepayments for non-current assets (Note 14).

Cash flows from investments in subsidiaries

Reconciliation of the factors that had impact on cash flows from the Group's and the Company's investments into subsidiaries to data reported in the statement of cash flows:

	Group		Company	
	2018	2017	2018	2017
Acquisition of subsidiaries, including loans repayments	(22,741)	-	(22,741)	-
Increase in share capital of subsidiaries	-	-	(22,627)	(23,375)
Contributions to share capital of subsidiaries recognised as prepayments	-	-	-	(3,899)
Prepayments for shares	(816)	-	(816)	-
Decrease in share capital of subsidiaries	-	-	-	12,606
Acquisition of shares from non-controlling interest	-	-	-	(4,284)
Proceeds on disposal of shares of VšĮ Energetikų Mokymų Centras	48	62	-	62
Coverage of losses	-	-	(70)	(170)
Carrying amount	(23,509)	62	(46,254)	(19,060)

The Group's and the Company's cash flows related to buyout of shares from non-controlling interest:

	Group		Company	
	2018	2017	2018	2017
Acquisition of shares of EURAKRAS UAB	-	(4,283)	-	-
Acquisition of shares of Technologijų ir Inovacijų Centras UAB	-	(1)	-	-
	-	(4,284)	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The Group's structure as at 31 December 2018:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Lietuvos Energija, UAB	Lithuania	Parent company	-	-	- Parent company
Subsidiaries of the Group:					
Energijos Skirstymo Operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to consumers; distribution of natural gas
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.8164	3.1836	Electricity generation, supply, import, export and trade
NT Valdosa, UAB	Lithuania	Subsidiary	100.0000	-	- Operation of real estate, other related activities and provision of services
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.6360	20.3640	Provision of IT and telecommunication support services
Energetikos Paslaugų ir Rangos Organizacija UAB	Lithuania	Subsidiary	100.0000	-	- Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
LITGAS UAB	Lithuania	Subsidiary	100.0000	-	- Supply of liquefied natural gas via the terminal and trade in natural gas (100% of votes)
Elektroninių Mokėjimų Agentūra UAB	Lithuania	Subsidiary	100.0000	-	- Provision of payment collection services
Energijos Tiekimas UAB	Lithuania	Subsidiary	100.0000	-	- Supply of electricity and natural gas
Geton Energy OÜ	Estonia	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Geton Energy sp.z.o.o.	Poland	Indirectly controlled subsidiary	100.0000	-	- Supply of electricity
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.9072	2.0928	Provision of IT, telecommunication and other services
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	98.4061	1.5939	Organisation and execution of public procurement, accounting, legal, personnel administration services
Lietuvos Energijos Tiekimas UAB (former Lietuvos Dujų Tiekimas)	Lithuania	Subsidiary	100.0000	-	- Supply of gas
Lietuvos Energija Support Fund	Lithuania	Subsidiary	100.0000	-	- Provision of support for projects, initiatives and activities of public interest
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000	-	- Modernisation of the district heating sector in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernisation of the district heating sector in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000	-	- Electricity generation from renewable energy sources
Eurakras UAB	Lithuania	Subsidiary	100.0000	-	- Electricity generation from renewable energy sources
Transporto Valdymas UAB	Lithuania	Subsidiary	100.0000	-	- Transport management activity
Vėjo Vatas UAB	Lithuania	Subsidiary	100.0000	-	- Electricity generation from renewable energy sources
Vėjo Gūsis UAB	Lithuania	Subsidiary	100.0000	-	- Electricity generation from renewable energy sources
Gamybos Optimizavimas UAB	Lithuania	Subsidiary	100.0000	-	- Supply of electricity and natural gas
VVP Investment UAB	Lithuania	Subsidiary	100.0000	-	- Electricity generation from renewable energy sources

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The Group's structure as at 31 December 2017:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Lietuvos Energija, UAB	Lithuania	Parent company	-	-	- Parent company
Subsidiaries of the Group:					
Energijos Skirstymo Operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to consumers; distribution of natural gas
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.7516	3.2484	Electricity generation, supply, import, export and trade
NT Valdosa, UAB	Lithuania	Subsidiary	100.0000		- Operation of real estate, other related activities and provision of services
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.6360	20.3640	Provision of IT and telecommunication support services
Energetikos Paslaugų ir Rangos Organizacija UAB	Lithuania	Subsidiary	100.0000		- Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
LITGAS UAB	Lithuania	Subsidiary	100.0000		- Supply of liquefied natural gas via the terminal and trade in natural gas (100% of votes)
Elektroninių Mokėjimų Agentūra UAB	Lithuania	Subsidiary	100.0000		- Provision of payment collection services
Energijos Tiekimas UAB	Lithuania	Subsidiary	100.0000		- Supply of electricity and natural gas
Geton Energy OÜ	Estonia	Indirectly controlled subsidiary	100.0000		- Supply of electricity
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.0000		- Supply of electricity
Geton Energy sp.z.o.o.	Poland	Indirectly controlled subsidiary	100.0000		- Supply of electricity
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.8942	2.1058	Provision of IT, telecommunication and other services
VAE SPB UAB	Lithuania	Subsidiary	100.0000		- Business consulting and other management activities
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	98.3964	1.6036	Organisation and execution of public procurement, accounting, legal, personnel administration services
Lietuvos Dujų Tiekimas UAB	Lithuania	Subsidiary	100.0000		- Supply of gas
Lietuvos Energija Support Fund	Lithuania	Subsidiary	100.0000		- Provision of support for projects, initiatives and activities of public interest
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000		- Modernisation of the district heating sector in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernisation of the district heating sector in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000		- Electricity generation from renewable energy sources
Eurakras UAB	Lithuania	Subsidiary	100.0000		- Electricity generation from renewable energy sources
Energijos Sprendimų Centras UAB	Lithuania	Subsidiary	100.0000		- Provision of energy saving services

Indirectly controlled subsidiaries

On 6 June 2017, the Company's subsidiary Energijos Tiekimas UAB established subsidiary Geton Energy Sp.z.o.o, the share capital of which amounted to PLN 1,000 thousand. On 18 September 2017, Energijos Tiekimas UAB increased share capital of subsidiary Geton Energy Sp.z.o.o. As at 31 December 2017 and 31 December 2018, share capital of Geton Energy Sp.z.o.o amounted to PLN 10,000 thousand. The Company owns 100% voting rights at the shareholders' meeting of Energijos Tiekimas UAB, therefore the Group's effective ownership interest in Geton Energy Sp.z.o.o. is equal to 100% as at 31 December 2017 and 31 December 2018.

On 31 December 2017, the Company's subsidiary Energijos Tiekimas UAB controlled subsidiary Geton Energy SIA, the share capital of which amounted to EUR 500 thousand. As at 31 December 2018, share capital of Geton Energy SIA amounted to EUR 5,500 thousand. The Company owns 100% voting rights at the shareholders' meeting of Energijos Tiekimas UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2017 and 31 December 2018.

As at 31 December 2017 and 31 December 2018, the Company's subsidiary Energijos Tiekimas UAB controlled subsidiary Geton Energy OÜ, the share capital of which amounted to EUR 35 thousand. The Company owns 100% voting rights at the shareholders' meeting of Energijos Tiekimas UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2017 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

As at 31 December 2018, the Company had ownership interest in the following Group companies:

At 31 December 2018	Acquisition cost	Impairment	Contributions against losses	Carrying amount	Company's ownership interest, %	Group's effective ownership interest, %
Subsidiaries:						
Energijos Skirstymo Operatorius AB	710,921	-	-	710,921	94.98	94.98
Lietuvos Energijos Gamyba AB	307,997	-	-	307,997	96.82	96.82
NT Valdosa, UAB	45,209	(9,036)	-	36,173	100.00	100.00
Energijos Tiekimas UAB	26,126	-	-	26,126	100.00	100.00
Vilniaus Kogeneracinė Jėgainė UAB	36,600	-	-	36,600	100.00	100.00
EURAKRAS UAB	18,735	-	-	18,735	100.00	100.00
Kauno Kogeneracinė Jėgainė UAB	20,400	-	-	20,400	51.00	51.00
LITGAS UAB	12,641	(4,010)	-	8,631	100.00	100.00
Lietuvos Energijos Tiekimas UAB (former Lietuvos Dujų Tiekimas)	8,369	-	-	8,369	100.00	100.00
Tuulenergija OÜ	6,659	-	-	6,659	100.00	100.00
Technologijų ir Inovacijų Centras UAB	3,219	-	-	3,219	50.00	97.91
Elektroninių Mokėjimų Agentūra UAB	1,428	-	-	1,428	100.00	100.00
Energetikos Paslaugų ir Rangos Organizacija UAB	10,637	(22,710)	12,073	-	100.00	100.00
Verslo Aptarnavimo Centras UAB	298	-	-	298	51.00	98.41
Lietuvos Energija Support Fund	3	-	-	3	100.00	100.00
Vėjo Vatas UAB	6,132	-	-	6,132	100.00	100.00
Vėjo Gūsis UAB	12,919	-	-	12,919	100.00	100.00
VVP Investment UAB	1,962	-	-	1,962	100.00	100.00
Gamybos Optimizavimas UAB	350	-	-	350	100.00	100.00
rounding error		(1)		(1)		
	1,230,605	(35,757)	12,073	1,206,921		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

As at 31 December 2017, the Company had ownership interest in the following Group companies:

At 31 December 2017	Acquisition cost	Impairment	Contributions against losses	Carrying amount	Company's ownership interest, %	Group's effective ownership interest, %
Subsidiaries:						
Energijos Skirstymo Operatorius AB	710,921	-	-	710,921	94.98	94.98
Lietuvos Energijos Gamyba AB	299,936	-	-	299,936	96.75	96.75
NT Valdos, UAB	41,117	(9,036)	-	32,081	100	100
Energijos Tiekimas UAB	23,906	-	-	23,906	100	100
Vilniaus Kogeneracinė Jėgainė UAB	21,003	-	-	21,003	100	100
EURAKRAS UAB	18,735	-	-	18,735	100	100
Kauno Kogeneracinė Jėgainė UAB	12,240	-	-	12,240	51	51
LITGAS UAB	12,640	(4,010)	-	8,630	100	100
Lietuvos Dujų Tiekimas UAB	8,369	-	-	8,369	100	100
Tuulenergija OÜ	6,659	-	-	6,659	100	100
Technologijų ir Inovacijų Centras UAB	3,219	-	-	3,219	50	97.89
Elektroninių Mokėjimų Agentūra UAB	1,058	-	-	1,058	100	100
Energijos Sprendimų Centras UAB	1,670	-	-	1,670	100	100
Verslo Aptarnavimo Centras UAB	296	-	-	296	51	98.4
Energetikos Paslaugų ir Rangos Organizacija UAB	9,137	(13,246)	4,300	191	100	100
Lietuvos Energija Support Fund	3	-	-	3	100	100
VAE SPB UAB	1,117	(1,632)	515	-	100	100
	1,172,026	(27,924)	4,815	1,148,917		

The Group's investments in associates and joint ventures as at 31 December 2018 and 31 December 2017 were as follows:

Group	At 31 December 2018		At 31 December 2017	
	Carrying amount	Group's ownership interest, %	Carrying amount	Group's ownership interest, %
Geoterma UAB	2,142	23.44	2,142	23.44
Total	2,142		2,142	
Group's share of losses of associates	(2,142)		(2,142)	
Carrying amount	-		-	

As at 31 December 2018 and 31 December 2017, the Group did not account for its share of losses of associate Geoterma UAB for 2017, because the total amount of losses accumulated as at 31 December 2016 exceeded the Group's cost of investment and the Group did not have a commitment to cover these losses. The share of losses not recognised amounted to EUR 438 thousand as at 31 December 2016.

No data is available about associate's Geoterma UAB financial position as at 31 December 2018 and 2017 and financial performance results for the years ended 31 December 2018 and 2017. 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)

On 15 February 2019, the State Property Fund applied to Klaipėda Regional Court for the initiation of bankruptcy proceedings against heat production company based in Klaipėda Geoterma UAB.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Summarised statement of financial position of the Group companies with non-controlling interest as at 31 December 2018 and 31 December 2017:

Company name Year	Current assets and liabilities			Non-current assets and liabilities			Net assets
	Assets	Liabilities	Total net current assets	Assets	Liabilities	Total net non-current assets	
Energijos Skirstymo Operatorius AB							
At 31 December 2018 (restated*)	124,690	(309,222)*	(184,532)*	1,445,193*	(632,548)*	812,645*	628,113*
At 31 December 2017	80,370	(282,516)	(202,146)	1,161,462	(326,563)	834,899	632,753
Lietuvos Energijos Gamyba AB							
At 31 December 2018 (restated*)	120,727	(28,897)*	91,830*	535,987*	(236,005)*	299,982*	391,812*
At 31 December 2017	117,662	(46,148)	71,514	518,626	(236,266)	282,360	353,874
Technologijų ir Inovacijų Centras UAB							
At 31 December 2018	5,294	(5,977)	(683)	7,951	(157)	7,794	7,111
At 31 December 2017	3,893	(5,361)	(1,468)	8,413	(153)	8,260	6,792
Duomenų Logistikos Centras UAB							
At 31 December 2018	1,736	(487)	1,249	4,271	(297)	3,974	5,223
At 31 December 2017	894	(354)	540	4,683	(317)	4,366	4,906
Verslo Aptarnavimo Centras UAB							
At 31 December 2018	3,598	(2,764)	834	134	-	134	968
At 31 December 2017	3,653	(2,706)	947	92	-	92	1,039
Kauno Kogeneracinė Jėgainė UAB							
At 31 December 2018	10,148	(3,030)	7,118	42,092	(10,100)	31,992	39,110
At 31 December 2017	9,977	(470)	9,507	14,057	(3)	14,054	23,561

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

The table above has been prepared on the basis of 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 2018

All amounts in EUR thousands unless otherwise stated

Summarised statement of profit or loss and other comprehensive income of the Group companies with non-controlling interests for 2018 and 2017:

Company name / Year	Revenue (restated*)	Profit/(loss) before tax (restated*)	Income tax (expense)/benefit (restated*)	Net profit (loss) from continuing operations (restated*)	Other comprehensive income (loss) (restated*)	Total comprehensive income (loss) for the year (restated*)	Profit (loss) attributable to non-controlling interest (restated*)	Dividends paid to non-controlling interest
Energijos Skirstymo Operatorius AB								
2018 (restated*)	482,021*	(25,979)*	14,845*	(11,134)*	114,583*	103,449*	(559)*	1,766
2017	609,673	82,763	(6,956)	75,807	(187)	75,620	3,804	4,663
Lietuvos Energijos Gamyba, AB								
2018 (restated*)	138,044*	42,600*	(7,782)*	34,818*	18,872*	53,690*	1,109*	763*
2017	149,814	15,694	4,827	20,521	1,285	21,806	667	764
Technologijų ir Inovacijų Centras UAB								
2018	16,170	576	(108)	468	-	468	10	2
2017	14,321	339	(155)	184	-	184	4	6
Duomenų Logistikos Centras UAB								
2018	3,818	740	(118)	622	-	622	127	62
2017	3,836	491	(55)	436	-	436	89	15
Verslo Aptarnavimo Centras UAB								
2018	11,324	255	(61)	194	-	194	3	3
2017	11,209	544	(98)	446	-	446	7	2
Kauno Kogeneracinė Jėgainė UAB								
2018	-	(451)	-	(451)	-	(451)	(221)	-
2017	-	(280)	(22)	(302)	-	(302)	(148)	-

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

The table above has been prepared on the basis of 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 2018

All amounts in EUR thousands unless otherwise stated

Summarised statement of cash flows of the Group companies with non-controlling interest for the years 2018 and 2017:

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 beginning of the year	Cash and cash equivalents at end of year
Energijos Skirstymo Operatorius AB								
2018	72,383	(1,128)	71,255	(292,714)	227,931	6,472	(4,206)	2,266
2017	136,439	(7)	136,432	(199,304)	48,004	(14,868)	10,662	(4,206)
Lietuvos Energijos Gamyba AB								
2018	64,257	(3,117)	61,140	(32,402)	(41,553)	(12,815)	60,700	47,885
2017	59,993	-	59,993	3,659	(101,997)	(38,345)	99,045	60,700
Technologijų ir Inovacijų Centras UAB								
2018	3,525	(15)	3,510	(2,412)	(48)	1,050	106	1,156
2017	1,894	140	2,034	(4,338)	2,113	(191)	297	106
Duomenų Logistikos Centras UAB								
2018	1,598	(40)	1,559	(479)	(305)	775	356	1,130
2017	1,233	(23)	1,210	(318)	(887)	5	351	356
Verslo Aptarnavimo Centras UAB								
2018	1,641	(167)	1,474	(4)	(260)	1,210	627	1,837
2017	371	(137)	234	-	(134)	100	527	627
Kauno Kogeneracinė Jėgainė UAB								
2018	(4,921)	-	(4,921)	(20,969)	25,906	16	9,761	9,777
2017	(4,325)	-	(4,325)	(5,285)	13,241	3,631	6,130	9,761

The table above has been prepared on the basis of 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 2018

All amounts in EUR thousands unless otherwise stated

9 Amounts receivable after one year

Amounts receivable after one year comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Amounts receivable after one year				
Amount receivable on disposal of Litgrid AB (Notes 2, 3, 4)	158,658	169,856	158,658	169,856
Finance lease	1,459	-	-	-
Deposited guarantees	-	9	-	-
Amounts receivable on emission allowances lent	52	103	-	-
Loans granted	293	470	520,893	325,744
Other non-current amounts receivable	144	728	42	39
Total	160,606	171,166	679,593	495,639
Less: impairment	-	(678)	-	(2,701)
Carrying amount	160,606	170,488	679,593	492,938

Information on the fair value of amount receivable from EPSO-G on disposal of Litgrid AB is presented in Note 3.1. The key contractual terms in relation to repayment terms of the amount receivable and the interest rate applied were reviewed in 2016. Interest rate is based on 1 year EURIBOR.

According to the valid agreement between the Company and EPSO-G, during the period until 2022 EPSO-G will have to cover the debt for the shares of Litgrid AB acquired in 2012. The amount receivable for shares is stated at fair value through profit or loss, because the final amount payable by EPSO-G for shares depends on the recalculation of the final price premium. The amount of the price premium depends on return for 2014–2018 of regulated assets of the electricity transmission activity conducted by LITGRID. As at 31 December 2018, the fair value of the amount receivable that comprises the amount receivable for shares and final price premium, is equal to EUR 158,658 thousand. As at 31 December 2018, the amount of the price premium was negative and was equal to EUR 15,877 thousand (31 December 2017: EUR 4,679 thousand) (see Note 4).

The amount receivable for shares is classified as financial assets at fair value through profit or loss.

Expected credit losses of loans granted

As at 31 December 2018, the Company assessed whether credit risk of recipients of non-current and current loans has increased significantly and did not establish any indications and has no information indicating that credit risk of loan recipients on a collective and individual basis has increased significantly. Assumptions used in calculating 12-month expected credit losses related to loans receivable were as follows:

- The credit rating of all borrowers is equivalent to the Company's credit rating (BBB+);
- Loss event probability of 0.13% is consistent with the S&P's One-Year Global Corporate Default Rates presented in the publication announced by S&P the 2017 Annual Global Corporate Default Study;
- The coefficient of losses incurred in case of a loss event is equal to 90% in the energy sector according to the data of Moody's studies;
- Changes in the country's macroeconomic conditions and/or business environment will have no significant impact on the increase in credit risk of borrowers over the next twelve months.

As at 31 December 2018, the Company calculated 12-month expected credit losses of EUR 92 thousand related to non-current and current loans receivable. The calculated expected credit losses were assessed as insignificant, therefore they were not accounted for in the Company's statement of financial position as at 31 December 2018.

Movements on the impairment account during the years ended 31 December 2018 and 31 December 2017:

	Group		Company	
	2018	2017	2018	2017
At 1 January	678	922	2,701	-
Impairment	-	4,261	-	7,001
Coverage of subsidiaries' losses by loans granted	-	-	(2,701)	(4,300)
Reversal of impairment	(678)	(4,505)	-	-
At 31 December	-	678	-	2,701

In 2017, the Company recorded impairment of loans granted to subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB amounting to EUR 7,001 thousand. After a decision was made to cover the subsidiary's operational losses by offsetting against receivable loans, the impairment of loans amounting to EUR 4,300 thousand was reclassified to 'Investments in subsidiaries' in the statement of financial position.

In 2018, the impairment of loans of Energetikos Paslaugų ir Rangos Organizacija UAB amounting to EUR 2,701 thousand was reclassified to 'Investments in subsidiaries' in the statement of financial position after the decision was made to cover the subsidiary's operational losses by offsetting against loans receivable.

Loans granted

The Company's loans granted as at 31 December 2018 comprised loans granted to the subsidiaries:

	Interest rate type	Company		Total
		Within one year (Note 17)	After one year	
Energijos Skirstymo Operatorius AB, green bonds	Fixed interest		366,288	366,288
Energijos Skirstymo Operatorius AB, loans taken over	Variable interest	57,402	82,246	139,649
Tuuleenergia OÜ	Fixed interest	300	20,446	20,746
Eurakras UAB	Fixed interest	-	24,355	24,355
Energijos Tiekimas UAB	Variable interest	32,998	3,500	36,498
Transporto Valdymas UAB	Variable interest	-	21,336	21,336
Vėjo Gūsis UAB	Fixed interest	-	167	167
Vėjo Vatas UAB	Fixed interest	-	2,555	2,555
Energetikos Paslaugų ir Rangos Organizacija UAB	Variable interest	1,221	-	1,221
Energijos Skirstymo Operatorius AB	Variable interest	76,320	-	76,320
Lietuvos Energijos Tiekimas UAB	Variable interest	14,098	-	14,098
Technologijų ir Inovacijų Centras UAB	Variable interest	1,668	-	1,668
Carrying amount		184,006	520,893	704,899

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

On 28 February 2018, the Company and Energijos Skirstymo Operatorius AB signed an additional arrangement to the Proportional Transfer Agreement for Green Bonds of 13 October 2017, under which Energijos Skirstymo Operatorius AB assumed additional green bonds based commitments amounting to EUR 66,288 thousand.

On 3 July 2018, the Company placed EUR 300 million worth 10 years' duration green bond issue ('the Issue'). Annual interest of 1.875% will be payable for bonds and they have been issued with the yield of 2.066%. Net cash inflows comprise 98.290% of the nominal value of the bond issue or EUR 294,345,619.

On 29 August 2018, the Company and its subsidiary Energijos Skirstymo Operatorius AB signed the Proportional Transfer Agreement for Green Bonds, under which the Company assumed a commitment to grant to the subsidiary a loan of up to EUR 250,000 thousand. The loan is granted for the financing of investments in the renewal of the electricity network according to the Green Bonds Description. Liabilities assumed under the agreement are to be fulfilled by 10 July 2028. The fixed interest rate under the agreement coincides with the effective interest rate on the green bonds issue and is set as 2.11%. The essential terms and conditions of the agreement coincides with the terms and conditions of the green bonds issue. The agreement does not provide for any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

The Company's loans granted as at 31 December 2017 comprised loans granted to the subsidiaries:

	Interest rate type	Company		
		Within one year (Note 17)	After one year	Total
Energijos Skirstymo Operatorius AB, green bonds	Fixed interest	-	100,000	100,000
Energijos Skirstymo Operatorius AB, loans taken over	Variable interest	95,012	139,688	234,700
Tuuleenergia OÜ	Fixed interest	3,300	20,746	24,046
Eurakras UAB	Fixed interest	-	24,355	24,355
Energetikos Paslaugų ir Rangos Organizacija UAB	Variable interest	-	2,700	2,700
NT Valdos, UAB	Variable interest	-	38,255	38,255
Carrying amount		98,312	325,744	424,056

Non-current loans by maturity:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Between 1 and 2 years	37	54	35,177	60,362
Between 2 and 5 years	110	162	42,703	87,543
After 5 years	147	254	443,012	177,839
Carrying amount	293	470	520,893	325,744

The weighted average interest rates (%) on non-current loans granted with fixed and variable interest rates:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Fixed interest rate	1.952	0.550	2.227	2.474
Variable interest rate	-	-	0.934	0.871

10 Finance lease receivables

The Group's finance lease receivables were reported in the following line items in the statement of financial position as at 31 December 2018:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Amounts receivable after one year	1,459	-	-	-
Other amounts receivable	377	-	-	-
Non-current assets held for sale	12,097	11,279	-	-
Carrying amount	13,933	11,279	-	-

Finance lease receivables of subsidiary Transporto Valdymas UAB for the lease of motor vehicles are reported within non-current assets held for sale. Amounts receivable under the energy saving services agreements are included in the line items 'Amounts receivable after one year' and 'Other amounts receivable'.

The Group's finance lease receivables comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Minimum payments				
Within one year	3,697	3,917	-	-
From two to five years	9,620	6,836	-	-
After five years	3,049	3,303	-	-
Total	16,365	14,056	-	-
Unearned finance income				
Within one year	(668)	(700)	-	-
From two to five years	(1,449)	(1,554)	-	-
After five years	(315)	(523)	-	-
Total	(2,433)	(2,777)	-	-
Carrying amount	13,933	11,279	-	-

The Group's finance lease receivables reported within amounts receivable after one year, non-current assets held for sale and other amounts receivable amounted to EUR 13,933 thousand as at 31 December 2018 (31 December 2017: EUR 11,279 thousand).

During 2015-2018, the Group signed repurchase agreements for motor vehicles. These agreements stipulated concrete repurchase amounts for motor vehicles used in long-term lease. The repurchase amount of motor vehicles stipulated in all repurchase agreements totalled EUR 5,402 thousand as at

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

31 December 2018 (31 December 2017: EUR 4,905 thousand). The repurchase term principally ranges from 1 to 5 years.

In view of (1) income received from long-term lease, (2) net book values of leased assets at the end of the lease term and (3) amounts for which these motor vehicles will be (or will not be) sold, in 2018 the reclassification of EUR 1,910 thousand (2017: EUR 4,579 thousand) from property, plant and equipment to non-current finance lease was made.

The Group does not earn contingent finance income related to finance lease arrangements.

Impairment of finance lease receivables (lifetime expected credit losses)

As at 31 December 2018, the Group assessed whether credit risk of finance lease clients has increased significantly and did not establish a significant increase in credit risk.

11 Other financial assets

The Group's and the Company's other non-current financial assets comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Convertible bonds of Contrain Ventures UAB Innovation Fund Smart Energy Fund powered by Lietuvos Energija KÜB	500	300	500	300
Carrying amount	2,008	426	2,008	426

The Group's and the Company's other current financial assets comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Term deposits	656	-	-	-
Carrying amount	656	-	-	-

12 Other non-current assets

Other non-current assets comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Accrued sales revenue from energy saving schemes	1,007	-	-	-
Right to receive emission allowances in future	5,087	5,090	-	-
Less: impairment	-	(1,851)	-	-
Carrying amount	6,094	3,239	-	-

The Group's other non-current assets mainly consist of emission allowances held by subsidiary Lietuvos Energijos Gamyba AB. Change in value of emission allowances was estimated with reference to the market prices of emission allowances as at 31 December 2018 and 2017.

13 Inventories

The Group's and the Company's inventories comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Natural gas	37,350	46,084	-	-
Consumables, raw materials and spare parts	5,529	8,493	-	-
Heavy fuel oil	2,350	4,585	-	-
Other	455	957	-	-
Total	45,684	60,119	-	-
Less: impairment	(2,547)	(3,253)	-	-
Carrying amount	43,137	56,866	-	-

The Group's inventories expensed during the year ended 31 December 2018 were as follows:

	Group		Company	
	2018	2017	2018	2017
Natural gas	305,520	249,739	-	-
Heavy fuel oil	1,645	1,546	-	-
Other inventories	10,535	13,086	-	-
Total	317,700	264,371	-	-

Movements on the account of inventory write-down to net realisable value during 2018 and 2017 were as follows:

	Group		Company	
	2018	2017	2018	2017
Carrying amount at 1 January	3,253	3,155	-	-
Additional impairment	685	224	-	-
Reversal of impairment	(1,391)	(126)	-	-
Carrying amount at 31 December	2,547	3,253	-	-

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2018 amounted to EUR 2,645 thousand (31 December 2017: EUR 4,406 thousand).

Movements on the account of inventory write-down to net realisable value were recognised in the statement of comprehensive income within 'Other expenses'.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

14 Prepayments and deferred expenses

The Group's and the Company's non-current prepayments as at 31 December 2018 and 2017 were as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Prepayments for property, plant, equipment	23,621	21,911	-	-
Prepayments for investments (Note 8)	-	-	816	3,899
Carrying amount	23,621	21,911	816	3,899

The Group's and the Company's current prepayments as at 31 December 2018 and 2017 were as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Prepayments for natural gas	5,806	27,881	-	-
Deposits related to power exchange	14,783	5,930	-	-
Deferred expenses	1,030	1,072	-	33
Prepayments for other goods and services	2,154	2,578	62	9
Prepayments for electricity due to overdeclaration by customers	4,439	-	-	-
Other prepayments	922	658	-	-
Assets under contracts with customers	1,521	-	-	-
Carrying amount	30,655	38,119	62	42

As at 31 December 2018, the Group's prepayments for natural gas consisted of prepayments for natural gas of subsidiary Lietuvos Energijos Tiekimas (former Lietuvos Dujų Tiekimas UAB) to suppliers in the amount of EUR 5,806 thousand.

As at 31 December 2017, the Group's prepayments for natural gas consisted of prepayments for natural gas of subsidiary Lietuvos Dujų Tiekimas UAB to Gazprom PAO in the amount of EUR 27,881 thousand.

15 Trade receivables

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Amounts receivable under contracts with customers				
Receivables for electricity	76,265	71,221	-	-
Receivables for gas from non-household customers	49,180	36,008	-	-
Receivables for gas from household customers	4,287	2,616	-	-
Receivables for contractual works	1,206	2,325	-	-
Receivables for sale of heat	657	1,071	-	-
Receivables for lease of assets	464	1,742	-	-
Receivables for exported electricity and electricity produced abroad	430	1,771	-	-
Receivables for IT and telecommunications services	768	819	-	-
Other trade receivables	19,450	5,146	-	-
Total	152,707	122,719	-	-
Less: impairment of trade receivables	(9,587)	(10,156)	-	-
Carrying amount	143,120	112,563	-	-

As at 31 December 2018 and 2017, the Group had not pledged the claim rights to trade receivables.

Impairment of amounts receivable (lifetime expected credit losses)

The Company/Group assesses material amounts receivable individually, and all immaterial amounts collectively.

The Company's/Group's management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on a particular borrower and a significant increase in the credit risk of that particular borrower.

For the purpose of determining the lifetime expected credit losses of amounts receivable in case of a collective assessment, the Company/Group uses the loss coefficient matrix. A different loss coefficient matrix is established in different subsidiaries of the Group and in each separate group of consumers. The table below presents information on the Company's/Group's trade receivables under contracts with customers as at 31 December 2018 that are assessed on a collective basis using the loss coefficient matrix.

	Loss coefficient*	Trade receivables	Values decrease
Not past due	1%	115,118	692
Up to 30 days	2%	6,147	145
30–60 days	8%	1,958	158
60–90 days	10%	643	64
90–120 days	17%	802	134
More than 120 days	56%	12,862	7,166
At 31 December 2018		137,530	8,359

*The average loss coefficient is presented calculated after the assessment of actual different coefficients used according to the consumer groups and different subsidiaries of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The table below presents information on the Company's/Group's trade receivables under contracts with customers as at 31 December 2018 that are assessed on an individual basis.

	Trade receivables	Values decrease
Not past due	13,573	151
Up to 30 days	486	-
30–60 days	18	1
60–90 days	4	-
90–120 days	20	-
More than 120 days	1,076	1,076
At 31 December 2018	15,177	1,228

Movements on the account of impairment of trade receivables during 2018 and 2017 were as follows:

	Group		Company	
	2018	2017	2018	2017
Balance at 1 January	10,156	11,075	-	-
Effect of first-time adoption of IFRS 9	526	-	-	-
Restated balance at 1 January	10,682	11,075	-	-
Impairment charge for the year	2,316	(1,145)	-	-
Write-down of doubtful receivables	(544)	(97)	-	-
Impairment/(reversal of impairment)	(2,867)	323	-	-
Balance at 31 December	9,587	10,156	-	-

Impairment of receivables was recognised in the statement of comprehensive income.

The table below presents the ageing analysis of trade receivables as at 31 December 2017 that were not identified as doubtful:

	Group	Company
	2017	2017
Not past due	99,964	-
Up to 30 days	7,049	-
30–60 days	2,177	-
60–90 days	542	-
90–120 days	745	-
More than 120 days	2,086	-
Carrying amount	112,563	-

The fair values of trade receivables as at 31 December 2018 and 2017 approximated their carrying amounts.

16 Other amounts receivable

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Value added tax	13,245	5,793	2	1,775
Unbilled accrued revenue from electricity sales (including related VAT)	5,296	8,199	-	-
Accrued amounts receivable for electricity produced	-	8,487	-	-
Accrued amounts receivable for natural gas	-	1,770	-	-
Accrued revenue from contractual works	-	1,815	-	-
Current portion of finance lease relating to energy saving services (Note 10)	377	-	-	-
Accrued interest and revenue from suretyship charges	-	277	-	302
Amount receivable on revision of Kauno Energetikos Remontas UAB shares price	-	-	-	1,056
Amount receivable on disposal of VŠĮ Energetikų Mokymų Centras	-	55	36	55
Amounts receivable on disposal of property, plant and equipment	4,424	15	-	-
Management fee receivable	-	-	573	-
Other amounts receivable	2,193	1,804	20	2,134
Total	25,535	28,215	631	5,322
Less: impairment of other receivables	(99)	(415)	-	-
Carrying amount	25,436	27,800	631	5,322

The fair values of other receivables as at 31 December 2018 and 2017 approximated their carrying amounts.

17 Current loans

The Group's and the Company's current loans as at 31 December 2018 and 2017 comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Current portion of non-current loans	-	-	57,702	98,312
Current loans	-	-	126,304	71,083
Interest receivable	-	-	5,318	-
Carrying amount	-	-	189,324	169,395

As at 31 December 2018, the Company calculated 12-month expected credit losses related to non-current and current loans receivable. The calculated expected credit losses were assessed as insignificant, therefore they were not accounted for in the Company's statement of financial position as at 31 December 2018 (Note 9).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

All current loans of the Company accounted for as at 31 December 2018 have been issued to the subsidiaries with a variable interest rate, which is set by adding an interest margin to the basic interest rates linked with EURIBOR. The weighted average interest rates (%) on current loans:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Variable interest rate	-	-	0.538	0.683

18 Cash and cash equivalents

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Cash at bank	127,835	171,756	231	52,517
	<u>127,835</u>	<u>171,756</u>	<u>231</u>	<u>52,517</u>

Cash, cash equivalents and a bank overdraft include the following for the purposes of the cash flow statement:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Cash and cash equivalents	127,835	171,756	231	52,517
Bank overdraft	(42,260)	(10,655)	(42,260)	-
Carrying amount	<u>85,575</u>	<u>161,101</u>	<u>(42,029)</u>	<u>52,517</u>

The fair values of cash and cash equivalents as at 31 December 2018 and 2017 approximated their carrying amounts.

Under the loan agreements signed with the banks, the Group has pledged current and future cash inflows (Note 22). As at 31 December 2018, the balance of cash pledged amounted to EUR 389 thousand (31 December 2017: EUR 12,610 thousand).

19 Non-current assets held for sale

Non-current assets held for sale comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Property, plant and equipment and investment property	35,589	56,359	77	10,012
Disposal group	30,117	22,942	-	-
Investments in subsidiaries	-	-	7,064	4,705
	<u>65,706</u>	<u>79,301</u>	<u>7,141</u>	<u>14,717</u>

Movements of non-current assets held for sale during 2018 and 2017 were as follows:

	Group		Company	
	2018	2017	2018	2017
Net book amount at 1 January	79,301	878	14,717	4,782
Disposals	(45,520)	(1,797)	-	-
Write-offs	(91)	(3)	-	-
Purchase of non-current assets for sale purposes	30	-	-	9,935
In-kind contribution for increase of share capital of Lietuvos Energijos Gamyba, AB	-	-	(8,061)	-
Result of revaluation of non-current assets	-	(4,553)	-	-
Change of other assets attributed to disposal group	6,503	12,668	-	-
Depreciation of property, plant and equipment accounted for in disposal group	(1,841)	-	-	-
Increase (decrease) in property, plant and equipment and investment property	(2,774)	-	-	-
Reclassified (to) from:				
Intangible assets	10	15	(1,874)	-
Property, plant and equipment incl. impairment	17,367	34,986	-	-
Investment property	-	(62)	-	-
Investments in subsidiaries	12,721	37,107	-	-
	-	-	2,359	-
Net book amount at 31 December	<u>65,706</u>	<u>79,301</u>	<u>7,141</u>	<u>14,717</u>

Within the line item of the disposal group the Company recognised investment of subsidiary Transporto Valdymas UAB of EUR 2,359 thousand, which is intended to be disposed by the Company.

The Company's line item of the disposal group also includes investment of subsidiary Duomenų Logistikos Centras UAB of EUR 4,705 thousand, which is intended to be disposed by the Company.

The Group's line item of the disposal group also includes assets of subsidiaries Transporto Valdymas UAB and Duomenų Logistikos Centras UAB amounting to EUR 65,706 thousand, which is intended to be disposed by the Group.

Depreciation charge for the twelve month period ended 31 December 2018 included in the Group's line item of the disposal group amounted to EUR 1,841 thousand.

Liabilities of EUR 2,986 thousand being disposed along with these assets were reported under the line item 'Liabilities related to non-current assets held for sale'.

20 Equity

As at 31 December 2018 and 2017, the Company's share capital amounted to EUR 1,212,156,294. As at 31 December 2018 and 2017, 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 2018 and 31 December 2017, all shares were fully paid.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

21 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 2018, the Group's legal reserve amounted to EUR 49,851 thousand (31 December 2017: EUR 46,512 thousand).

In 2018, the Company transferred EUR 5,295 thousand (2017: EUR 4,758 thousand) to the legal reserve. The Company's legal reserve as at 31 December 2018 was not fully formed.

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 2018, the Group's revaluation reserve amounted to EUR 162,935 thousand (31 December 2017: EUR 52,826 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 based on the decision of shareholders and requirements of IFRS and can be redistributed on the appropriation of the next year's profit. As at 31 December 2018, the Group accounted for the result of the translation of the Group's net investments (2018: EUR 16 thousand; 2017: EUR 42 thousand) in Geton Energy sp.z.o.o., a Poland-based company indirectly controlled by the Company, into the Group's presentation currency within the item of other reserves. No other reserves were formed by the Company as at 31 December 2018 and 2017.

22 Borrowings and finance lease liabilities

Borrowings

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Non-current				
Bonds issued	588,999	293,981	588,999	293,981
Bank borrowings	146,411	186,087	82,246	139,687
Current				
Current portion of non-current borrowings	61,820	119,599	57,401	95,013
Current borrowings	-	-	-	-
Bank overdraft	42,260	10,655	42,260	-
Accrued interest	5,466	3,427	5,461	2,794
Total borrowings	844,956	613,749	776,367	531,475

Non-current borrowings by maturity:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Between 1 and 2 years	61,987	66,124	32,156	57,362
Between 2 and 5 years	84,424	73,039	21,467	48,587
After 5 years	588,999	340,905	617,622	327,719
Total	735,410	480,068	671,245	433,668

All borrowings of the Group and the Company are denominated in the euros.

The loan agreements provide for financial and non-financial covenants that the individual Group entities are obliged to comply with. All Group companies complied with the covenants as at 31 December 2018 and 2017.

As at 31 December 2018, the Group's unwithdrawn balance of loans and bank overdrafts amounted to EUR 469,939 thousand (31 December 2017: EUR 382,645 thousand).

As at 31 December 2018, the Company's unwithdrawn balance of loans and bank overdrafts amounted to EUR 157,740 thousand (31 December 2017: EUR 180,000 thousand).

Under the agreement with later amendments for the loan of EUR 190 million designated for the funding of the construction of a co-generation power plant in Vilnius signed between Vilniaus Kogeneracinė Jėgainė UAB and the European Investment Bank (EIB) on 5 December 2016, Vilniaus Kogeneracinė Jėgainė UAB and the Group have to comply with the requirements related to equity and other financial indicators. Vilniaus Kogeneracinė Jėgainė UAB has assumed the following commitments:

- The State of Lithuania, directly or indirectly, will retain control over Vilniaus Kogeneracinė Jėgainė UAB;
- Vilniaus Kogeneracinė Jėgainė UAB financial commitments that are not secured with collateral (a pledge or guarantee) will not exceed EUR 30,000 thousand.

The Group has assumed the following commitments:

- The Group's net debt-to-equity ratio will not exceed one;
- The ratio of net debt to EBITDA adjusted for one-off items will not exceed 4, except the December in 2018, 2019 and 2020 when the ratio will not exceed 4.5; 5.4 and 4.5;
- The Group's subsidiaries borrowings, secured by guarantees or other fulfilment measures, of all current and future obligation and Group's property, plant and equipment ratio will not exceed the rate of 0.16.

As at 31 December 2018 and 2017, the Group and the Company complied with the requirements defined in the loan agreement with the European Investment Bank.

On 14 July 2017, the Company issued bonds worth of EUR 300 million at the stock exchange. The Company pays 2.000% annual interest on bonds issued. Net cash inflows from the issue of bonds amount to EUR 293,834 thousand. Bonds will be redeemed on 14 July 2027. In the statement of financial position as at 31 December 2018, the Company accounted for the bond issue debt of EUR 293,981 thousand.

On 3 July 2018, the Company placed EUR 300 million worth 10 years' duration green bond issue ('the Issue'). Annual interest of 1.875% will be payable for bonds and they have been issued with the yield of 2.066%. Net cash inflows comprise 98.290% of the nominal value of the bond issue or EUR 294,345,619.

In the statements of financial position as at 31 December 2018 and 31 December 2017, the Company accounted for the bond issue debt of EUR 588,999 thousand and EUR 293,981 thousand, respectively. In 2018, expenses related to interest on the issued bonds totalled EUR 9,471 thousand (2017: EUR

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

3,017 thousand). The accrued amount of coupon payable as at 31 December 2018 amounted to EUR 5,461 thousand (31 December 2017: EUR 2,794 thousand).

On 4 July 2018, the Company signed additional arrangement amending and supplementing the terms of the overdraft agreement signed with Swedbank, whereby the overdraft amount was increased from EUR 100,000 thousand to EUR 130,000 thousand. The Group's and the Company's withdrawn part of the overdraft amounted to EUR 42,260 thousand as at 31 December 2018.

As at 31 December 2018, the Company's non-current borrowings of EUR 82,247 thousand (31 December 2017: EUR 139,687 thousand) comprised debts to SEB Bankas AB and OP Bank under the loan refinancing agreement of Energijos Skirstymo Operatorius AB. The current portion of non-current borrowings relating to the loan refinancing of Energijos Skirstymo Operatorius AB amounted to EUR 57,401 thousand (31 December 2017: EUR 95,013 thousand).

In 2018, the Company's subsidiary Lietuvos Energijos Gamyba AB repaid a part of the non-current loan to SEB Bankas AB prior to maturity, which was granted on 21 February 2014. On 2 July 2017, the credit agreement for the amount of EUR 60,000 thousand was signed with SEB Bankas AB. Under this agreement the loan granted by SEB Bankas AB under the credit agreement dated 21 February 2014 was refinanced on 20 November 2018, the outstanding balance of which was EUR 27.9 million, and the pledge of a part of property, plant and equipment (the combined cycle unit, units 7 and 8 of the reserve power plant) was annulled.

The weighted average interest rates (%) on the Group's and the Company's borrowings payable with fixed and variable interest rates:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Non-current borrowings				
Fixed interest rate	2.128	2.234	2.147	2.234
Variable interest rate	1.027	0.934	0.877	0.798
Current borrowings				
Variable interest rate	0.410	0.550	0.410	-

The Group and the Company cannot identify final beneficiaries that acquired the placed issues of bonds, thus according to a separate interpretation of the State Tax Inspectorate current coupon payments are subject to the tax at a rate of 15% by the Group and the Company. During 2018, the Group and the Company paid income tax of individuals of EUR 900 on a EUR 6,000 thousand coupon paid to investors.

Finance lease liabilities

The Group's and the Company's minimum payments under finance leases are as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Minimum payments				
Within one year	5,421	162	-	-
From two to five years	5,011	214	-	-
After five years	9,477	-	-	-
Total	19,909	376	-	-
Future finance costs				
Within one year	(201)	(17)	-	-
From two to five years	(129)	(27)	-	-
After five years	(25)	-	-	-
Total	(355)	(44)	-	-
Carrying amount	19,554	332	-	-

The Group's finance lease liabilities related to the development of the wind power parks amounted to EUR 19,367 thousand as at 31 December 2018. The Group pays variable interest rates according to finance lease contracts for the equipment of the wind power parks, the average of which is 1.05% as at 31 December 2018. As at 31 December 2018, the validity terms of the effective finance lease contracts for the equipment of the wind power parks expire in the period from 2021 to 2022.

Net debt reconciliation

This note sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt balances as at 31 December 2018 and 31 December 2017:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Cash and cash equivalents	(127,835)	(171,756)	(231)	(52,517)
Term deposits	(656)	-	-	-
Borrowings payable after one year	735,410	480,068	671,245	433,668
Borrowings payable within one financial year (including overdraft)	109,546	133,681	105,122	97,807
Finance lease liabilities	19,554	332	-	-
Net debt	736,019	442,325	776,136	478,958
Cash and cash equivalents	(128,491)	(171,756)	(231)	(52,517)
Borrowings – fixed interest rate	614,600	293,981	594,459	293,981
Borrowings – variable interest rate	249,910	320,100	181,908	237,494
Net debt	736,019	442,325	776,136	478,958

For the purpose of net debt calculation, borrowings comprise only debts to financial institutions and other debts relating to financing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Reconciliation of the Group's net debt balances and cash flows from financing activities for 2018:

Group	Assets		Borrowings				Total	
	Cash	Term deposits	Current portion of finance lease liabilities	Non-current portion of finance lease liabilities	Current borrowings	Current portion of non-current borrowings		Non-current portion of non-current borrowings
Net debt at 1 January 2018	(171,756)	-	145	187	14,082	119,599	480,068	442,325
Cash changes								
Increase (decrease) in cash and cash equivalents (including overdraft)	43,921	-	-	-	31,605	-	-	75,526
Proceeds from borrowings	-	-	-	-	-	27,922	29,888	57,810
Issue of bonds	-	-	-	-	-	-	294,346	294,346
(Repayments) of borrowings	-	-	-	-	-	(143,564)	(11,857)	(155,421)
Finance lease payments	-	-	(544)	-	-	-	-	(544)
Interest paid	-	-	(5)	-	(6,764)	(3,633)	-	(10,402)
Non-cash changes								
Accrual of interest payable	-	-	5	-	8,797	2,836	805	12,442
Reclassification of interest payable from trade payables	-	-	-	-	-	797	-	797
Acquisition of subsidiaries	-	(656)	806	18,960	7	-	154	19,271
Expenses of issue of bonds	-	-	-	-	-	-	(131)	(131)
Reclassifications between items	-	-	4,813	(4,813)	-	57,862	(57,862)	-
Net debt at 31 December 2018	(127,835)	(656)	5,220	14,334	47,727	61,819	735,410	736,019

Reconciliation of the Company's net debt balances and cash flows from financing activities for 2018:

Company	Assets		Borrowings		Total	
	Cash		Current borrowings	Current portion of non-current borrowings		Non-current portion of non-current borrowings
Net debt at 1 January 2018	(52,517)		2,794	95,013	433,668	478,958
Cash changes						
Increase (decrease) in cash and cash equivalents (including overdraft)	52,286		42,260	-	-	94,546
Issue of bonds	-		-	-	294,346	294,346
(Repayments) of borrowings	-		-	(95,052)	-	(95,052)
Interest (paid)	-		(6,131)	(1,615)	-	(7,746)
Non-cash changes						
Accrual of interest payable	-		8,798	1,614	805	11,217
Expenses of issue of bonds	-		-	-	(133)	(133)
Reclassifications between items	-		-	57,441	(57,441)	-
Net debt at 31 December 2018	(231)		47,721	57,401	671,245	776,136

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

23 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 the deferred income taxes relate 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 Dec 2016	Recognised in profit or loss	Realisation of unrecognised tax losses	Recognised in other comprehensive income	At 31 Dec 2017	Recognised in profit or loss (restated*)	IFRS 15 adoption impact	Recognised in other comprehensive income	Reclassified to liabilities related to Non-current assets held for sale	At 31 Dec 2018 (restated*)
Deferred income tax assets										
Difference on recognition of income from new customer connection services	(16)	16	-	-	-	-	-	-	-	-
Deferred revenue	2,184	1,463	-	-	3,647	(1,405)*	-	-	-	2,242
Accrued expenses	496	1,721	-	-	2,217	(579)	-	-	(4)	1,634
Impairment of assets	5,111	738	-	-	5,849	212	-	-	(5)	6,056
Tax losses carry forward	8,956	(202)	-	-	8,754	1,543	-	-	-	10,297
Difference of financial and tax value of assets identified on business combination	2,785	(198)	-	-	2,587	2,807	-	-	-	5,394
Other	(577)	2,366	-	-	1,789	760	-	-	-	2,549
Deferred income tax assets before write-down to net realisable value	18,939	5,904	-	-	24,843	3,338	-	-	(9)	28,172
Less: write-down to net realisable value	(8,260)	34	3,505	-	(4,721)	2,416	-	-	-	(2,305)
Deferred income tax assets, net	10,679	5,938	3,505	-	20,122	5,754	-	-	(9)	25,867
Deferred income tax liabilities										
Valuation of PP&E (increase/decrease in value) and differences in depreciation rates	32,080	8,197	-	192	40,469	(13,230)*	-	21,732	(891)	48,080
Tax relief on acquisition of PP&E	2,176	1,980	-	-	4,156	(6,985)	-	-	-	(2,829)
Increase in value of assets	-	-	-	-	-	-	-	-	-	-
Accrued expenses	(166)	166	-	-	-	-	-	-	-	-
Difference on recognition of income from new customer connection services	2,749	(245)	-	-	2,504	6,860*	(10,997)	-	-	(1,633)
Result of valuation of financial assets	689	(609)	-	-	80	(129)	-	-	-	(49)
Difference of financial and tax value of assets identified on business combination	2,064	(186)	-	-	1,878	(271)	-	-	-	1,607
Derivative financial instruments	-	-	-	-	-	2,632	-	-	-	2,632
Other	5,869	(5,869)	-	-	-	-	-	-	-	-
Deferred income tax liability, net	45,461	3,434	-	192	49,087	(11,123)	(10,997)	21,732	(891)	47,808
Deferred income tax, net	(34,782)	2,504	3,505	(192)	(28,965)	16,877	10,997	(21,732)	882	(21,941)

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

The Group's statement of financial position presents separately deferred tax assets (EUR 14,468 thousand) and deferred tax liabilities (EUR 36,409 thousand) related to different subsidiaries. The net balance of deferred tax is liability of EUR 21,941 thousand.

Company	At 31 December 2016	Recognised in profit or loss	Recognised in other comprehensive income	At 31 Dec 2017	Recognised in profit or loss	Recognised in other comprehensive income	At 31 Dec 2018
Deferred income tax assets							
Accrued expenses	93	19	-	112	57	-	169
Tax losses carry forward	-	437	-	437	471	-	908
Deferred income tax assets, net	93	456	-	549	528	-	1,077
Deferred income tax liabilities							
Result of valuation of financial assets	9	-	(9)	-	-	-	-
Deferred income tax liability, net	9	-	(9)	-	-	-	-
Deferred income tax, net	84	456	9	549	528	-	1,077

As at 31 December 2018, the Group did not recognise deferred income tax assets on accumulated tax loss from operations of EUR 15,369 thousand (31 December 2017: EUR 46,493 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

24 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, PSO funds and property, plant and equipment and intangible assets received in return for no consideration. Movements on the account of grants in 2018 and 2017 were as follows:

Group	Asset-related grants			Total
	Asset-related grants and other projects of the Group	Projects for renovation, improvement of environmental and safety standards	Grants for emission allowances	
Balance at 31 December 2016	43,279	241,143	507	284,929
Depreciation of property, plant and equipment	(1,446)	(18,776)	-	(20,222)
Grants received	7,724	74	1,128	8,926
Emission allowances utilised	-	-	(436)	(436)
Grants reversed due to recognised impairment of PP&E and other reasons	(14)	(72,872)	-	(72,886)
Balance at 31 December 2017	49,543	149,569	1,199	200,311
Depreciation of property, plant and equipment	(1,450)	(7,820)	-	(9,270)
Grants received	25,523	-	2,555	28,078
Emission allowances utilised	-	-	(175)	(175)
Grants attributable to revaluation of property plant and equipment	(8,928)	(768)	-	(9,696)
Grants reversed due to recognised impairment of PP&E and other reasons	(1)	-	-	(1)
Grants transferred to short term liabilities	-	(373)	-	(373)
Balance at 31 December 2018	64,687	140,608	3,579	208,874

Amortisation of grants is accounted for under depreciation and amortisation in the statement of comprehensive income and reduces depreciation expenses of related property, plant and equipment. Grants reversed are reported within revaluation/impairment of assets and reduce these expenses. Grants reversed due to recognised impairment of property, plant, and equipment of subsidiary Energijos Skirstymo Operatorius AB amounted to EUR 8,928 thousand in 2018

25 Deferred revenue and prepayments received

Deferred revenue

	2018 (restated*)		2017	
	Current portion	Non-current portion	Current portion	Non-current portion
Balance at 1 January	5,242	54,509	5,181	52,214
Impact of first-time adoption of IFRS 15 in the natural gas distribution activity	-	-*	-	-
Impact of first-time adoption of IFRS 15 in the electricity distribution activity	(877)	74,195	-	-
Restated balance at 1 January	4,365	128,704	5,181	52,214
Received during the period	-	19,052*	-	4,992
Recognised as income	(6,561)*	-	(2,636)	-
Reclassifications between items	11,318	(11,318)	2,697	(2,697)
Balance at 31 December	9,122	136,438	5,242	54,509

* Restated due to correction changes in accounting methods as disclosed in Note 3.3.

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.

Income from connection of customers is included in the revenue line item in profit and loss.

Prepayments received

	Group		Company	
	At 31 Dec 2018 (restated*)	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Current prepayments under contracts with customers	44,912	24,801	-	-
Current prepayments under other agreements:				
- Advance amounts of PSO service fees received (income to be refunded)	-*	-	-	-
- Advance amounts received for lease of assets	1,728	1,787	-	-
- Other advances received	3,126*	1,177	51	1
Total	49,766	27,765	51	1

* Restated due to correction of errors as disclosed in Note 3.3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

26 Provisions

	Group		Company	
	At 31 Dec 2018 (restated*)	At 31 Dec 2017 (restated*)	At 31 Dec 2018	At 31 Dec 2017
Non-current	35,355*	7,367	-	2,903
Current	5,558*	2,498	806	-
Total amount of provisions	40,913	9,865	806	2,903

* Restated due to correction of errors as disclosed in Note 3.3.

	Provisions for onerous contracts	Emission allowance liabilities	Provisions for employee benefits	Provision for Public Service Obligations (restated*)	Decommissioning provision	Compensations for servitudes	Total
At 1 January 2017	10,292	1,316	4,529	-	-	-	16,137
Increase during the period	-	913	537	5,474	-	-	6,924
Utilised during the period	(10,292)	(1,316)	(1,369)	-	-	-	(12,977)
Revaluation of emission allowances utilised	-	(384)	-	-	-	-	(384)
Result of change in actuarial assumptions	-	-	187	-	-	-	187
Reclassified to liabilities related to assets held for sale	-	-	(22)	-	-	-	(22)
At 31 December 2017	-	529	3,862	5,474	-	-	9,865
At 1 January 2018	-	529	3,862	5,474	-	-	9,865
Increase during the period	-	894	1,222	2,239	1,573	28,649	34,577
Utilised during the period	-	(908)	(2,270)	(159)	-	(748)	(4,080)
Revaluation of emission allowances utilised	-	380	-	-	-	-	380
Result of change in actuarial assumptions	-	-	54	-	-	117	171
At 31 December 2018	-	895	2,868	7,554	1,573	28,023	40,913

* Restated due to correction of errors as disclosed in Note 3.3.

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.

In establishing the price of gas for customers from 1 July 2017, the additional discount on the price of gas agreed between Lithuania and Gazprom for gas supplied from the beginning of 2013 to April 2014 is no longer applied as the entire amount of the discount was utilised as at 1 July 2017. In this respect, no provisions for onerous contracts were established as at 31 December 2017.

In 2018, the Group accounted for provision of EUR 28,725 thousand for one-off compensations to third parties (notes 2.19, note 4 topic *Provisions for compensations for servitudes*) for damages related to the establishment of statutory servitudes (which came into effect on 10 July 2004). As at 31 December 2018, the provision amounted to EUR 27,982.

As at 31 December 2018 and 31 December 2017, the Company's provisions consisted of the guarantee issued to the subsidiaries for the loans granted to subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB under cashpool agreements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

27 Other non-current amounts payable and liabilities

	Group		Company	
	At 31 Dec 2018 (restated*)	At 31 Dec 2017 (restated*)	At 31 Dec 2018	At 31 Dec 2017
Advance amounts of PSO service fees received	-	20	-	-
Non-current trade payables	729	819	-	-
Amounts payable for acquired shares of LITGRID	-	33	-	33
Non-current amounts payable for acquired shares of subsidiaries	-	-	-	9,666
Other	1,158	960	378	108
Carrying amount	1,887	1,832	378	9,807

* Restated due to correction of errors as disclosed in Note 3.3.

28 Trade payables

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Amounts payable for electricity and heavy fuel oil	47,324	48,844	-	-
Amounts payable for contractual works, services	5,683	7,517	-	-
Amounts payable for gas	28,406	28,734	-	-
Other amounts payable	11,825	13,243	947	506
Carrying amount	93,237	98,338	947	506

29 Other current amounts payable and liabilities

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017*	At 31 Dec 2018	At 31 Dec 2017
Employment-related liabilities	5,048	4,857	127	729
Accrued expenses and deferred revenue for electricity and gas	-	2,130	-	-
Amounts payable for property, plant and equipment	41,293	65,189	-	-
Taxes (other than income tax)	15,795	9,494	201	-
Accrued expenses	7,847	12,496*	1,032	94
Derivative financial instruments	35	57	-	-
Put option redemption liability (Note 4)	16,660	9,996	-	-
Non-controlling interest dividends	2,874	2,687	-	-
Other amounts payable and liabilities	13,130	2,515	13	-
Carrying amount	102,682	109,421	1,373	823

* Reclassified following the coming into effect of IFRS 15 from 1 January 2018 (Note 2.1)

Derivative financial instruments

As at 31 December 2018, assets and liabilities related to the Group's and the Company's agreements on derivative financial instruments were as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Other current assets				
Derivative financial instruments linked to the market prices of electricity	1,634	856	-	-
Derivative financial instruments linked to the market price of gas	412	228	-	-
Total	2,046	1,084	-	-
Other non-current amounts payable and liabilities				
Derivative financial instruments linked to the market prices of electricity	(18)	(57)	-	-
Derivative financial instruments linked to the market price of gas	(17)	-	-	-
Total	(35)	(57)	-	-

On 1 January 2016, the Company's subsidiary Energijos Tiekimas UAB joined the electricity derivatives exchange NASDAQ Commodities. Energijos Tiekimas UAB is currently the only Lithuanian electricity provider, active in the stock market. Trading of derivative products can reduce electricity price fluctuation risks, as well as to carry out commercial activities, making use of fluctuations in market prices. At the NASDAQ Commodities exchange Energijos Tiekimas UAB performs the market maker functions in respect of financial instruments linked to Latvian electricity market prices (EPAD Riga).

Measurement of fair value of derivative financial instruments

The Group and the Company recognise derivative financial instruments at fair value. The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2018:

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Assets:				
Derivative financial instruments linked to the market prices of electricity	76	1,558	-	1,634
Derivative financial instruments linked to the market price of gas	412	-	-	412
Liabilities:				
Derivative financial instruments linked to the market prices of electricity	-	(18)	-	(18)
Derivative financial instruments linked to the market price of gas	-	(17)	-	(17)
Total	488	1,523	-	2,011

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2017:

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Assets:				
Derivative financial instruments linked to the market prices of electricity	405	451	-	856
Derivative financial instrument linked to the market price of gas	228	-	-	228
Liabilities:				
Derivative financial instruments linked to the market prices of electricity	-	(57)	-	(57)
Total	633	394	-	1,027

Derivative financial instruments linked to the market price of electricity acquired at the Nasdaq Commodities exchange are attributed to Level 1 of the fair value hierarchy. These instruments are measured according to the prices of products announced by the Nasdaq Commodities exchange.

The Group attributes to Level 2 of the fair value hierarchy derivative financial instruments linked with the Lithuanian/Latvian and Estonian/Finish electricity price areas. Derivative financial instruments acquired directly from other market participants (over-the-counter contracts) and physical transmission rights acquired are estimated based on the prices of the NASDAQ Commodities exchange by additionally adding price area differences (a potential risk) that are evaluated using the expert method.

30 Revenue from contracts with customers

	Group		Company	
	2018 (restated*)	2017**	2018	2017
Revenue from the sale of electricity	120,607	98,845	-	-
Revenue from public electricity supply	95,066	107,304	-	-
Revenue from sale of produced electricity	68,438	60,566	-	-
Income from capacity reserve services	53,072*	40,449	-	-
Electricity distribution	325,877	431,517	-	-
Revenue from gas sales	256,608	268,691	-	-
Gas security component income	22,805	18,821	-	-
Gas distribution	41,632	7,556	-	-
Connection fees	7,385*	13,909	-	-
Proceeds from the sale of heat energy	3,911	3,717	-	-
Revenue from Public service obligation services	16,261	5,272	-	-
Management fee income	-	-	3,188	2,972
Other revenue from contracts with customers	12,616	24,572	-	-
Total	1,024,278	1,081,219	3,188	2,972

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

** Reclassified following the coming into effect of IFRS 15 from 1 January 2018 (Note 2.1)

31 Other income

	Group		Company	
	2018	2017*	2018	2017
Lease income	8,440	7,840	170	136
Derivative financial instruments (commodities)	28,693	3,594*	-	-
Interest received on finance lease	-	236	-	-
Result on disposal of investments in subsidiaries	-	352	-	24
Interest on late payments equivalent to interest	69	1,085	-	-
Gain/(loss) on disposal of non-current assets	4,527	-	-	-
Other income	4,053	6,505*	533	356
Total	45,782	19,612	703	516

* Reclassified as a result of implementation of IFRS 15 from 1 January 2018 (Note 2.1)

The Group provides 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 profit or loss on a proportionate basis over the entire lease term.

32 Purchases of electricity, gas for trade, and related services

	Group		Company	
	2018 (restated*)	2017	2018	2017
Costs of purchases of gas for trade	258,434	251,164	-	-
Purchases of electricity and related services	499,493	450,005	-	-
Purchases of subcontractual services	10,535	11,129	-	-
Total	768,462	712,298	-	-

* Restated due to correction changes in accounting methods as disclosed in Note 3.3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

33 Other expenses

	Group		Company	
	2018	2017	2018	2017
Taxes	6,329	6,450	246	182
Write-offs of property, plant and equipment	5,005	4,564	-	-
Customer service	4,367	4,048	-	-
Telecommunications and IT services	4,041	3,822	401	285
Transport	3,065	1,853	155	124
Utility services	2,351	3,043	770	608
Write-offs of non-current and current amounts receivable (bad debts)	2,012	1,145	-	-
Leases	1,159	1,439	193	191
Consultation services	1,538	1,126	720	309
Expenses of low-value inventories	1,179	1,274	-	-
Personnel development	1,003	797	189	108
Business trips	408	429	59	61
Business support services	-	-	318	251
Expenses related to emission allowances, their revaluation and provisions, whereof:	(8,933)	(2,296)	-	-
<i>revaluation of emission allowances through profit or loss</i>	(8,933)	(1,296)	-	-
<i>revaluation of emission allowances lent</i>	-	(616)	-	-
<i>provision expenses for emission allowances</i>	-	(384)	-	-
Expenses (income) on impairment of other non-current assets	-	1,183	-	-
Inventory write-down/(reversal)	(718)	(98)	-	-
Provision for guarantees for the fulfilment of obligations of the subsidiaries	-	-	(2,097)	2,903
Other expenses	3,337	4,930	403	788
Carrying amount	26,143	33,709	1,357	5,810

Presented below are all services rendered by the audit firm to the Group and the Company in 2018:

	Group		Company	
	2018	2017	2018	2017
Audit of the financial statements under the agreements	186	169	11	11
Assurance and other related services	93	101	67	75
Tax consultation services	44	-	7	-
Expenses of other services	10	34	22	22
Carrying amount	333	304	107	108

34 Finance income

	Group		Company	
	2018	2017	2018	2017
Interest income	1,427	1,520	10,040	3,147
Other finance income	194	643	29	299
Total	1,621	2,163	10,069	3,588

As at 31 December 2017, the Company accounted for the reversal of deferred payment for subsidiary NT Valdovs UAB equal to EUR 248 thousand, which was included in other finance income.

35 Finance costs

	Group		Company	
	2018	2017	2018	2017
Interest expenses	12,442	7,858	11,217	3,802
Other finance costs	2,457	1,240	952	489
Total	14,899	9,098	12,169	4,291

36 Income tax expenses

Income tax expenses for the period comprise current year income tax and deferred income tax. Profit for 2018 is taxable at a rate of 15 per cent (2017: 15 per cent) in accordance with the Lithuanian regulatory legislation on taxation.

	Group		Company	
	2018 (restated*)	2017	2018	2017
Income tax expenses (benefit) for the reporting period	4,604*	2,682	(7)	(2)
Deferred income tax expenses (benefit)	(16,877)*	(6,009)	(528)	(456)
Income tax expenses (benefit) recognised in profit or loss	(12,273)	(3,327)	(535)	(458)

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

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	
	2018 (restated*)	2017	2018	2017
Profit (loss) before tax	(34,244)*	90,198	44,153	105,456
Income tax expenses (benefit) at tax rate of 15%	(5,137)*	13,530	6,623	15,818
Expenses not deductible for tax purposes	10,199*	915	3,275	2,432
Income not subject to tax	(1,135)	(3,146)	(10,427)	(18,706)
Income tax relief for the investment project	(12,692)	(8,719)	-	-
Adjustments in respect of prior years	(425)	(2,436)	(7)	(2)
Tax losses utilised	(790)	-	-	-
Realisation of unrecognised tax losses	(2,416)	(3,505)	-	-
Unrecognised deferred income tax on tax losses	123	34	-	-
Income tax expenses (benefit)	(12,273)	(3,327)	(535)	(458)

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

37 Dividends

Dividends declared by the Company in 2018 and 2017:

	2018		2017	
	EUR '000	Dividends per share	EUR '000	Dividends per share
Lietuvos Energija, UAB	78,265	0.0187	59,752	0.0143
Number of shares	4,179,849,289		4,179,849,289	

Dividends declared by the Group companies in 2018:

Date on which dividends were declared	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Dividends attributable to the Group's non-controlling interest
13/03/2018	EURAKRAS UAB	the year 2017	10.59000	1,690	1,690	-
20/03/2018	Energijos Tiekimas UAB	the year 2017	0.17401	3,000	3,000	-
26/03/2018	Lietuvos Energijos Gamyba AB	second half of 2017	0.01400	8,891	8,602	289
30/03/2018	Energijos Skirstymo Operatorius AB	second half of 2017	0.02535	22,679	21,541	1,138
04/04/2018	Lietuvos Energijos Tiekimas UAB	the year 2017	0.15837	4,571	4,571	-
05/04/2018	Verslo Aptarnavimo Centras UAB	the year 2017	0.00026	268	137	3
11/04/2018	Technologijų ir Inovacijų Centras UAB	the year 2017	0.00666	148	74	2
17/04/2018	LITGAS UAB	the year 2017	0.02654	1,194	1,194	-
27/04/2018	Duomenų Logistikos Centras	the year 2017	0.02200	306	243	62
28/09/2018	Energijos Skirstymo Operatorius AB	first half of 2018	0.01400	12,525	11,896	628
27/09/2018	Lietuvos Energijos Gamyba AB	first half of 2018	0.02300	14,904	14,430	474
				70,176	67,378	2,596

Dividends declared by the Group companies in 2017:

Date on which dividends were declared	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Dividends attributable to the Group's non-controlling interest
24/03/2017	Energijos Skirstymo Operatorius AB	second half of 2016	0.05786	51,763	49,166	2,597
24/03/2017	Lietuvos Energijos Gamyba AB	second half of 2016	0.02000	12,702	12,289	413
29/03/2017	Verslo Aptarnavimo Centras UAB	the year 2016	0.06690	134	68	2
03/04/2017	LITGAS UAB	the year 2016	0.06700	3,000	3,000	-
04/04/2017	Energijos Tiekimas UAB	the year 2016	0.58000	10,000	10,000	-
07/04/2017	Duomenų Logistikos Centras UAB	the year 2016	0.00500	76	60	15
07/04/2017	Technologijų ir Inovacijų Centras UAB	the year 2016	0.01280	284	143	6
05/05/2017	EURAKRAS UAB	the year 2016	2.12000	592	444	148
29/09/2017	Energijos Skirstymo Operatorius AB	first half of 2017	0.04600	41,153	39,088	2,066
29/09/2017	Lietuvos Energijos Gamyba AB	first half of 2017	0.01700	10,796	10,446	351
				130,500	124,704	5,598

38 Contingent liabilities and commitments

Guarantees issued and received by the Company

Name of the subsidiary	Beneficiary of the guarantee	Date of issue of the guarantee	Maturity	Maximum amount of the guarantee	At 31 Dec 2018	At 31 Dec 2017
Vilniaus Kogeneracinė Jėgainė UAB	European Investment Bank	30/12/2016	06/12/2033	190,000	19,796	-
Kauno Kogeneracinė Jėgainė UAB	Swedbank AB	18/10/2017	18/10/2022	61,200	5,147	-
Companies of Lietuvos Energija UAB group	Lietuvos Energija UAB group	the year 2016	30/06/2019	-	73,902	15,428
				251,200	98,845	15,428

The Group companies can lend each other their funds by virtually transferring them to the Group's corporate account (cashpool) opened at the bank Swedbank AB. The Company guarantees that funds borrowed by the Group companies at the cashpool account are timely repaid to the Group companies

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

that have lent funds. As at 31 December 2018, the amount lent and borrowed by the Group companies at the Group's cashpool account totalled EUR 201,012 thousand, including the amount of EUR 126,304 lent by the Company (Note 17). As at 31 December 2018, the Company's guarantee amounted to EUR 98,845 thousand (31 December 2017: EUR 15,428 thousand).

As at 31 December 2017, the Company accounted for a provision of EUR 2,903 thousand related to borrowings of EUR 6,824 thousand obtained by the subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB at the Group's cashpool account. As at 31 December 2018, the provision amounted to EUR 806 thousand. The provision was established on the grounds that the cash flow forecasts of the Company's subsidiary show that a 50% probability exists that the subsidiary will not be able to repay a full amount of funds borrowed. Therefore, the Company formed a provision as it acts as a guarantor for the repayment of funds lent to the participants of the Group's cashpool account.

On 5 December 2016, the Company and the European Investment Bank (Luxembourg) signed a guarantee and indemnity agreement under which the Company secured fulfilment of all current and future obligations of subsidiary Vilniaus Kogeneracinė Jėgainė UAB in the 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. The guarantee covers the repayment of all types of amounts payable, related to the utilisation of the received loan, to the European Investment Bank. The maximum amount of the guarantee has not been established. As at 31 December 2018, amounts withdrawn by Vilniaus Kogeneracinė Jėgainė UAB from the loan provided by the European Investment Bank totalled EUR 20 million.

On 31 May 2017, the Group's subsidiary Kauno Kogeneracinė Jėgainė UAB and Swedbank AB signed the credit agreement for the amount of EUR 120,000,000 (one hundred twenty million). The loan is designated for the financing of construction works of the co-generation power plant complex in Kaunas and the financing of the following construction-related expenses of the project being implemented: financing of payments under the agreements on construction, supply of equipment, electrification, general construction works, general systems, installation of automation systems, insurance, management of the construction site, project management, as well as the financing of advance payments (credit funds cannot be used for the financing of interest and unforeseen expenditure), excl. VAT. The withdrawn amount of the loan is EUR 10 million. Monetary liabilities of Kauno Kogeneracinė Jėgainė UAB to the bank under the credit agreement are secured by the guarantees issued by the Company and Fortum OYJ in proportion to the number of shares of Kauno Kogeneracinė Jėgainė UAB held, i.e. 51% of shares is held by the Company and 49% is held by FORTUM HEAT LIETUVA UAB.

Contractual obligations

In December 2018, the Group and PAO Gazprom agreed on supply of natural gas in 2019. The agreement contains 'take-or-pay' clause under which the Group has a commitment to purchase the agreed minimum quantity of natural gas. Based on forecast consumption data, the Company plans to purchase all agreed quantity of natural gas during 2019.

Capital expenditure commitments

In 2018, capital expenditure commitments of the Group's subsidiary Energijos Skirstymo Operatorius AB assumed under the signed agreements as at the date of the financial statements but not accounted for in the financial statements amounted to EUR 45 million (31 December 2017: EUR 36 million). Under the agreements valid in 2018 the Group's subsidiary Kauno Kogeneracinė Jėgainė UAB assumed commitments to invest up to EUR 114 million in property, plant and equipment. Investments are expected to be made over the years 2019–2020 and are related to the preparation for the construction of the power plant.

On 29 September 2016, the agreements of the Group's subsidiary Vilniaus Kogeneracinė Jėgainė UAB on construction works of the co-generation power plant were signed with the contractors that won the public tender. In 2016, commitments to invest in the power plant's waste incinerators and general technological facilities amounted to EUR 178.29 million and commitments to invest in biofuel combustion facilities and supply infrastructure amounted to EUR 150 million.

Tariff adjustments for prior period profit in excess of the return on investments permitted by NERC

Based on its Resolution No O3E-447 of 7 October 2017 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2018*, NERC set the price cap for the distribution service for 2018 and also stated that the level of revenue from electricity distribution activities carried out by Energijos Skirstymo Operatorius AB is reduced by the 2014-2015 return on investments in excess of the level set by NERC, i.e. EUR 43,421.6 thousand in view of time value of money equal to EUR 1,942.8 thousand. The remaining part of the 2014-2015 return on investments in excess of the level set by NERC, i.e. EUR 13,219.5 million, will be assessed in the upcoming years of the regulatory period, however not later than before the end of the regulatory period (before 2020).

Based on its Resolution No O3E-334 of 17 October 2018 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2019*, NERC set the price cap for the distribution service for 2019 and, based on its Certificate No O5E-264 of 17 October 2018, NERC stated that the projected level of revenue from electricity distribution activities for 2019 of Energijos Skirstymo Operatorius AB is reduced by the amount of EUR 13,219.5 thousand, including the impact of time value of money equal to EUR 423 thousand. This amount of the remaining part of the return on investments earned by Energijos Skirstymo Operatorius AB in 2014-2015 in excess of the level set by NERC for the mentioned years. In establishing the price caps for 2019, NERC established the amount of investments (i.e. the asset base) on the basis of the historical assets base rather than the assets base determined using the LRAIC (long-run average incremental cost) model approved by NERC. In the opinion of Energijos Skirstymo Operatorius AB, the model used by NERC does not comply with the requirements of the effective Electricity Methodology and other legislation, therefore, Energijos Skirstymo Operatorius AB made a decision to apply to Vilnius Regional Administrative Court with a request to amend the Resolution.

In 2018, Energijos Skirstymo Operatorius AB revalued its property, plant and equipment at fair value. In establishing the fair value the independent property valuer assumed that in the upcoming periods NERC will use the LRAIC model when determining the value of the asset base.

In view of the fact that NERC presented explanation that the LRAIC (long run average incremental costs) accounting model will be applied in the upcoming periods (there have been no changes in the regulatory environment) and the corrections made with respect to prices of the electricity distribution services for 2019 will be taken into consideration when establishing the price caps for the next regulatory period, in April 2019 the Board of Energijos Skirstymo Operatorius AB made a decision to withdraw the claim. The explanation presented by NERC will not result in any significant negative impact on the value of assets of Energijos Skirstymo Operatorius AB and the Group.

Based on its Resolution No O3E-481 of 9 November 2017 *On adjusting the price caps for natural gas distribution services provided by Energijos Skirstymo Operatorius AB for the year 2018*, NERC set the price cap for the natural gas distribution service to be applicable from 1 January 2018 and also stated that in the period between 2014 and 2016 Energijos Skirstymo Operatorius AB in conducting the natural gas distribution activity earned additional return on investments amounting to EUR 27,333 thousand, which exceeded the level of profit permitted by NERC. NERC decided to adjust the price caps for the natural gas distribution service for 2018 by 50 per cent of the 2014–2016 return on investments in excess of the level of return permitted by NERC. Consequently, NERC decreased the

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

level of revenue from natural gas distribution activity for 2018 by EUR 13,667 thousand. The remaining part of the 2014-2016 return on investments in excess of the level set by NERC will be assessed when establishing the gas distribution price for the upcoming periods.

Based on its Resolution No O3E-360 of 26 October 2018 *On establishing the price cap for the natural gas distribution service provided by public limited liability company Energijos Skirstymo Operatorius for the years 2019–2023*, NERC set the price cap for the natural gas distribution service to be applicable from 1 January 2019 and, based on its Certificate No O3E-360 of 26 October 2018, NERC stated that the level of revenue from natural gas distribution activity for 2019 is reduced by the amount of EUR 3,416.6 thousand, including the impact of time value of money equal to EUR 466.4 thousand. This amount represents 1/4 of the remaining return on investments earned by Energijos Skirstymo Operatorius AB in 2014-2016 in excess of the level set by NERC. The remaining part of the 2014–2016 return on investments in excess of the level set by NERC will be assessed when establishing the natural gas distribution price for the upcoming periods.

The overall level of electricity and gas activity revenue for 2018 was approved to be lower by EUR 16,636.1 thousand (2017: EUR 57,088.6 thousand) due to the difference between the return on investments permitted by NERC and the Company's actual return on investments that results from the refund of prior period profit in excess of the permitted return on investments.

Based on the judgement of the Group's management, Energijos Skirstymo Operatorius AB earned excess profits in 2017 and 2018 as well and these amounts will have impact on the Group's revenue and profit for 2019 and subsequent periods.

Litigations

Legal disputes between Energijos Skirstymo Operatorius AB and the National Commission for Energy Control and Prices (NERC)

On 8 July 2015, Energijos Skirstymo Operatorius AB filed the claim to Vilnius Regional Administrative Court for the annulment of Resolution No O3-351 of NERC of 4 June 2015 whereby a fine of EUR 300 thousand was imposed on Energijos Skirstymo Operatorius AB. Energijos Skirstymo Operatorius AB disagreed with the court's ruling and filed an appeal against it. The Supreme Administrative Court of Lithuania (SACL) passed the ruling on 6 March 2019 whereby the claim of Energijos Skirstymo Operatorius AB was rejected in which the company requested to annul the part of the ruling of 25 October 2017 in the administrative case of Vilnius Regional Administrative Court on a monetary sanction of EUR 300 thousand and to pass a new ruling, i.e. not to impose on Energijos Skirstymo Operatorius AB the monetary fine stipulated in paragraph 3.1 of NERC's Resolution No O3-351 *Regarding violation of conditions for regulated activities* of 4 June 2015 or to reduce the fine to a reasonable amount, i.e. EUR 41,075.36. The SACL ruling is final and conclusive. The ruling passed by the SACL will have no impact on the Group's financial performance for 2019, because the impact of the fine was recorded in the Group's financial statements of the previous periods.

Legal dispute between Energijos Skirstymo Operatorius AB and Vilniaus Energija UAB

In its claim filed to Vilnius Regional Court on 27 March 2014 VILNIAUS ENERGIJA UAB requested to award from Energijos Skirstymo Operatorius AB compensation of damages of EUR 10,712 thousand, recognise the provisions of the agreement on the purchase and sale of electricity as null and void as of the moment of its conclusion, oblige the respondent to purchase the volume of supported electricity. The oral court's hearing at Vilnius Regional Court is scheduled on 29 May 2017. The court's hearing was postponed to 28 August 2017, because the court decided to request Energijos Skirstymo Operatorius AB provide additional evidence related to prices of electricity. On 18 September 2017, the court of first instance passed the ruling whereby the claim was rejected in full. The claimant appealed against the court ruling. The date of the court's hearing has not been set yet. The court's ruling in

favour of Energijos Skirstymo Operatorius AB would allow avoiding additional expenses in the future in satisfying the claim. By the ruling of 6 November 2018, the Court of Appeal of Lithuania rejected the ruling of Vilnius Regional Court of 18 September 2017 in part and remitted the case back to the court of first instance. On 22 January 2019, the claimant filed an appeal in cassation regarding the part of the ruling of the Court of Appeal of Lithuania dated 6 November 2018 that was left unchanged and the Supreme Court of Lithuania accepted the appeal.

By the ruling of 6 May 2019, the Vilnius Regional Court resumed proceedings following the ruling of the Supreme Court of Lithuania of 17 April 2019 to terminate the appeal proceedings. Vilnius Regional Court passed a judgement in the civil case on 28 January 2020, where it satisfied partially the claim of plaintiff Vilniaus energija UAB against the Company and recognized that Vilniaus energija UAB had been discriminated with regard to other combined heat and power plants. The court adjudged losses of EUR 2,2 million from the Company for behalf of Vilniaus energija UAB and 6 percent annual interest from the adjudged amount calculated from the day when the civil case was lodged in the court until complete execution of the judgement. Vilniaus energija UAB asked in another part to recognize that it had been discriminated with regard to supply of balancing energy and to adjudge reimbursement of losses from the Company. This part of the civil claim of Vilniaus energija UAB was rejected. The judgement of Vilnius Regional Court has not yet become effective.

On 27 February 2020, the Company filed an appeal regarding the part of the judgement of Vilnius Regional Court dated 28 January 2020 that satisfied the claim of UAB Vilniaus energija. The Company contents Vilnius Regional Court's conclusions that the Company discriminated Vilniaus energija UAB with regard to other combined heat and power plants when purchasing eligible electricity. Based on the management estimates, the amount of energy purchased by the Company beyond the technical minimum amount of the producers has been distributed to all producers on a pro-rata basis, so that there is no breach of competition law. In the absence of unlawful actions by the Company, there is no obligation on the Company to compensate for the loss which Vilniaus Energija UAB alleges it has suffered.

Legal disputes of Tuuleenergia OU

Based on the operation permission issued by the Varbla municipality (Estonia) in 2006 Tuuleenergia OU was permitted to install two wind turbines. In 2013, the claim was filed with Tallinn Administrative Court with the request to annul two operation permissions issued by the Varbla municipality due to the fact that the site for the installation of two wind turbines does not comply with the requirements of the location's detailed land plan and the level of noise emitted by the wind turbines is not acceptable. The claim was not satisfied by Tallinn Administrative Court and Tallinn Regional Court of the second instance in 2015. On 11 October 2016, the Supreme Court of Estonia satisfied the appeal in cassation. Based on the ruling passed the operation permission were annulled. On 28 September 2017, the Varbla municipality issued to Tuuleenergia OU temporary operation permissions that are valid until 31 May 2018.

In October 2017, the natural person filed a claim with the court against the Varbla municipality (Estonia) requesting the court to annul temporary operation permissions issued to Tuuleenergia OU. On 11 September 2018, the claimant (natural person) died. On 3 December 2018, Tuuleenergia OU file a request with the court for the termination of the case on the grounds that the descendants of the claimant have no interest in the case. The legal dispute and its impact on the financial statements as at 31 December 2018 cannot be assessed reliably.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Tax audits

The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year inspect the Company's books and accounting records and impose 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.

39 Related-party transactions

As at 31 December 2018 and 2017, the ultimate parent of the 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 and their close family members.

The Group's transactions with related parties during 2018 and year-end balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Amounts receivable	Amounts payable	Sales	Purchases	Finance income (costs)
	At 31 Dec 2018	At 31 Dec 2018	2018	2018	2018
EPSO-G UAB	158,693	-	35	-	1,102
Litgrid AB	7,106	15,049	63,838	129,627	-
BALTPPOOL UAB	8,265	15,962	59,654	91,711	-
TETAS UAB	1,381	4,421	1,387	1,811	-
Amber Grid AB	3,730	6,019	38,153	54,324	-
LITGRID Power Link Service UAB	36	-	60	-	-
GET Baltic	724	12	11,436	6,103	-
Associates and other related parties of the Group	279	120	380	394	-
Total	180,214	41,583	174,943	283,970	1,102

Transactions with related parties during 2018 and year-end balances arising on these transactions as at 31 December 2018 stated above includes following amounts of Public Service Obligations and Liquefied natural gas terminal (LNGT) security component charged by parties to each other in course of ordinary transactions conducted applying regulatory prices that includes as integral part PSO charges and LNGT security component charges:

Related parties	Amounts receivable	Amounts payable	PSO sales	PSO purchases	LNGT security component costs
	2018-12-31	2018-12-31	2018	2018	2018
BALTPPOOL UAB	2,647	15,933	11,169	92,019	-
AB „Amber Grid“	4	55	-	-	20,392
Total	2,651	15,988	11,169	92,019	20,392

The Group's transactions with related parties during 2017 and year-end balances arising on these transactions as at 31 December 2017 are presented below:

Related parties	Amounts receivable	Amounts payable	Sales	Purchases	Finance income (costs)
	At 31 Dec 2017	At 31 Dec 2017	2017	2017	2017
EPSO-G UAB	170,136	-	786	1,681	1,336
Litgrid AB	5,468	12,090	52,346	111,497	(153)
BALTPPOOL UAB	14,943	13,886	87,476	76,914	-
TETAS UAB	786	4,793	1,582	17,103	-
Amber Grid AB	2,273	6,888	22,893	52,273	-
LITGRID Power Link Service, UAB	10	-	202	-	-
GET Baltic	2	2	60	1,321	-
Associates and other related parties of the Group	280	100	681	326	3
Total	193,898	37,759	166,026	261,115	1,186

The major sale and purchase transactions with related parties in 2018 and 2017 comprised transactions with the companies controlled by the Lithuanian Ministry of Energy: 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 were not disclosed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The Company's transactions with related parties during 2018 and year-end balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Amounts receivable At 31 Dec 2018	Amounts payable At 31 Dec 2018	Sales 2018	Purchases 2018	Finance income 2018	Finance costs 2018
Subsidiaries						
Energijos Skirstymo Operatorius AB	586,559	-	1,388	-	6,655	-
Lietuvos Energijos Gamyba AB	60	-	542	-	-	-
Energetikos Paslaugų ir Rangos Organizacija UAB	1,250	-	74	-	151	-
Elektroninių Mokėjimų Agentūra UAB	3	-	33	-	-	-
Energijos Tiekimas UAB	36,546	-	180	149	110	-
LITGAS UAB	10	-	102	-	11	-
Duomenų Logistikos Centras UAB	1	-	17	-	-	-
NT Valdos, UAB	13	-	93	184	186	-
Transporto Valdymas UAB	21,608	8	-	79	225	-
Technologijų ir Inovacijų Centras UAB	1,684	107	99	390	10	-
Lietuvos Dujų Tiekimas UAB	14,130	-	187	-	75	-
Verslo Aptarnavimo Centras UAB	29	109	157	593	1	-
VAE SPB UAB	-	-	3	-	-	-
Vilniaus Kogeneracinė Jėgainė UAB	29	-	98	-	23	-
EURAKRAS UAB	24,756	-	11	-	709	-
Tuuleenergia OU	21,059	-	4	-	760	-
Energijos Sprendimų Centras UAB	-	-	31	-	-	-
Kauno Kogeneracinė Jėgainė UAB	69	-	155	-	5	-
Vėjo Gūsis UAB	29	-	-	-	-	-
Vėjo Vatas UAB	2,693	-	-	-	8	-
Other related parties						
EPSO-G UAB	158,658	-	-	-	1,102	-
Total	869,186	224	3,174	1,395	10,031	-

As at 31 December 2018, the Company accounted for a provision amounting to EUR 806 thousand related to the guarantee issued to the subsidiaries for loans obtained by Energetikos Paslaugų ir Rangos Organizacija UAB under the group account (cashpool).

The Company's transactions with related parties during 2017 and year-end balances arising on these transactions as at 31 December 2017 are presented below:

Related parties	Amounts receivable At 31 Dec 2017	Amounts payable At 31 Dec 2017	Sales 2017	Purchases 2017	Finance income 2017	Finance costs 2017
Subsidiaries						
Energijos Skirstymo Operatorius AB	356,911	5,560	1,192	-	773	218
Lietuvos Energijos Gamyba AB	1,135	4,067	445	17	-	214
EURAKRAS UAB	24,528	-	16	-	239	3
Lietuvos Dujų Tiekimas UAB	24,930	-	168	-	18	5
NT Valdos, UAB	43,191	27	141	359	197	11
Technologijų ir Inovacijų Centras UAB	1,938	47	100	274	4	-
Duomenų Logistikos Centras UAB	1	57	25	-	2	-
Energetikos Paslaugų ir Rangos Organizacija UAB	5,487	-	175	-	91	-
Tuuleenergia OU	24,198	1	25	-	703	-
Energijos Tiekimas UAB	12,937	64	166	103	31	-
LITGAS UAB	10	-	101	-	1	2
Elektroninių Mokėjimų Agentūra UAB	10	-	28	-	-	-
Verslo Aptarnavimo Centras UAB	35	40	151	308	-	-
VAE SPB UAB	1	-	4	-	-	-
Vilniaus Kogeneracinė Jėgainė UAB	3,913	-	73	-	41	2
Energijos Sprendimų Centras UAB	49	-	121	-	-	-
Kauno Kogeneracinė Jėgainė UAB	3	-	30	-	-	-
Other related parties						
EPSO-G UAB	170,132	-	-	-	1,336	-
Total	669,409	9,863	2,961	1,061	3,436	455

As at 31 December 2017, the Company accounted for a provision amounting to EUR 2,903 thousand related to the guarantee issued to the subsidiaries for loans obtained by Energetikos Paslaugų ir Rangos Organizacija UAB under the group account (cashpool).

The dividends declared in 2018 and 2017 are disclosed in Note 37.

Compensation to key management personnel:

	Group		Company	
	2018	2017	2018	2017
Wages and salaries and other short-term benefits to management personnel	3,681	3,590	815	705
Whereof: termination benefits and benefits to Board Members	402	357	118	56
Number of key management personnel	55	61	10	10

Management in the table above comprise heads of administration of all subsidiaries and their deputies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

40 Segment reporting

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

In management's opinion, the Group has four operating segments:

- Distribution of electricity and gas (carried out by Energijos Skirstymo Operatorius AB) and electricity supply carried out in the scope of ensuring public supply functions (carried out Lietuvos Energijos Tiekimas UAB, former Lietuvos Dujų Tiekimas UAB);
- Electricity generation (carried out by Lietuvos Energijos Gamyba AB, Eurakras UAB, Tuuleenergia OU, Vėjo Gūsis UAB, Vėjo Vatas UAB);
- Trade in electricity (carried out by Energijos Tiekimas UAB, Gamybos Optimizavimas UAB);
- Trade in gas (carried out by Lietuvos Energijos Tiekimas UAB, former Lietuvos Dujų Tiekimas UAB and LITGAS UAB).

The following services and entities comprise the other segments:

- support services (NT Valdosa UAB, Technologijų ir Inovacijų Centras UAB, Verslo Aptarnavimo Centras UAB and others);
- non-core activities (Energetikos Paslaugų ir Rangos Organizacija UAB, Duomenų Logistikos Centras UAB);
- special purpose entities which are responsible for implementation of special projects and construction of new cogeneration power plants (Kauno Kogeneracinė Jėgainė UAB and Vilniaus Kogeneracinė Jėgainė UAB);
- service entities (Elektroninių Mokėjimų Agentūra UAB);
- as well as parent company Lietuvos Energija UAB, which does not constitute a separate operating segment, however it is disclosed separately, as its net profit exceeds 10% of profit of all profit generating segments. The Group's support service entities and special purpose entities are aggregated to a single segment as none of them individually meet recognition criteria of an operating segment.

The Group has single geographical segment – the Republic of Lithuania, electricity sales in Latvia and Estonia are not significant for the Group. 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 adjusted EBITDA, which is calculated based on data presented in the financial statements prepared in accordance with IFRS as adjusted for selected items which are not recognised under IFRS. The Group's Board does not analyse assets and liabilities of the segments.

Management's adjustments and adjusted EBITDA

Management's adjustments used in calculating adjusted EBITDA:

Segment / Management's adjustments	2018	
	2018	2017
Electricity supply and distribution and gas distribution		
Recalculation of regulated revenue of Energijos Skirstymo Operatorius AB	63,961	10,885
Recalculation of regulated revenue of Lietuvos Energijos Tiekimas UAB related to public electricity supply activity	15,846	-
Electricity generation		
Recalculation of regulated revenue of Lietuvos Energijos Gamyba, AB	-	(11,367)
Regularisation of commercial activities of Lietuvos Energijos Gamyba, AB	-	(5,438)
Trade in gas		
Lietuvos Energijos Tiekimas UAB, gas price discount provided by Gazprom	-	8,712
Recalculation of regulated revenue of LITGAS UAB	4,496	7,807
Recalculation of regulated revenue of Lietuvos Energijos Tiekimas UAB related to gas supply to household customers	4,568	1,024
Change in market value of open financial derivative instruments of Lietuvos Energijos Tiekimas UAB	(167)	-
Trade in electricity		
Change in market value of open financial derivative instruments of Energijos Tiekimas UAB	(14,702)	(1,055)
	74,002	10,568

Electricity supply, distribution and gas distribution segment

Adjusted EBITDA is calculated by adding management's adjustments that comprise the impact of the recalculation of regulated activity revenue of prior periods resulting from NERC's resolutions and by deducting the current year difference arising between the return on investments permitted by NERC and estimated by management. In management's opinion the adjusted EBITDA more accurately presents results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return on investments set by NERC and the actual return on investments of prior periods that may have both positive and negative impact on the current year results.

Electricity generation segment

In 2014, NERC adopted a resolution, by which Lietuvos Energijos Gamyba AB ('LEG') was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at LEG's hydroelectric power plants were subject to restriction by deducting the respective amount from the PSO funds approved for LEG. In 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of NERC was repealed. Despite the adoption of the court's judgement, NERC has not passed a resolution on the compensation of the PSO funds not paid to LEG during 2016. As a result, reduction of revenue from PSO funds recognised by LEG in 2016 amounted to EUR 1,876 thousand. On the other hand, at the end of 2017 in implementing the court's judgement NERC allocated for LEG the PSO funds of EUR 5,438 thousand for 2018 that will compensate revenue not received by LEG in 2015. This amount was recognised as revenue in the 2017 financial statements. The adjustments were intended to reflect the normalised performance results for the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

In 2014, NERC completed the audit of the Company's regulated activities for the period 2010-2012 and adopted a resolution to recalculate the expenses and revenue attributed to regulated activities for this period. As a result of this recalculation related to the previous period, revenue from capacity reserve services approved for LEG for the year 2016 was reduced by EUR 3,722 thousand. In 2017 NERC inspected the PSO funds allocated to LEG during 2010-2015, and in 2017 introduced changes in the principles for determination of allocated PSO funds, with relevant changes in the regulatory framework. Due to these changes, in the 2017 financial statements LEG recognised revenue of EUR 11,367 thousand in relation to recalculation of PSO revenue recognised in the previous periods. The adjustments were intended to reflect LEG's normalised performance results for the current year.

Trade in gas segment

Management's adjustment comprises the gas price discount provided by Gazprom and applied to customers during 2017, which amounted to EUR 19 million (2016: EUR 40 million) (as a result of a retrospective decrease in the import price of natural gas for the period from 1 January 2013 to 30 April 2014) and the change in the related provision – EUR 10.3 million (2016: EUR 11.1 million) (by estimating losses to be incurred from the application of the mentioned discount to private and business customers in the future based on the agreements signed). In management's opinion these factors are related to the previous periods.

Adjusted EBITDA is calculated by eliminating deviations arising from the difference between the projected and actual LNG acquisition and realisation prices and quantities, and other variances that occurred during the year between expenses included in the security component and actually incurred expenses and revenue. In 2018, these variances amounted to EUR 4.5 million (2017: EUR 7.8 million). EBITDA of non-regulated activities was included as per actual data.

Adjusted EBITDA is calculated by eliminating deviations arising in the activity of gas supply to household customers due to the variance between actual and projected prices for the acquisition price of natural gas, security component and other components established in the calculation methodology used by NERC. In 2018, these deviations amounted to EUR 4.6 million (2017: EUR 1.0 million).

Trade in electricity segment

Adjusted EBITDA is calculated by eliminating the difference between derivatives, booked in the statement of the financial position, fair value (Mark to market) and acquisition price – unrealized profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The table below shows the Group's information on segments for 2018.

2018	Electricity supply and distribution and gas distribution	Electricity generation	Trade in gas	Trade in electricity	Other segments		Adjustments on consolidation and elimination of intercompany transactions	Change in management judgment on applying accounting methods and corrections of errors (note 3.3)	Total (restated*)
					Parent company	Other segments			
Revenue from external clients									
<i>Revenue from contracts with customers</i>	582,664	121,322	336,068	162,914	-	5,476	-	(184.166)	1.024.278
<i>Other income</i>	53	4,678	161	28,702	688	11,500	-	-	45.782
Inter-segment revenue	110,726	14,019	57,870	8,587	70,581	53,075	(314,858)	-	-
Total revenue	693,443	140,019	394,099	200,203	71,269	70,051	(314,858)	(184.166)	1.070.060
Expenses	(714,919)	(101,875)	(390,616)	(191,769)	(24,444)	(72,617)	236,820	168.967	(1.090.453)
Whereof:									
<i>Depreciation and amortisation</i>	(56,413)	(22,464)	(89)	(1,029)	(7)	(6,521)	(937)	(204)	(87.664)
<i>Impairment expenses and write-offs of property, plant and equipment</i>	(54,330)	(501)	-	-	-	(2,594)	(7,960)	(10.356)	(75.741)
<i>Revaluation of emission allowances</i>	-	8,933	-	-	-	-	-	-	8.933
<i>Short term and long term amounts write-offs and impairments</i>	16	(358)	(252)	(617)	(11,198)	(76)	-	-	(12.485)
Management's adjustments**	79,807	-	8,897	(14,702)	-	-	-	-	74.002
Adjusted EBITDA	169,058	52,561	12,721	(4,622)	58,031	6,624	(69,141)	(4.639)	220.566
Operating profit (loss)	(21,476)	38,144	3,483	8,434	46,826	(2,567)	(78,038)	(15.199)	(20.393)
Interest income	89	139	233	27	10,040	12	(9,113)	-	1.427
Interest (expenses)	(6,395)	(1,950)	(605)	(263)	(11,217)	(797)	8,784	-	(12.443)
Other income (expenses) of financing activities	(232)	(1,036)	34	81	(923)	(175)	(12)	-	(2.263)
Share of results of associates	179	124	-	-	-	-	(303)	-	-
Derivative financial instruments	-	-	-	-	(572)	-	-	-	(572)
Profit before income tax	(27,835)	35,421	3,145	8,279	44,154	(3,527)	(78,682)	(15.199)	(34.244)
Income tax	10,226	(5,830)	5,675	(1,804)	962	(1,458)	3,332	1.170	12.273
Net profit (loss)	(17,609)	29,591	8,820	6,475	45,116	(4,985)	(75,350)	(14.029)	(21.971)
Total assets at 31 December 2018	1,591,642	756,547	177,226	133,256	2,090,120	260,255	(2,154,951)	(204)	2.854.095

* Restated due to correction of errors and changes in accounting methods as disclosed in Note 3.3.

** Management's adjustments used in calculating adjusted EBITDA are related to recognition of excess profits from regulated activities (electricity supply and distribution and gas distribution segment, segments of trade in electricity and trade in gas).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

The table below shows the Group's information on segments for 2017.

2017	Electricity supply and distribution and gas distribution	Electricity generation	Trade in gas	Trade in electricity	Other segments		Adjustments on consolidation and elimination of intercompany transactions	Total
					Parent company	Other segments		
Revenue from external clients								
<i>Revenue from contracts with customers**</i>	560,287	110,004	289,717	104,257	-	16,954	-	1,081,219
<i>Other income**</i>	6,098	1,789	254	46	515	10,910	-	19,612
Inter-segment revenue	45,924	46,780	38,108	7,105	127,677	54,882	(320,476)	-
Total revenue	612,309	158,573	328,079	111,408	128,192	82,746	(320,476)	1,100,831
Expenses	(526,953)	(137,728)	(330,109)	(106,372)	(22,033)	(92,735)	212,232	(1,003,698)
Whereof:								
<i>Depreciation and amortisation</i>	(50,385)	(27,891)	(64)	(1,060)	(3)	(7,731)	(223)	(87,357)
<i>Impairment expenses and write-offs of property, plant and equipment</i>	(4,339)	(32,444)	(129)	(940)	(12,612)	(11,036)	15,584	(45,916)
<i>Revaluation of emission allowances</i>	-	2,296	-	-	-	-	-	2,296
Management's adjustments*	10,885	(16,805)	17,543	(1,055)	-	-	-	10,568
Adjusted EBITDA	150,965	62,079	15,706	5,981	118,774	8,778	(123,605)	238,678
Operating profit (loss)	85,356	20,845	(2,030)	5,036	106,159	(9,989)	(108,244)	97,133
Interest income	122	161	140	21	3,147	58	(2,129)	1,520
Interest (expenses)	(2,321)	(2,280)	(560)	(137)	(3,802)	(764)	2,006	(7,858)
Other income (expenses) of financing activities	1,773	(418)	64	(44)	(48)	(599)	(1,326)	(597)
Share of results of associates	(137)	101	-	-	-	-	36	-
Profit before income tax	84,793	18,409	(2,386)	4,876	105,456	(11,293)	(109,657)	90,198
Income tax	(7,241)	4,503	4,001	(356)	458	1,132	830	3,327
Net profit (loss)	77,552	22,912	1,615	4,520	105,914	(10,161)	(108,827)	93,525
Total assets at 31 December 2017	1,277,802	699,953	128,506	59,594	1,889,290	208,320	(1,758,397)	2,505,068

* Management's adjustments used in calculating adjusted EBITDA are related to Gazprom gas price discount, recognition of excess profits from regulated activities (electricity supply and distribution and gas distribution segment, electricity generation segment, segments of trade in electricity and trade in gas) and regularisation of electricity generation commercial activity, which was annulled by the court's decision.

** Reclassified following the coming into effect of IFRS 15 from 1 January 2018 (Note 2.1)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

41 Business combinations

One of the Group's development directions is investments in renewable energy sources, therefore three companies engaged in the development of wind parks were acquired in 2018.

On 10 October 2018, the Competition Council of the Republic of Lithuania passed the decision clearing the concentration by the acquisition of 100% of shares of Vėjo Vatas UAB and 100% of shares of Vėjo Gūsis UAB by the Company and acquisition of a full control over the latter companies according to the presented announcement on concentration. On 5 November 2018, the Company entered into the share purchase and sale agreement regarding the acquisition of 100% of shares of Vėjo Vatas UAB and Vėjo Gūsis UAB and the shareholder's claim rights. The Company's investment in Vėjo Vatas UAB and Vėjo Gūsis UAB amounted to EUR 6,132 thousand and EUR 12,919 thousand, respectively. Both investments were fully paid as at 31 December 2018.

On 27 December 2018, the Company acquired a 100% shareholding in VVP Investment UAB from the group of natural and legal persons. As at 31 December 2018, ownership rights of shares were held by the Company and the total investment in VVP Investment UAB amounted to EUR 1,962 thousand. As at 31 December 2018, the paid up part of the investment amounted to EUR 1,237 thousand, diluted price premium amounted to EUR 150 thousand, suspended payment – EUR 100 thousand and a respective remaining unpaid part of the investment – EUR 475 thousand. The remaining unpaid part of the investment will be paid in 2019-2021.

The Group applied the purchase method to account for these business combinations according to the provisions of IFRS 3. Under the latter method, the acquisition cost is measured as the sum of the fair values, at the date of exchange, of assets given, liabilities incurred and equity instruments issued in exchange for control of the business being acquired.

During business combinations (Vėjo Vatas UAB, Vėjo Gūsis UAB and VVP Investment UAB) the Group established that the difference between the acquisition cost of the businesses and the fair value of the net assets acquired represents goodwill and/or one and/or several items of assets have probably been acquired.

The Group's management had not finalised the assessment of the initial accounting for business combinations as at 31 December 2018 as the period for the assessment of the business combination has not expired yet which will end when the necessary information about facts and circumstances that existed at the acquisition date will be obtained and which cannot be longer than one year after the acquisition date.

As at 31 December 2018, temporary values of assets and liabilities, the assessment of which was not completed, included as follows: fair value of net assets and value of assets and goodwill identified on business combination. During the assessment period the Group will recognise adjustments to the temporary values as if the accounting for business combination was completed at the acquisition date. Accordingly, the Group will review, if appropriate, comparative figures presented in the financial statements and also, if appropriate, will perform any changes in the impact of depreciation, amortisation or other income that were recognised in nearing the completion of the initial accounting.

On business combination, assets and liabilities of Vėjo Vatas UAB, Vėjo Gūsis UAB and VVP Investment UAB were identified with the following fair values at the date of acquisition:

	Vėjo Vatas UAB	Vėjo Gūsis UAB	VVP Investment UAB	Total
Property, plant and equipment	16,708	20,393	7	37,108
Other non-current amounts receivable	229	389	2	620
Amounts receivable within one year	471	670	48	1,189
Cash and cash equivalents	33	61	-	94
Borrowings, non-current liabilities	-	-	(157)	(157)
Finance lease, non-current liabilities	(7,562)	(7,055)	-	(14,617)
Finance lease, current liabilities	(2,437)	(2,649)	-	(5,086)
Current liabilities	(3,079)	(446)	(88)	(3,613)
Net assets	4,398	11,432	(188)	15,642
Goodwill arising on business combination	1,734	1,487	2150	5,371
Purchase consideration paid	6,132	12,919	1962	21,013
Liability for acquisition of shares	-	-	(725)	(725)
Net cash outflow on acquisition of subsidiaries:				
Cash paid to sellers of shares	(6,132)	(12,919)	(1,237)	(20,288)
Cash paid for loans of the sellers of shares	(2,547)	-	-	(2,547)
Cash and cash equivalents at acquired companies	33	61	-	94
Net cash flow	(8,646)	(12,858)	(1,237)	(22,741)

Acquisition of Pomerania Invall Sp. z o.o.

In accordance with Company's Board of Directors and Company's subsidiary Ignitis renewables UAB decisions, Ignitis renewables UAB entered into share purchase agreement for 100% shares and shareholder's claim rights in Pomerania Invall Sp. z o.o. on 27 May 2019. Thereafter, the Company acquired indirect 100% shareholding in Pomerania Invall Sp. z o.o. because Company's subsidiary Ignitis renewables UAB owns 100% of shares in Pomerania Invall Sp. z o.o., and the Company owns 100% of shares in Ignitis renewables UAB. Payment for the total amount of the investment in Pomerania Invall Sp. z o.o. of EUR 20,470 thousand transferred to former owner on 28 May 2018.

The Group applied the purchase method to account for these business combinations according to the provisions of IFRS 3. Under the latter method, the acquisition cost is measured as the sum of the fair values, at the date of exchange, of assets given, liabilities incurred and equity instruments issued in exchange for control of the business being acquired.

During business combination the Group established that the difference between the acquisition cost of the businesses and the fair value of the net assets acquired represents goodwill and/or one and/or several items of assets have probably been acquired.

The Group's management finalized the assessment of the initial accounting for business combinations as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

On business combination, assets and liabilities of Pomerania Invall Sp. z o.o. were identified with the following fair values at the date of acquisition:

	<u>Pomerania Invall Sp. z o.o.</u>
Property, plant and equipment	7,314
Amount receivable within one year	92
Cash and cash equivalents	6
Borrowings, non-current liabilities	(7,385)
Current liabilities	(83)
Net assets	(56)
Unrecognised goodwill in Group's financial statement	36
Identified other intangible assets	24,390
Deferred corporate income tax liability	(3,900)
Purchase consideration paid	20,470
Net cash outflow on acquisition of subsidiaries:	
Cash paid to sellers of shares	(20,470)
Cash paid for loans of the sellers of shares	(7,209)
Cash and cash equivalents at acquired company	6
Cash paid for expenses related to purchase	(292)
Net cash flow	(27,965)

42 Events after the reporting period

On 1 January 2019, the reorganisation of the Group companies Lietuvos Energijos Tiekimas UAB and Litgas UAB was finalised. The companies were reorganised by way of merger – Litgas UAB, which ceased its activities after the reorganisation, is merged with Lietuvos Energijos Tiekimas UAB, which continues its activities. All assets, rights and obligations of Litgas UAB will be taken over by Lietuvos Energijos Tiekimas UAB which continues its activities.

On 31 December 2018, the Company announced that in developing the green energy activity and aiming to optimise operations of the controlled companies engaged in renewable energy production it approved the establishment of a new company Lietuvos Energija Renewables UAB, which will become a transferee of shares of all already controlled and developed wind power parks. This decision was approved by the holder of the Company's shares – the Ministry of Finance of the Republic of Lithuania. From the beginning of 2019, the new company will hold five companies that operate wind power parks, which are already active or under development, in Lithuania and Estonia. The Articles of Association of Lietuvos Energija Renewables UAB were registered with the Register of Legal Entities on 14 January 2019. On 28 March 2019, the share purchase and sale agreements were signed regarding the transfer of 100% of shares of the Company's subsidiaries developing projects on renewable energy resources to Lietuvos Energija Renewables UAB. Upon the transfer of shares of the renewable energy companies within the Group, the Company's ownership interest in the companies remains unchanged. The shares of the renewable energy companies are transferred for the carrying amount of investments in shares and the related liabilities, therefore the impact of the transfer of shares on the financial performance of the Company and the Group is neutral.

On 29 January 2019, the sitting of the shareholders was held where it was decided to approve the reorganisation of Lietuvos Energijos Tiekimas UAB and Energijos Tiekimas UAB by merging Energijos

Tiekimas UAB to Lietuvos Energijos Tiekimas UAB. On 13 February 2019, the reorganisation terms of Lietuvos Energijos Tiekimas UAB and Energijos Tiekimas UAB were announced.

On 29 January 2019, the Company signed the guarantee agreement with Swedbank Lizingas UAB, based on which unfulfilled or improperly fulfilled obligations of Vėjo Gūsis UAB and Vėjo Vatas UAB assumed under finance lease contracts are secured.

On 29 January 2019, the Company signed the new credit agreement with SEB bankas AB, based on which the Company is able to borrow EUR 100 million. The repayment term in 2021.

On 30 January 2019, the new version of the Articles of Association of the Group's company Vilniaus Kogeneracinė Jėgainė UAB related to increase in share capital was registered with the Register of Legal Entities.

On 14 January 2019, a decision was passed to increase the share capital of the Group's company Vilniaus Kogeneracinė Jėgainė UAB up to EUR 52,300 thousand. The initial contribution of EUR 4,000 thousand was paid by the Company in cash on 23 January 2019. The Company also made a non-cash contribution amounting to EUR 386 thousand (business consultations relating to engineering and construction preparatory works for Vilnius co-generation power plant). The remaining unpaid part of subscribed shares needs to be paid by the Company within 12 months from the date of signing of the share subscription agreement (22 January 2019).

On 11 February 2019, the Ministry of Finance of the Republic of Lithuania transferred to the Group company Lietuvos Energijos Gamyba AB the compensation of EUR 9,276 thousand for the indemnification of potentially inflicted damage by Alstom Power Ltd during the implementation of the project of the public limited liability company Lietuvos Elektrinė (Lithuanian Power Plant) (the rights and obligations of which were taken over by the Company) in 2005–2009 entitled *Installation of low pressure Nox burners and burner's management system with installations and interlocks for heating control and protection against explosion*. This compensation was awarded to the Republic of Lithuania by the court of the Great Britain.

On 15 February 2019, the State Property Fund applied to Klaipėda Regional Court for the initiation of bankruptcy proceedings against heat production company based in Klaipėda Geoterma UAB. The Group holds 23.44% of shares of Geoterma UAB.

The preliminary agreements on the sale of real estate were signed during real estate sale auctions conducted within the Group on 28 February 2019. The total amount of future transactions is EUR 11,148 thousand plus VAT.

On 12 March 2019, the Company signed the agreement with Lietuvos Energijos Tiekimas UAB for the granting of a long-term loan of EUR 27 million, which is designated for the financing of the acquisition of the public electricity supply business from Energijos Skirstymo Operatorius AB. The repayment date of the loan is 29 March 2024. The agreement does not provide for any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

Reorganisation of subsidiaries

On 1 June 2019, the reorganisation of the Group companies Lietuvos energijos tiekimas UAB and Energijos Tiekimas UAB was finalised. The companies are reorganised by way of merger – Energijos Tiekimas UAB, which will cease its activities after the reorganisation, is merged with Ignitis UAB, which continues its activities. All the assets, rights and obligations of Energijos Tiekimas UAB were taken over by Ignitis UAB that continues its activities. The Company's carrying amount of investment to Ignitis UAB increased by EUR 26,126 thousand and the investment to Energijos Tiekimas UAB was written off by the same carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Decrease in share capital

On 15 April 2019, the Company decided to reduce the authorized capital of the subsidiary NT Valdos UAB from EUR 41,385 thousand to EUR 5,000 thousand by cancelling 1,256,400 ordinary registered shares of NT Valdos UAB, each with a nominal value of EUR 28.96, the total amount of cancellation is EUR 36,385 thousand. The purpose of the reduction of the authorized capital is the disbursement of funds to shareholders of NT Valdos UAB. The subsidiary disbursed the share capital reduction to the Company during July–September of 2019 and the Company accounted for EUR 213 thousand reversal of investments in subsidiaries impairment. On 5 July 2019, a new version of the Articles of Association of the Subsidiary Company related to the reduction of the authorized capital was registered with the Register of Legal Entities.

Disposal of subsidiaries

On 28 March 2019, the share purchase and sale agreements were signed regarding the transfer of 100% of shares of the Company's subsidiaries developing projects on renewable energy resources to Ignitis renewables UAB. Upon the transfer of shares of the renewable energy companies within the Group, the Company's ownership interest in the companies remains unchanged. The shares of the renewable energy companies are transferred for the carrying amount of investments in shares and the related liabilities, therefore the impact of the transfer of shares on the financial position of the Company and the Group is neutral.

The following investments of the Company were divested during the first three quarters of year 2019:

Subsidiary	Disposal date	Number of shares disposed	Investment value, Eur	Amount paid up*	Amount not paid up
Eurakras UAB	As at 28/03/2019	159,549	18,735	18,735	-
Vėjo vatas UAB	As at 28/03/2019	100,000	6,132	6,132	-
Vėjo gūsis UAB	As at 28/03/2019	257,000	12,919	12,919	-
VVP Investment UAB	As at 28/03/2019	8,640	1,962	1,962	-
Total:			39,748	39,748	-

* The Company's liability for the shares of VVP Investment UAB in the amount EUR 725 thousand was transferred to Ignitis renewables UAB as at 28/03/2019.

Guarantees

As at 31 December 2019, the amount lent and borrowed by the Group companies at the Group's cashpool account totalled EUR 225,783 thousand (31 December 2018: EUR 201,012 thousand), including the amount of EUR 171,708 thousand (31 December 2018: EUR 126,304 thousand) lent by the Company (Note 18). As at 31 December 2019, the total amount of Company's guarantees was EUR 229,226 thousand (31 December 2018: EUR 98,845 thousand).

As at 31 December 2019, amounts withdrawn by Vilniaus kogeneracinė jėgainė UAB from the loan provided by the European Investment Bank totalled EUR 99,881 thousand (31 December 2018: EUR 19,796 thousand).

As at 31 December 2019, amounts withdrawn by Kauno kogeneracinė jėgainė UAB from the Swedbank AB loan totalled EUR 61,029 thousand (31 December 2018: EUR 10,092 thousand). Monetary liabilities of Kauno kogeneracinė jėgainė UAB to the bank under the credit agreement are

secured by the guarantees issued by the Company and Fortum OYJ (Finland) in proportion to the number of shares of Kauno kogeneracinė jėgainė UAB held, i.e. 51% of shares is held by the Company and 49% is held by FORTUM HEAT LIETUVA UAB.

Electricity distribution

Based on its Resolution No O3E-569 of 17 October 2019 On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2020, NERC set the price cap for the distribution service for the year 2020 and, based on its Certificate No O5E-517 of 16 October 2019 On recalculating the price caps for electricity distribution services provided by Energijos skirstymo operatorius AB through medium and low voltage networks for the year 2020, NERC stated that the level of expected revenue from electricity distribution activities carried out by the Group in year 2020 is reduced by EUR 41,875 thousand, including the impact of time value of money of EUR 1,388 thousand. The amount is the remaining part of the return on investments in year 2016-2017 that was earned by the Group in excess of the level set by NERC for these years.

Gas distribution

Based on its Resolution No O3E-365 on 31 October 2019 On the correction of the price caps for natural gas distribution services provided by Energijos skirstymo operatorius AB for the year 2020, NERC set the price cap for the natural gas distribution service to be effective for the year 2020 and, based on its Certificate No O5E-538 of 21 October 2019 On the correction of price caps for natural gas distribution services provided by Energijos skirstymo operatorius AB for the year 2020, NERC stated that the level of revenue from natural gas distribution activities carried out by the Group in year 2020 is reduced by EUR 9,791 thousand, including the impact of time value of money of EUR 264 thousand.

Litigations

On 16 May 2019, the plaintiff JUMPS UAB brought an action before the court of first instance against subsidiary Ignitis gamyba UAB with a view to obtaining a declaration that the plaintiff cannot be, or should be, subject to excessive damages under the contract for the sale of property. The amount of the claim is EUR 392,854. In the subsidiary view, the claim is unfounded and the penalties are properly imposed under the penalty clause in the contract with the plaintiff. The amount received is recognized as income in the statement of profit and loss and other comprehensive income under 'Other income'.

In accordance with Company's Board of Directors and Company's subsidiary Ignitis renewables UAB decisions, Ignitis renewables UAB entered into share purchase agreement for 100% shares and shareholder's claim rights in Pomerania Invall Sp. z o.o. on 2 May 2019. Thereafter, the Company acquired indirect 100% shareholding in Pomerania Invall Sp. z o.o. because Company's subsidiary Ignitis renewables UAB owns 100% of shares in Pomerania Invall Sp. z o.o., and the Company owns 100% of shares in Ignitis renewables UAB. As at 30 September 2019, the ownership property right was fully owned by the Company's subsidiary Ignitis renewables UAB. The total amount of the investment to Pomerania Invall Sp. z o.o. is EUR 20,737 thousand. The investment was fully paid as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

Indirectly controlled companies

On 27 May 2019, the Company's subsidiary Ignitis renewables UAB entered into the share purchase and sale agreement regarding the acquisition of 100% of shares of Pomerania Invall Sp. z o. o. and the shareholder's claim rights. By signing this share purchase agreement, the Company acquired 100% indirect shareholding in Pomerania Invall Sp. z o.o., because Ignitis renewables UAB owns 100% shareholding in Pomerania Invall Sp. z o.o., and the Company owns 100% shareholding in Ignitis renewables UAB. Pomerania Invall Sp.z o.o. develops a wind farm project in Poland with a planned capacity of 94 megawatts (MW). As at 31 December 2019 all rights to the shares ownership are fully controlled Company's subsidiary Ignitis Renewables UAB and overall investment in Pomerania Invall Sp. z o. o. comprised EUR 20,737 thousand. As at 31 December 2019 the investment is fully paid.

Business restructuring

On 31 December 2019 was completed the reorganisation of the Group companies Verslo aptarnavimo centras UAB and Ignitis grupės paslaugų centras UAB (former Technologiju ir inovacijų centras UAB)– Verslo aptarnavimo centras UAB was merged with Ignitis grupės paslaugų centras UAB. On 2 January 2020 Verslo aptarnavimo centras UAB was de-registered from the Register of Legal Entities.

Business combination

As at 31 December 2019 the Group completed purchase price allocation related to aquisition of Vėjo vatas UAB, Vėjo gūsis UAB ir VVP Investment. Amounts identified as Goodwill in amount of EUR 3.221 thousand as at 31 December 2018 were reclassified to intangible assets and valued EUR 3.480 thousand. These intangible assets comprise benefits related to preferential price applied to electricity produced by acquired subsidiaries. No other significant changes made.

Initial Public Offering

On 4 December 2019 the Company subsidiaries AB Energijos skirstymo operatorius and AB Ignitis gamyba, adopted decisions (i) to delist all shares of AB Energijos skirstymo operatorius and AB Ignitis gamyba from trading on the Nasdaq Vilnius Stock Exchange and (ii) to approve the Company as a person that will make an official tender offer to buy-in the shares of AB Energijos skirstymo operatorius and AB Ignitis gamyba that are admitted to trading on the Nasdaq Vilnius Stock Exchange.

On 23 March 2020 the Company from the Ministry of Finance of the Republic of Lithuania ("the Ministry of Finance") has received a letter implementing its sole shareholder's requesting the Company to prepare for an Initial Public Offering (IPO) to choose the period of new shares' emission issue based on the capital market situation and to make other related actions and documents. The Company should have to prepare for IPO by September 2020.

The letter was submitted in accordance with decisions that were taken on 18 March 2020 by the Government of the Republic of Lithuania and NERC for the Coordination of the Protection of National Security Objects to pass a resolution approving the transformation of Company from a private limited liability company (UAB) into a public limited liability company (AB). For the purpose to implement an IPO by this resolution the Government also agreed that the Company's share capital would be increased by additional contributions through the issuance of new ordinary registered shares. Share should be publicly distributed in such quantity that after the increase of the authorized capital at least

2/3 of the shares and votes in the general meeting of shareholders would belong to Republic of Lithuania.

Events related to litigation and claims

On 18 March 2020 Vilnius City District Court and Vilnius Regional District Court issued resolutions upholding the minority shareholders' statements regarding the waiver of their claims, that challenged the decisions of the Extraordinary General Meeting of Shareholders on the delisting of Energijos skirstymo operatorius AB (ESO) and Ignitis gamyba AB (GEN) (both the subsidiaries of the Company) shares, and closed the civil proceedings. Enactment of this resolution was reached after the 2020 March 17 when a peace agreement was signed between the Company and the Investors' Association representing minority shareholders. The Group begins the official tender offer for the shares of the subsidiaries on 3 April, Friday. The period of the official tender offer during which the shares will be available for sale, will last for 20 days until 22 April (inclusive).

Other events

On 23 January 2020 occurred the last auction of the real estate of the Group company NT Valdos UAB, during which the last three properties were sold for a total of EUR 180 thousand, excluding VAT.

On 10 March 2020 as part of the construction project for the Pomerania wind farm in Poland the Group company Pomerania Wind Farm sp. z o.o. has entered into an agreement with the European Investment Bank (' EIB ') regarding the financing for carrying out the project for an amount of PLN 258 million (about EUR 60 million). The Company and the EIB have entered into a first call guarantee agreement to secure this loan. The Company's subsidiary Ignitis renewables UAB, which controls all of Pomerania Wind Farm sp. z o.o. shares, has signed an agreement with the EIB for pledging 100% shares of Pomerania Wind Farm sp. z o.o. in favor of the lender. Maturity date of the loan contract is 31 December 2035.

On 1 April 2020 the news announced that a compromise had been reached between the Company and EPSO-G UAB regarding the repayment of the debt arising from the sale of Litgrid AB shares in 2012 (Note 10). The Government of the Republic of Lithuania also approved the compromise decision. An agreement between the Company and EPSO-G UAB on early repayment of the debt and the amount has not been signed as at the date of financial statement issue.

COVID 19 pandemic

On 30 January 2020 the World Health Organization has declared a global emergency following the COVID-19 outbreak and on 11 March 2020 confirmed the spread of the disease as a pandemic. An outbreak of COVID-19 was reported in the European Union on 31 January 2020 in Italy. On 26 February 2020 due to the threat of COVID-19 the Government of the Republic of Lithuania (hereinafter "the Government") declared an emergency situation in the country and on 14 March 2020 adopted a resolution No. 207 Regarding the announcement of quarantine in the Republic of Lithuania, on the basis of which quarantine was announced in the entire territory of the country from 16 March 2020 until 27 April 2020 with the possibility of extension. During quarantine, the country has:

- Restricted movement of population across the border and within the country (movement of goods is not restricted)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

- Restricted public and private sector activities
- The process of education and childcare and educational activities in all educational institutions are stopped
- The work organization of health care institutions, etc. has been established.

In relation to the emergency situation and quarantine the Parliament of the Republic of Lithuania adopted amendments aimed at preserving jobs and helping the population with special urgency. On 16 March 2020 the Government took the decision (Protocol No.14) and in respect of which concluded a Plan for the economic stimulation and the implementation of measures directed to mitigate the spread of COVID 19 (hereinafter "the Plan"). One of the measures for the implementation of the Plan is to make possible to defer or arrange in portions the payments for the consumed electricity and natural gas to the Group's subsidiary Ignitis UAB. This means that the company UAB Ignitis will directly experience delays in customers' payments for services.

Management of the Group from 16 March 2020 instructed all employees of the Group who have the ability to work remotely not to go to workplaces in offices, hold meetings through the teleconferencing IT programs. The company ensured that all conditions are in place for efficient remote work to employees. Employees do not experience any disruptions in the performance of direct functions. During the quarantine period, the Group strictly adheres to all recommendations issued by the Government regarding the possible threat of COVID 19.

Financial impact

The potential financial impact on the Group's operations due to the situation (both in Lithuania and the world) described above and due to Plan adopted by the Government on the implementation of measures to reduce the consequences of COVID 19 are presented below:

Area affected	Potencial financial impact
<i>Direct impact:</i>	
Cash flows from electricity and gas payments: payment delays, arrangements on longer debt repayment terms	In relation to the Plan, negative impact due to planning to satisfy the requests of private and business customers for deferral of payments for electricity and gas distribution and supply, including the limit set for deferred payment for the Group's subsidiary UAB Ignitis - EUR 20 million (for private clients EUR 5 million, for business customers - EUR 15 million).
<i>Indirect impact:</i>	
Increase in the percentage of bad debts	Depending on the duration of the quarantine, the financial impact of the consequences will increase, but given the most likely scenarios for the spread of COVID-19 publicly discussed by experts, this should not jeopardize business continuity. Reasonable or significant assumptions for the date of issue of the financial statements have not been identified.
Cash flow from declining of electricity and gas consumption during the quarantine period and slower recovery of consumption after the period ended	The negative impact of electricity and gas consumption will potentially affect the business segment, however it partially will be offset by increased electricity consumption in the private clients' segment. This should not jeopardize business continuity. Reasonable or significant assumptions for the date of issue of the financial statements have not been identified.
Cash flows related to the risk of delays in the development of large infrastructure projects (construction and development of new power plants)	Depending on the duration of the quarantine, there could be a risk of project delays due to disruptions of supply chain or due to appeared risk of infection of critical personnel with COVID 19. The positive impact on cash flows could be due to subsequent investments, however accordingly the planned income earnings and cash flow from operations related to the ongoing project would be delayed. This should not jeopardize business continuity. Reasonable or significant assumptions for the date of issue of the financial statements have not been identified.

Other resolutions/decisions adopted by the Government regarding the implementation of the Plan did not have a direct impact on the Group's operations. The indirect financial impact cannot be reliably estimated due to the short period that has elapsed between the date of the Plan taken and the date of the issue of these financial statements.

Impact on business continuity

In assessing the risks to the Group's going concern, the management has taken into account the uncertainty caused by the COVID 19 outbreak regarding the potential future impact on the Group's operations. The Group's management has assessed the potential disruption of cash flows, services or goods, funding sources, potential reductions in electricity and gas consumption due to the economic

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

slowdown, the risk of contingency COVID 19 and delays in ongoing projects using all available information at the time of issuing these financial statements. During assessment the Group did not identify any circumstances that could cast doubt on the Group's operations as a whole or on the going concern basis of individual Group companies.

Due to the significant outbreak of the quarantine announced in the Republic of Lithuania and the duration of the most severe restrictive measures applied in foreign countries during the preparation of these financial statements for more than three months, the results of the management's assessment of impact on the Group's financial results in 2020 may change, i.e. deteriorate. It is not possible to reasonably estimate the assumptions of the longer-term adverse effect scenario at the date of issue of the financial statements.

Impact on fair value measurements

At the end of the reporting period, i.e. 31 December 2018, fair value was determined based on market data at that date, based on assumptions that are similar to assumptions that market participants would accept under current market conditions in pricing an asset or liability, including risk assumptions. The Group and the Company made the assumptions using all available information, including information that could be obtained from due diligence activities that are routine. Unobservable inputs are used to estimate fair values to the extent that appropriate observable data is not available.

The objective of determining fair value is to present the fair value of an asset that reflects conditions at the measurement date, not a future date. Although events occurring after the measurement date may provide information about the assumptions used to determine fair value at the measurement date (particularly those that are not observable), they are adjusted only to the extent that information provides additional evidence about conditions that existed at the measurement date and market participants or the Company were aware of this information. In making fair value measurements, the Company has taken into account what market conditions and relevant assumptions were known or were known at the date of the valuation by market participants, i.e. 31 December 2018. The COVID 19 outbreak and the risks associated with it were not taken into account in determining the fair value as at 31 December 2018 as there was no observable and unobservable data on the conditions related to exposure to the risk of COVID 19. However, as the threat of COVID 19 has undoubtedly increased the risk that the carrying amounts of assets and liabilities will be adjusted in the next financial year.

Impact on the assessment of expected credit losses

In estimating expected credit losses, management is required to consider reasonable information at the reporting date, i.e. 31 December 2018. The Company estimate of expected credit losses as at 31 December 2018 did not take into account the COVID 19 outbreak and the risks associated with it because COVID 19 was identified in early January of 2020 and a global emergency was announced at 20 January 2020. In estimating expected credit losses at the date of issue of these financial statements, management has reasonably taken into account past events, current conditions and forecast of future economic conditions that were present and known at 31 December 2018. However, as the threat of COVID 19 clearly increased the risk that the carrying amounts of assets and liabilities might need to be adjusted in the next financial year.

Impact on the assessment of impairment of assets

The Company assessed the impairment of non-financial assets taking in account all indications of impairment at the end of the reporting period. Events after the reporting period and information

obtained after the reporting period are taken into account in assessing the impairment when they provide additional evidence of those conditions that existed at the end of the reporting period. Similarly, only that information is considered in determining the recoverable amount of an asset if such conditions existed at the end of the reporting period. The Company performed assessment of impairment of its assets as at 31 December 2018 did not take into account the COVID 19 outbreak and the risks associated with it, as COVID 19 was identified in early January of 2020 and a global emergency was announced at 20 January 2020. In assessing the indications of impairment of assets at the end of the reporting period, management has reasonably taken into account all indications that were present and known as at 31 December 2018. However, as the threat of COVID 19 clearly increased the risk that the carrying amounts of assets and liabilities might need to be adjusted in the next financial year.
