

# State-Owned Enterprises in Lithuania

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ANNUAL REPORT 2017

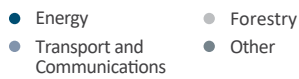
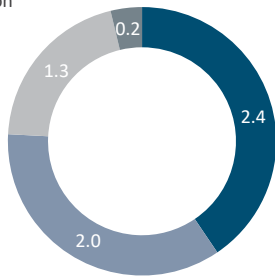


# SOE Portfolio: a Brief Overview

## SOE Portfolio Value

<b>31 December 2017</b>	<b>5.9</b>	
31 December 2016	5.6	<b>+5.6%</b>

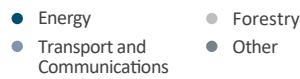
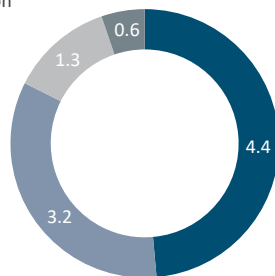
EUR billion



## SOE Portfolio Value of Book Assets

<b>31 December 2017</b>	<b>9.5</b>	
31 December 2016	9.2	<b>+3.1%</b>

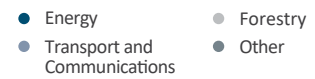
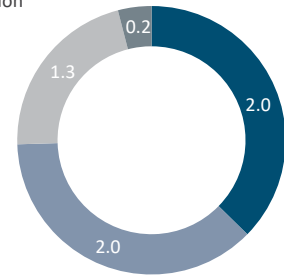
EUR billion



## SOE Portfolio Equity Value

<b>31 December 2017</b>	<b>5.5</b>	
31 December 2016	5.4	<b>+3.5%</b>

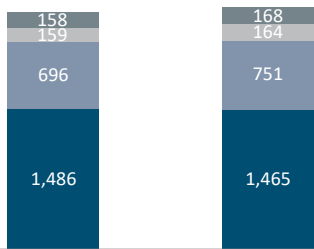
EUR billion



## SOE Portfolio Sales Revenue

<b>2017</b>	<b>2,549</b>	
2016	2,499	<b>+2.0%</b>

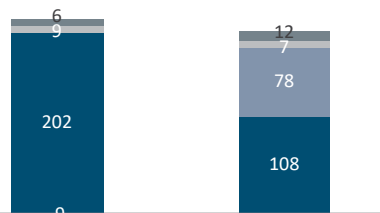
EUR million



## SOE Portfolio Operating Profit

<b>2017</b>	<b>204</b>	
2016	208	<b>-1.9%</b>

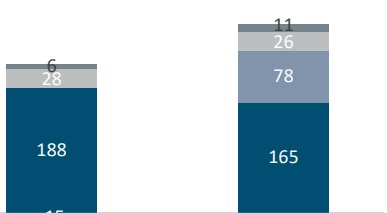
EUR million



## SOE Portfolio Normalised Net Profit

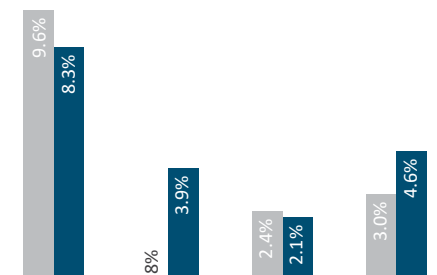
<b>2017</b>	<b>280</b>	
2016	207	<b>+35.3%</b>

EUR million



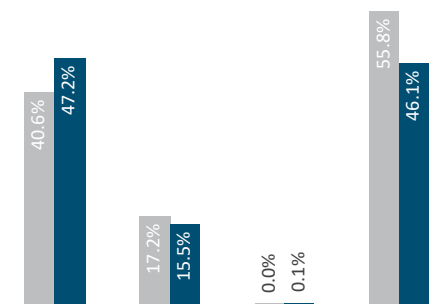
## SOE Portfolio ROE

<b>31 December 2017</b>	<b>5.1%</b>
31 December 2016	3.9%



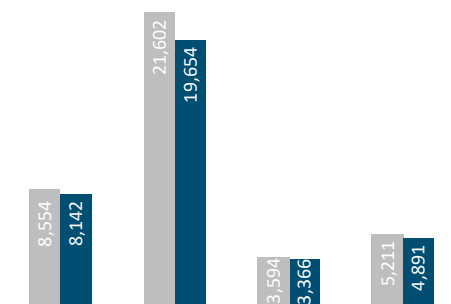
## SOE Portfolio Financial Leverage

<b>31 December 2017</b>	<b>24.7%</b>
31 December 2016	23.5%



## SOE Employees

<b>31 December 2017</b>	<b>36,053</b>	
31 December 2016	38,961	<b>-7.5%</b>



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In 2017, Lithuania not only intensively prepared for the commemoration of the centennial of the restoration of the State, but also accomplished a number of important tasks in the field of improving the governance of state-owned enterprises (SOE). These steps, favourably viewed by the Organization for Economic Cooperation and Development (OECD), led the country to become a member of this prestigious organisation. It was a considerable and difficult endeavour which required not only knowledge and the ability to find the best international experience but also a clear political vision.

In recent years, a number of significant changes have been made to improve the governance of SOEs. First of all, the state ownership functions were enhanced and powers to monitor the SOEs' activities were transferred to an independent legal entity – VŠĮ Stebėsenos ir prognozių agentūra (Monitoring and Forecasting Agency). In this way, a contradictory situation, when one of the state enterprises was responsible for coordinating the implementation of all state-owned enterprises' governance policy, was resolved.

Another important step made was to increase the independence of the state-owned enterprises' supervisory boards and boards of directors, and to depoliticise them completely. By the end of 2015, there were 63 politicians in the boards of state-owned enterprises, but now politicians are no longer involved in the management of state-owned enterprises. Today, the boards are run by management professionals whose decisions are based on business logic rather than political ambitions or interests. According to preliminary data, in June 2018, as many as 113 independent members have already been elected. Experienced and independent professionals, who came to SOEs, have brought solutions and operational transparency, knowledge and management experience.

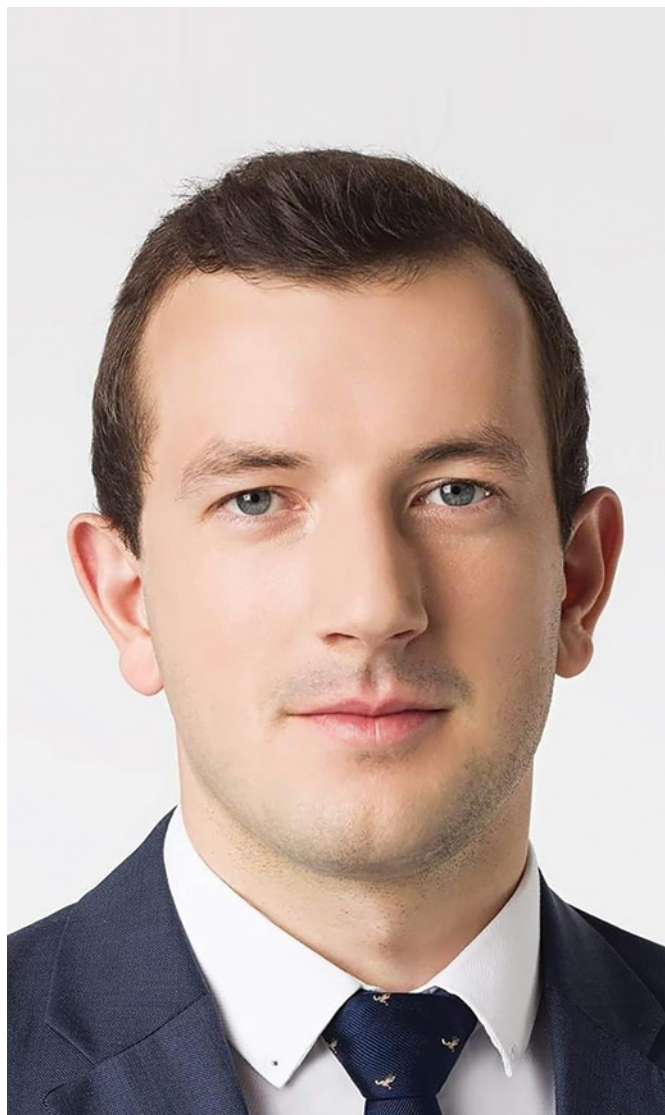
Moreover, to efficiently allocate resources and to apply higher enterprise governance standards, functions performed by state enterprises, their legal forms and the grounds for further operation were revised, and the restructuring plan of state enterprises has been approved.

As the reform of state-owned enterprises has been and remains one of the most important areas for improvement, transparent operation of state-owned enterprises, efficient management and higher returns to the State will be further strived for. Lithuania is planning to continue to strengthen the functions of state ownership and to empower the Governance Coordination Centre, which is responsible for coordinating the implementation of all state-owned enterprises' governance policy coordination.

In the future, we intend to continue the application of good governance principles to state-owned enterprises: we will further pursue the formation of boards of directors, more than half of which will be composed of independent professionals, and we will continue the process of restructuring SOEs to efficiently allocate resources.

Gradually, we plan to attain the state ownership function centralisation, i.e. centralised management of the companies. We also intend to systemically unify the governance requirements to include municipality-owned companies.

I hope that in the near future, by refining the State's expectations for each SOE and by discontinuing some of the activities or optimising them, and unanimously applying principles of good governance, companies will achieve outstanding results and will ensure the supreme tangible benefits for all people of Lithuania.



Yours sincerely,  
*Virginijus Sinkevičius*  
Minister of Economy

## Foreward by The Director of VšĮ Stebėsenos ir Prognozų Agentūra

The 2017 were delighting in the advance in the SOE sector. During 2017 the decisions, long-considered as unattainable, to merge 11 road enterprises and 42 forestry enterprises were adopted, the reorganisation of which were completed in November 2017 and January 2018 respectively. Board member selection procedure was further reviewed, stating that at least half of the board members must be independent members. National Audit Office of Lithuania performed audits, which motivated the review of enterprise ownership grounds, as well as the review of state enterprise legal form relevance. This year's reforms were also exceptional for us – to follow the OECD recommendations, in July, we moved from VĮ Turto bankas to VšĮ Stebėsenos ir prognozų agentūra.

Yet it is not only the changes in SOE policy that we find pleasing. 2017 was a rather successful year for the companies, which lead the State to receive a EUR 202 million return, 2 times more than in 2014. A larger number of companies paid significant amounts of dividends or profit contributions – while previously the majority of return was generated by Lietuvos energija, UAB, Group and AB Klaipėdos nafta, this year notable increase was featured among the Transport and Communications sector companies: EUR 34 million was paid by AB Lietuvos geležinkeliai, after 7 years VĮ Klaipėdos valstybinio jūrų uosto direkcija paid profit contribution, more than EUR 22 million; VĮ Kelių priežiūra and VĮ Lietuvos oro uostai also featured a considerable increase in profit contributions.

Despite the great trends, we ought to continue to consistently observe the way our companies are managed: the EUR 9.5 billion asset base is enormous, thus the transparency we pursue should enable everyone to weigh in on the evaluation and monitoring of the efficiency of asset management and use. Whilst the returns of the enterprise portfolio grow – normalised return on equity reached 5.1%, while only the year before it was 3.9% – the potential to increase the efficiency persists. The returns of SOEs remain lower than those of the privately-owned companies; the cash and cash equivalents of more than EUR 0.6 billion are striking; the capital structure also features a distinct part of equity capital – debt capital remains significantly lower than pursued.

2018 will be not without challenges: the independent supervisory and managerial board members will face even greater expectations to exceed; the enterprises are undergoing transformation, they will have to adapt to meet even greater standards of operational excellence and transparency. Every second company will face significant changes: the changes of legal form, reorganisation, reduction in the scope of their activities, or liquidation. On our own accord, we will aim to inform in even greater scrutiny about the company operations, raise the level of expectations, and to remind that involvement in the governing of SOEs goes together with the responsibility to follow the greatest governance practices.

Thus, we would also like to invite you, our prominent readers, to engage in the pursuit of more effective and transparent SOE operations – apply and become the independent supervisory or managerial board members.



*Your sincerely*  
*Acting director*  
*Deividas Gabulas*



# SOE News

**On March 13, 2017, the Government approved its program implementation plan, which aims to optimise corporate governance.** One of the aims is to merge companies engaged in the same activities – forestry enterprises and road maintenance companies, thereby consolidating and centralising their management. A review of business activities (functions) and their legal form is planned as well. The planned improvements of corporate governance include: concentration of institutions performing functions of shareholders, implementation of good corporate governance practices, improvement of board member selection process and increase in the number of independent and professional board members.



**On March 15, 2017, the Government approved amendments to legal acts prepared by the Ministry of Economy that will improve the procedures for the selection of candidates for state-owned enterprises' supervisory boards or boards of directors.** In accordance with the approved procedure, the boards of state-owned enterprises will have to be formed from at least half of the independent members who will be elected in a transparent manner, based on the experience and qualification of the candidates. The amendments stipulate that recruitment agencies will be able to participate in the selection process, and that politicians linked directly with executive powers cannot be appointed as members of the boards or supervisory boards of state-owned enterprises.

**On April 25, 2017, the National Audit Office provided audit reports The Return of the State-Owned Enterprises to the State, The Management and Activities of Municipality-Owned Enterprises, and The Establishment and Management of Public Institutions.** In these audit reports, the National Audit Office identified systemic deficiencies, from a national coordinated perspective, in the management of SOEs, municipal-controlled companies and public institutions. According to the National Audit Office, "it is important to optimise all forms of institutions and enterprises, to create a clear and consistent system for the evaluation of objectives and indicators of the activities of enterprises and institutions [...] to create effective institutional supervision and its management, separating it from policy-making".



**On May 10, 2017, the Government approved the restructuring of state-owned energy companies proposed by the Ministry of Energy.** This restructuring aims to optimise operations of the institutions and reduce costs. Instead of the four existing bodies, two will remain. Upon the merger of the VĮ Energetikos agentūra and VĮ Lietuvos naftos produktų agentūra, the competencies and data centre of the energy sector will be established. VĮ Radioaktyviųjų atliekų tvarkymo agentūra will be merged with the VĮ Ignalinos atominė elektrinė. It is planned that this will save up to EUR 300 thousand annually.

**On June 28, 2017, the Government by the Resolution No. 533 approved a description of the provision of support to state-owned companies, setting the limits and other conditions for the provision of support.** It should be noted that, according to the Law on State and Municipal Enterprises, state enterprises cannot provide support, therefore this procedure applies only to state-owned limited liability companies. Among the key provisions set out in the Resolution is the requirement that the proportion of the profit allocated to the support must be limited to 3% of the company's net profit for the financial year and may not exceed EUR 500 thousand; also, the internal regulatory requirements for the provision of publicity of the provided support and the conditions for the provision of business support are established.

**On July 1, 2017, the functions of the Governance Coordination Centre were taken over by the VŠĮ Stebėsenos ir prognozių agentūra (Monitoring and Forecasting Agency).** In accordance with the amendment to the Article 23 of the Law on the Governance, Use and Disposition of State and Municipal Property of the Republic of Lithuania No. VIII-729, from July 1, 2017, the functions of the Governance Coordination Centre of state-owned enterprises are performed by a VŠĮ Stebėsenos ir prognozių agentūra, the owner of which since 2010, is the Ministry of Economy. In this way, a conflict situation was resolved, when one of the state enterprises was responsible for coordinating the implementation of all state-owned enterprise management policy.

**On July 14, 2017, the green bonds distributed by Lietuvos energija, UAB, were settled – the company distributed 10-year bonds for EUR 300 million.** Bond holders are paid 2% annual coupons, and annual bond yields are slightly less than 2.2%. Distributed bonds are planned to be included in the lists of stock exchange debt securities of Luxembourg and Nasdaq Vilnius. BBB+ credit rating, which was given by the Standard & Poor's in June, contributed to the successful distribution of bonds. This 10-year bond emission is the largest and of the longest duration in the history of the country. The green bonds are intended to be used to finance the increase the efficiency of the electricity distribution network as well as investments in wind power plants and energy production from waste and biomass. In July 2018, another analogous emission of bonds was issued, yielding less than 2.1%.



**On November 1, 2017, 10 regional road maintenance companies and the VĮ Automagistralė were reorganised, creating the VĮ Kelių priežiūra.** The reorganisation is aimed at increasing the efficiency of business activities, achieving higher quality of road maintenance functions and forming an effective model of roads of state significance. VĮ Kelių priežiūra was established by merging other road maintenance companies into VĮ Kauno regiono keliai. According to the Ministry of Transport and Communications, the restructuring will save up to EUR 8.5 million annually.



**On January 8, 2018, 42 forest enterprises were merged into a single company - the VĮ Valstybinių miškų urėdija.** Companies were joined together to increase returns and to establish a more efficient operation of companies, addressing the challenges of transparency in the forestry sector. Just as in the case of road maintenance companies' merger, with this reorganisation one of the OECD recommendations was implemented. According to Vice-Minister of the Environment, Martynas Norbutas, the mergers and business optimisation should save EUR 13 million annually.

**On January 10, 2018, the plan for measures of reorganisation of state enterprises proposed by the Ministry of Economy was approved by the Government meeting.** According to this plan, the aim is to significantly reduce the application of the legal form of a state enterprise, thus complying with the OECD recommendations. Depending on the functions of public administration that may be carried out by the state enterprises, but not state-owned limited liability companies, the respective functions should be transferred to other legal entities, or the legal form of the company concerned is to be changed to a public or budgetary institution if the company does not (or the scale of the function performance is negligible) perform commercial functions. The plan does not foresee changes to the legal forms of VĮ Registrų centras, VĮ Regitra, VĮ Turto bankas, VĮ Ignalinos atominė elektrinė and VĮ Valstybinių miškų urėdija.

**On March 7, 2018, the proposals made by the Ministry of Economy regarding the management of state-owned shares in state-owned limited liability companies were approved by the Government meeting.** The implementation of the proposals should reduce the number of state-owned limited liability companies by liquidating some of them while transferring non-commercial functions to public institutions or budget institutions, as well as by privatising small companies whose shares should not be owned by the State, and mergers. The reorganisation of enterprises is the responsibility of institutions representing the State, whose progress should be presented by the Ministry of Economy to the Government at the end of 2018.

**On April 10, 2018, an amendment to Article 10 of the Law on State and Municipal Enterprises was adopted, which established the use of recruitment agencies for the selection of independent board members.** This amendment is supposed to help attract highly qualified independent members of the board. The law must come into force from 2019; by then implementing legislation must be adopted. Taking into account the need to review the Nomination Guidelines, along with changes to the rules on the selection of state enterprise boards, appropriate changes may be expected in the nomination procedure for the board members of state-owned enterprises – the inclusion of recruitment agencies for the selection of independent board members.

**On June 27, 2018, changes to the Ownership Guidelines came into force.** These changes involve an abandonment of the categorisation of enterprises into groups 1A, 1B and 2, and a more detailed regulation of preparation and publication of Letters of Expectation, i.e. moving from general assignment of goals to large groups of companies to individualised solutions. The institutions representing the State provide the main expectations for the state-owned enterprises individually in letters of expectation: commercial objectives, fulfilment of special obligations, etc. These letters must be posted on the websites of the SOEs, institutions representing the State and Governance Coordination Centre. The methodology for determining the target average return on equity approved by the Government has also been improved – now the CAPM model also includes an individual assessment that would allow to set the return targets more precisely than was possible with the standard CAPM model. From now on, return on equity is only measured when performing commercial activities – special obligations will be eliminated prior to the assessment of the company returns, which should allow to better assess their performance.



**On July 5, 2018, the ratification instrument of the accession to the OECD Convention was deposited with the French government – Lithuania officially became the 36th member of the OECD.** The OECD has assessed the progress made by Lithuania in the SOEs' governance and other areas, yet further encourages the continuation of reforms. During his visit to Lithuania, OECD Secretary General Angel Gurría presented the 2018 review of the Lithuanian economy, which, among other issues, discusses the situation in the SOE sector. The reforms that are already initiated are acknowledged to be in line with the OECD recommendations, however, the strengthening of ownership function, the independence of SOE boards, the streamlining of the legal forms of SOEs and the increase in transparency must be pursued further.

# Lithuanian State Ownership Policy: An Overview

Examples of many foreign countries show that State-owned enterprises (SOEs) can operate effectively, provide benefits to consumers and compete successfully on the market, and their performance can be equal to or even surpass the indicators of private enterprises. A modern, efficiently functioning SOE can significantly supplement State budget, and additional funds can be allocated to a wide range of areas, from pensions, teachers and medical salaries to state-owned investment projects. In addition, these companies, having implemented advanced management models, become a model for a transparent and responsible business, thereby promoting sustainable economic development. Seeking to turn SOEs into modern, efficiently operating companies requires a high level of responsibility as well as long-term and professional supervision of state-owned enterprises. It is important that the State has a clear-formulated ownership policy and high transparency requirements for these companies.

## State Ownership Policy

General experience of foreign countries shows that the implementation of the principles of good governance of SOEs is an important but a complex initiative. The main challenge is to strike a balance between a State's commitment to actively pursue its ownership functions (such as setting financial and other goals and monitoring) and the unbiased regulation of the sector in which the company operates.

For these reasons, different countries adopt legislation on ownership policy that clearly define the rights and obligations of all State institutions, bodies, and enterprises involved in the management of SOEs. Proprietary policy documents also define the procedure for determining salaries for members of collegial management or supervisory bodies, formalising their selection principles, establishing the principles for the composition and independence of such bodies, indicating the expected results of SOEs. The purpose of establishing clear ownership functions is to ensure that the State is an active owner of the property – it sets goals for enterprises, requires efficient operation and good results, but does not interfere with the day-to-day activities of enterprises.

## OECD Guidelines

In 2015, the Organization for Economic Cooperation and Development (OECD) updated and published *the Guidelines of Corporate Governance of State-Owned Enterprises*, a document defining the main principles for SOE governance. The OECD *guidelines* mark an agreement among the most advanced and most economically developed countries and are recognised as an international benchmark. These *Guidelines* can be found on the OECD website at [www.oecd.org](http://www.oecd.org). While updating these *Guidelines*, developments and country experiences were taken into account in order to identify new emerging issues at national and international level.

The OECD *Guidelines* provide concrete proposals for addressing the various issues arising from the management of SOEs. For example, they recommend that the State define its own ownership policy and clearly distinguish ownership and regulation functions. *The Guidelines* also describe the role of the members of the collegial governing bodies (boards and supervisory boards) and make recommendations on their composition and selection procedures. The document emphasizes the need to create an equally competitive conditions for both SOEs and private sector companies, taking into account the interests of all shareholders and related parties of SOEs, and aims at maximising the transparency of SOEs. These and other recommended changes would help states to ensure the professional management of their businesses. All states seeking to join this organisation must comply with the principles laid down in the OECD recommendations. Lithuania has also relied on these *Guidelines* while reforming its SOE governance policy.

In September 2015, the OECD also presented specific recommendations for Lithuania in the area of a good SOE governance. The proposals and recommendations highlight four priorities:

- The State should strive to strengthen ownership functions

by strengthening the status of GCC, ensuring independence and adequate resources for the fulfillment of its functions.

- The independence of the boards and supervisory boards should be increased, in particular by ensuring independence, and transparent and standardised selection principles.
- The legal form of a state enterprise should be reviewed, with the gradual transition to the usual legal forms of legal entities.
- The provisions of the Transparency Guidelines should be mandatory, at least for the large state-owned enterprises.

In order to join the OECD, Lithuania is committed to the implementation of these recommendations, and in recent years has been engaged in intensive work associated with the four priority areas of implementation. The consolidation of road maintenance forest enterprises, the strengthening of the selection procedures for members of collegial bodies and the mandate given to them, the strengthening of GCC, and concrete plans for further work allowed Seimas to legally ratify the Convention of the Organisation for Economic Cooperation and Development, adopted in Paris on December 14, 1960, and the Agreement on the Accession of the Republic of Lithuania to the Convention of the Organisation for Economic Co-operation and Development, signed in Paris on May 30, 2018. The ratifications of the OECD Convention were deposited by the French Government on 5 July 2018, thus completing the formal accession process to the OECD.

## Key Legal Acts in Lithuania

Ownership Guidelines	Transparency Guidelines	Nomination Guidelines
Defines the precise determination of SOE status: the determination of the target average cost of equity, obliges institutions representing the State to prepare Letters of Expectation	Indicates what information about its activities all state-owned enterprises must disclose as well as deadlines for providing such information	Establishes the composition of the collegial management and supervisory bodies of SOEs and obligates them to include independent members
Obliges institutions representing the State to distinguish between the implementation of ownership and the regulatory functions of state-owned enterprises.	Obliges SOEs to prepare interim financial statements	Lists the requirements for candidates for the collegial management and supervisory bodies of SOEs and sets the criteria for independence
Obliges SOEs to develop formal strategies and follow them	Obliges all SOEs to manage their financials in accordance with international accounting standards	Formalises the selection and appointment process for candidates for collegial management and supervisory bodies
Obliges the largest SOEs to have collegial governing bodies and key committees	Obliges SOEs to provide information on special obligations that are being performed	Defines the principles of nomination committee formation and functions
Establishes recommendations for the remuneration of executives and members of collegial management and supervisory bodies	Obliges the coordinating authority (GCC) to draw up summary reports on SOEs and their activities	



Based on OECD recommendations and international good practice, in 2010, the Government adopted the Resolution "Concerning the Approval of the Description of the Guidelines on Assurance of State-Owned Enterprise Activity, Transparency and Appointment of a Coordinating Authority" (referred to as *the Transparency Guidelines*), which set high transparency and accountability requirements for all SOEs, and in 2012 the Resolution "Concerning the Approval of the Description of the Procedure for the Implementation of the Property and Non-Property Rights of the State in State-Owned Enterprises" (referred to as *the Ownership Guidelines*), which defined the Government's ownership policy with regard to the SOEs. *The Ownership Guidelines* provide solutions for the principles to be followed when defining strategic objectives and identifying financial indicators, distinguishing between regulatory and ownership functions while forming boards of the SOEs and supervisory boards, and others. *The Ownership Guidelines* contains three essential measures to strengthen the governance of the SOEs: a strong shareholder, strong corporate governance and clear goals. In order to strengthen the principles of independence and selection of boards and supervisory boards, in 2015, the Resolution "Concerning the Approval of the Description of the Procedure for the Selection of Candidates for the Municipal and State Enterprises', Municipal and State-Owned Limited Liability Companies' and Public Limited Liability Companies' Collegial Supervisory and Management Bodies, Nominated by the General Shareholder Meeting" (hereinafter referred to as *the*

*Nomination Guidelines*), which was later supplemented by provisions from *the Ownership Guidelines*. *The Nomination Guidelines* formalise the selection process, determine the composition of the collegial bodies of SOEs, the requirements for candidates, and other. Clear objectives are implemented by setting a target average cost of capital, preparing and submitting letters to companies on the State's goals for state-owned enterprises and expectations (*Letters of Expectation*).

Taking into account the recommendations of the OECD in the field of improving the management of SOEs in Lithuania in 2015, the Ministry of Economy prepared a plan for the implementation of recommendations, which was approved by the Government of the Republic of Lithuania in April 2016. This plan provides the means and time frame for addressing the critical aspects of the SOE governance issues raised by the OECD. The plan takes into account the four areas raised by the OECD, the main tools are: to transfer the functions of GCC to a public legal entity, ensuring adequate resources and the ability to properly perform its functions; strengthening the functions and independence of the boards and supervisory boards, adjusting the selection procedures and increasing independence; to consider and solve the need for a legal form of a SE, in particular by consolidating state forest enterprises and road maintenance companies; modify *the Transparency Guidelines* by making them mandatory for the largest SOEs.

# Lithuanian Ownership Policy

## 1. Application of the Ownership Guidelines

The provisions contained in *the Ownership Guidelines* are mandatory and must be complied with by the public authorities involved in the management of all state-owned enterprises. Some provisions of *the Ownership Guidelines* apply the "comply or explain" rule that a deviation from these provisions is only possible when objectively necessary - in such cases, each deviation must be rationally justified and explained.

## 2. Governance Coordination Centre

In order to ensure consistent and professional governance of the SOEs, the Government has decided to establish the Governance Coordination Centre (GCC), an institution that monitors and analyzes the implementation of State policy in state-owned enterprises. By *the Ownership Guidelines*, the functions of GCC were entrusted to VĮ Valstybės turto fondas, in which, for this purpose, a special department in September 2012 was set up. On October 1, 2014, VĮ Valstybės turto fondas was merged with VĮ Turto bankas, and the functions of GCC were entrusted to VĮ Turto bankas. From July 1, 2017, after the change of the law on the management, use and disposition of State and municipal property of the Republic of Lithuania (*the Disposition of Property Act*), and updating of the Ownership Guidelines, the functions of GCC are exercised by the VšĮ Stebėsenos ir prognozių agentūra, which is subordinated to the Ministry of Economy of the Republic of Lithuania. Prior to the adoption of *the Ownership Guidelines*, the functions of coordination and information gathering and analysis of the SOEs were assigned to the Ministry of Economy.

*The Disposition of Property Act* and *the Ownership Guidelines* defines the essential functions of the GCC. GCC is obliged to co-ordinate the implementation of good strategic planning practice in state-owned enterprises, to assess the ambition of the strategic objectives set by the SOEs, to monitor the indicators of the implementation of the strategies, and to determine the target indicators of the return on equity as well as to assess their achievement. In addition to the functions provided by *the Ownership Guidelines*, GCC analyses the financial and non-financial information disclosed by the SOEs, trends in the activities of these enterprises, publicly announces summary reports of the SOEs and forecasts the dividends and profit contributions to be paid by the SOEs as well as advises on dividend and profit contribution issues. GCC also

participates in the process of nominating independent members of the collegial supervisory and management bodies: it participates in the nomination committee, advises the representative institutions of the State on the special requirements for candidates. Finally, GCC assesses the compliance with *the Ownership* and *Transparency Guidelines* and gives its opinion and recommendations to the Government.

## 3. Clear Objectives

In order to make all SOEs perform as efficiently as possible, states must clearly state the objectives of the companies, and these goals must be aligned with the long-term strategies of the companies. To the extent possible, targets should be quantifiable and companies should be evaluated on a regular basis as to their stated objectives. SOEs can operate effectively only if they know what the State hopes for. In order to provide companies with clear and transparent information about what the State expects from them, institutions representing the State are obliged to prepare *Letters of Expectation*.

### 3.1. State Objectives for the SOEs

On June 27, 2018, after the amendments to *the Ownership Guidelines* came into force, the assignment of companies to groups (1A, 1B and 2) was abolished. The Guidelines stipulate that the target average annual cost of capital (capital return) requirements shall be established for a significant part of the commercial activities of all SOEs. An individual company assessment that allows you to take into account the relevant factors for the company's risk and profitability and, thus set more precise requirements than the standard CAPM model (Capital Asset Pricing Model) allows, is also included. Based on the new regulations, the return on capital will be calculated for the period 2019 – 2021.

Requirements on the return on equity together with *Letters of Expectation* – letters in which the State sets expectations for the company's activities and the main guidelines for the fulfillment of special obligations – defines the main goals of the State for state-owned enterprises, which are represented by the State institutions. *The Ownership Guidelines* specifies that the State, participating in the management of the SOE, "seeks to increase business value, dividend or profit contributions, assure national security interests, and implement strategic projects or other objectives." Therefore, the regulation of

general Government objectives for the SOEs remains – in particular, the requirement for financial returns; however, the individualisation of the goals set for businesses is increasing.

In order to respect the principle of transparency, both target return on equity and *Letters of Expectation* are being made public. Indicators of cost of equity are approved by the Government Resolution and are therefore publicly available, and the obligation to publicise *Letters of Expectation* for enterprises, institutions representing the state and GCC (to publicise them on their websites) is determined by the most recent amendment to *the Ownership Guidelines*.

### 3.2. SOE Strategies

The SOE must have clear strategic plans that serve as a communication tool between the Government, the shareholder or owner of the enterprise, management boards and executives. The Government has obliged all SOEs to develop their strategies for their activities. Strategies should be developed for at least three (SE for a period of four) years and updated at least once a year. In these strategies, companies must indicate the directions in which they will develop their activities, long-term and short-term goals, and specific indicators that will measure the objectives pursued. Plans should also indicate the impact of strategic projects on the company's value, sources of financing, enterprise environmental analysis, available resources, etc.

Companies are obliged to submit their strategic projects to GCC every year before November 15, which provides recommendations and suggestions for their improvement. GCC also evaluates indicators outlined in these strategic plans and provides their assessment to the Government. While developing strategies, letters that are submitted by institutions representing the State to companies on the expectations of the State are also taken into account.



### 4. Collegial Governing Bodies

For a profitable and efficient business activity, one of the key factors is the competent, motivated and independent board or supervisory board, if it is formed. The Board is the main governing body that establishes the company's strategic priorities, assesses the activities of the company's executives and ensures their accountability.

After the amendment of *the Ownership Guidelines*, the SOEs are no longer divided into five categories, and the concept of public interest entities (i.e., SOEs which are considered to be large in accordance with the Company's Financial Reporting Law) and enterprises defined by other laws that are considered as important for national security companies are introduced. Companies that are of public interest and important for ensuring national security must have functioning collegial bodies. The decision on the formation of boards (or supervisory councils) in other SOEs is made by a representative institution of the State.

According to the legal form, all state-owned enterprises (SOEs) are divided into **state enterprises (SE)** and **state-owned limited liability companies** - public limited liability companies (AB) and private limited liability companies (UAB).

State enterprises are companies established using State assets or companies transferred to the State according to the procedure established by law, which are the property of the State and the assets, transferred to them or acquired by them, are managed, used and disposed of according to the right of trust. On 31 December, 2017, there were 68 SEs in Lithuania, including the forest enterprises, VĮ Kelių priežiūra, VĮ Lietuvos oro uostai, VĮ Klaipėdos valstybinio jūrų uosto direkcija and others.

State-owned public and private LLCs are private legal entities with limited civil liability, all or part of which are owned by the State. At the end of 2017, there were 13 SOEs in Lithuania which had a legal status of public LLC (including AB Lietuvos paštas, AB Lietuvos geležinkeliai, AB Klaipėdos nafta), while the legal form of private LLC had 27 SOEs (Lietuvos energija, UAB, UAB EPSO- G, UAB Lietuvos parodų ir kongresų centras LITEXPO, etc.).

### 5. Committees

SOEs, which are considered to be public interest entities in accordance with the Law on Auditing of Financial Statements of the Republic of Lithuania, are required to form audit committees which would strengthen the internal control of the companies - the process of monitoring the companies' financial statements, the efficiency of various internal control systems, the process of auditing, etc. The audit committee must comprise at least three members, of which more than half must be independent. A chairman of the audit committee is elected from the independent members of the committee.

In each state-owned company, which is considered to be a large company in accordance with the Law on Companies' Financial Reporting, a remuneration committee must also be set up to prepare proposals for remuneration systems for the company's management personnel.

### 6. Remuneration

In order to attract as many independent professionals as possible to members of collegial bodies, they may receive a remuneration for this work. The issue of the remuneration of members of collegial bodies must be discussed at the general meeting of each company, but it is recommended that the members of the boards of directors and supervisory boards of state-owned companies be paid a fixed remuneration not exceeding 1/4 of the remuneration determined for the company's head and the remuneration of the chairmen of the boards of directors and supervisory councils, not exceeding 1/3 of the amount of such remuneration. Members of collegial bodies who are civil servants or employees of institutions representing the state are not remunerated.

The procedure for payment of the members of the Board of Directors is regulated by a separate resolution, in accordance with the principle that the remuneration paid to a member of the management board may not exceed 1/5 of the average monthly salary of the manager of the company. The remuneration is transferred to the State budget for members of collegial bodies who are civil servants.

# The Process of Nomination of Collegial Bodies' Members

In March 2017, the Government of the Republic of Lithuania moved the regulation of the composition and selection process of the collegial management bodies of the SOE from *the Ownership* to *the Nominations Guidelines* and unified the nomination procedures for both state-owned companies (public and private LLCs) and state enterprises (SE). Also, the formation of the economic sector policy making and property implementation functions were strictly separated.

The provisions of the Nomination Guidelines establish the principles for forming the composition of collegial management and supervisory bodies, the independence criteria, the requirements for candidates, the selection and nomination procedures, the composition of the selection board. *The Guidelines* apply only to the collegial body directly elected by the institution representing the State, regardless of the legal form or size of the SOE.

## 1. The Composition of Collegial Governing Bodies

The essential provision of *the Guidelines* – in order to increase the independence of collegial bodies, at least 1/2 of the collegial body members must comply with the independence criteria set out in the Nomination Guidelines (effective from the end of the term of office of the collegial body, but not later than from January 1, 2018), i.e. to be independent. It was also established that persons who are public servants of political trust, or persons, responsible for the policy formation of the branch of economy in which the company operates, cannot be elected as members of the collegial body. This principle separates functions of the policy of forming an economic branch (regulation) from the functions of implementation of ownership.

## 2. Requirements for the Candidates

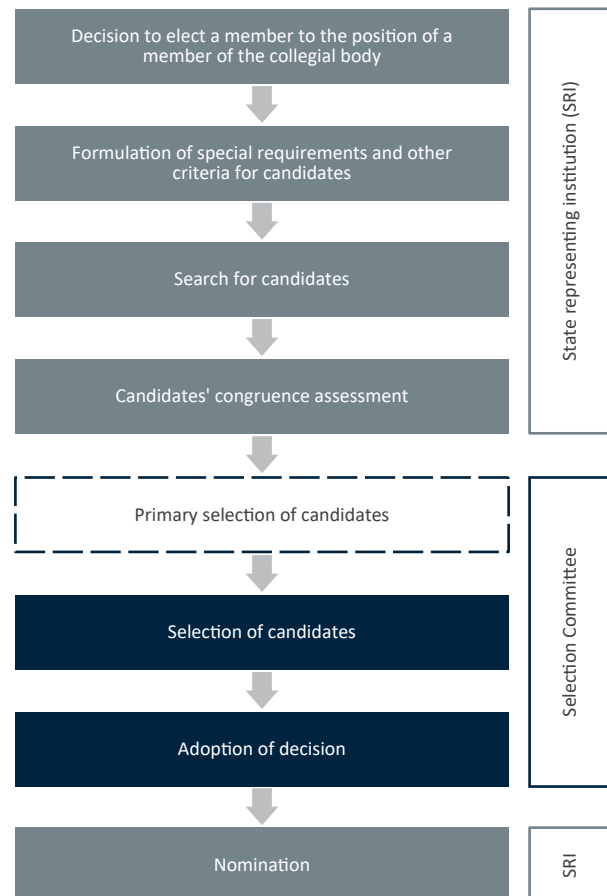
On the basis of the Nomination Guidelines, candidates are subject to general and specific requirements. Each candidate must correspond to the general requirements of the collegial body of the SOE. The general criteria indicate that a candidate must have a higher education, be of impeccable reputation, and not be a shareholder of the SOE or of the related company to which he/she is a candidate, or his/her representative. Specific requirements for candidates are determined by institutions representing the State, taking into account the needs of the particular company, and the missing or desired competences of the collegial management body.

The Nomination Guidelines also set out the competencies that the collegial body of the company must have. The collegial body elected by the State representative body of each state-owned enterprise must include persons who are knowledgeable in areas such as the sector in which the company operates, finances and strategic planning and management. Individual members of the collegial body may not have all the required competences, but the collegial body as a unit must have all of them.

## 3. The Selection and Nomination of the Candidates

The provisions of the *Nomination Guidelines* stipulate that after the institution representing the State decides to elect an independent member to the position of a member of the collegial body of the state-owned enterprise, the institution representing the State must inform the state-owned enterprise about the planned selection, indicating which specific position of the member (according to the areas of competence) will be selected. In the selection process for independent members, the selection procedures begin with the formation of requirements for candidates through the publication of a selection ad. Other members of the collegial body ("dependent") may be selected without complying with the procedures specified in *the Guidelines*, but in accordance with the requirements for candidates.

Following the procedures for compliance with general and special requirements and independence criteria, the list of potential candidates shall be forwarded to the selection committee. The selection committee is authorised to collect independent members of the collegial bodies by drawing up a short list and conducting selective interviews with the selected candidates. The winner of the selection procedure shall be determined in accordance with the procedure laid down in *the Guidelines* for the announcement of the voting and the winner. The selection committee presents the winner to a representative institution of the State, which, in turn, nominates or proposes to members of the collegial body.



The selection committee shall be composed of seven members in accordance with the decision of the institution representing the State. The commission consists of: a member proposed by the Prime Minister's Office, a member proposed by the Minister of Finance, a member proposed by the Minister of Economy, a member proposed by GCC, and three members proposed by SRI. In addition, experts from different institutions, bodies or organisations who have the right to consult members of the commission, but do not have the right to vote, may also be invited to participate in selection interviews by the decision of the institution representing the State.

On April 10, 2018, amendments were made to the Law on State and Municipal Enterprises, which, upon the entry into force on January 1, 2019, will allow the participation of personnel recruitment (selection) agencies for the search for independent members of the boards of state-owned enterprises. On the basis of the amendment to this law in 2018, *the Nomination Guidelines* will be reviewed and the participation of the personnel recruitment agencies in the selection process of the members of the collegial body of the SOEs will be regulated.

# Transparency of the SOEs

Transparency of activities of state-owned enterprises is very important, since owners of SOEs, although indirectly, are all citizens of the country. In order to achieve good corporate governance, it is necessary not only to set clear goals for the SOEs and their management, but also to periodically evaluate how the SOEs have achieved these goals.

Based on best practices in the world and the OECD *Guidelines, the Transparency Guidelines* have been adopted, which stipulate that SOEs must comply with similar transparency requirements as companies listed on a stock exchange. It has also been recommended that both the execution of the accounting of SOEs and the audit of their annual financial statements be carried out in accordance with international accounting standards. The provisions of *the Transparency Guidelines* also oblige SOEs to provide information on their special obligations along with the annual financial statements.

## 1. Application of the Transparency Guidelines

*The Transparency Guidelines* must be followed by all SOEs of Lithuania, and it is also recommended that state-owned companies take steps to ensure compliance with these *Guidelines* by their subsidiaries. It is noteworthy that all SOEs are required to comply not only with *the Transparency Guidelines* but, also, with the NASDAQ OMX Vilnius, corporate governance code of the listed companies, due to the disclosure of information – regardless of whether the SOE is quoted on the stock exchange or not. In order to assess how the SOE complies with *the Transparency Guidelines* and other principles of good governance, GCC prepares the Good Corporate Governance Index of the SOEs, the results of which are submitted to the Government and published on the website of GCC.

## 2. Submission of Information

State-owned companies must prepare annual and semi-annual financial statements, state enterprises - annual and quarterly financial statements. Each SOE also has to prepare annual reports (public and private limited liability companies) or annual activity reports (state enterprises) - documents covering all year's financial and other performance results, social and environmental initiatives and other initiatives, annual salary fund, management personnel remuneration, realised, executed and planned investments in the financial year, composition of collegial bodies, dividend policy, audit, information on compliance with the provisions of *the Transparency Guidelines*, etc. The largest SOEs of Lithuania must also prepare intermediate six-month reports or interim activity reports.

These documents must be presented in accordance with the terms set out in *the Transparency Guidelines* and published on the Internet, where they can easily be accessed by the public.

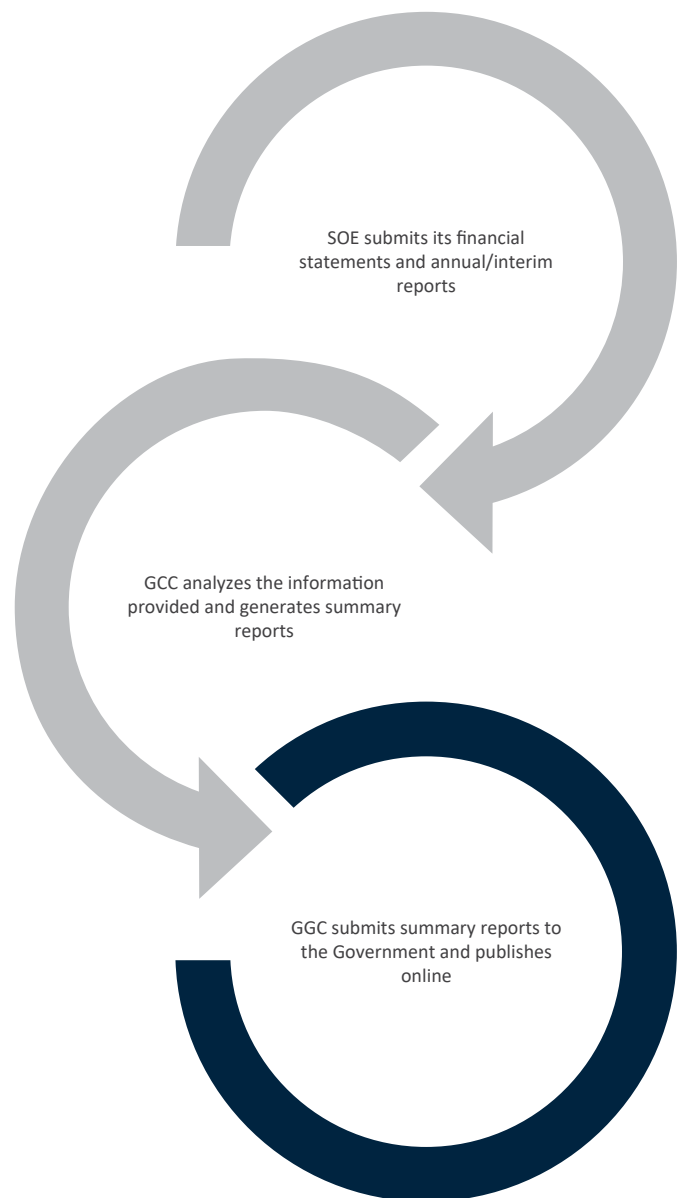
## 3. Summary Reports

The documents specified in *the Transparency Guidelines* are submitted to GCC, which aggregates the data and prepares summary reports on the SOEs. In this way, a general overview of the activities of SOEs is provided to the public twice a year. Such periodicity was chosen in order to establish regular public accountability of companies, to monitor changes in the portfolio of the SOEs and to respond adequately to them.

The aggregated reports provide financial information and the dynamics of the SOE sector, discuss the implementation principles of the management and ownership functions of these companies, while the largest and most important companies are reviewed separately. Information is also analysed on the implementation of special obligations as well as the remuneration of management personnel. The summary reports are submitted to the Government and published on GCC website (<http://vk.sipa.lt>). This website also provides financial statements, annual and semi-annual reports or activity reports for all of the SOEs, as well as other information related to SOEs.

## 4. Disclosure of Information on Special Obligations

In line with the OECD *Guidelines*, and in order to increase transparency and facilitate financial analysis, SOEs are obliged to provide information on ongoing non-commercial activities (*special obligations*) along with annual financial statements. This means that the public sector must also publish the costs of all social obligations or the provision of public services,



various subsidies received, financial assistance, capital used, and others. Separation and disclosure of special obligations is particularly important for assessing the results of commercial activities and for establishing clear and transparent financing mechanisms for non-commercial functions that do not distort the market. In the course of commercial activities, SOEs must operate under conditions of fair competition.

GCC, together with the annual general reports of SOEs, is also obliged to provide aggregated information on the special obligations of SOEs. Analysis like this is presented in this report, part "Special Obligations of SOEs" (page 18). In the part mentioned, more attention is given to a new definition of special obligations, which entered into force on May 9, 2018, which more precisely defines the concept of special obligations.

# Remuneration of Executives

Managing state-owned enterprises is no less a challenge than private business, as business executives must both compete successfully with the private sector and, in many cases, also pursue exclusive goals of the shareholder (owner) – non-commercial functions. In order to properly compensate management personnel for their work, the Government of the Republic of Lithuania adopted resolution “On the Remuneration for Work of Executives in State-owned Enterprises” (hereinafter the Resolution), which regulates remuneration of executives of state-owned enterprises and their deputies. This Resolution is mandatory for companies with legal status of a state enterprise (SE), while for public limited liability companies and private limited liability companies it is only recommended.

According to the Resolution, the monthly salary of management personnel consists of a fixed and a variable part. The fixed part of a monthly salary is calculated on the basis of coefficients set by the Republic of Lithuania, according to basic official salary amounts of state politicians, judges, state officials and state servants of the Republic of Lithuania, depending on the category of enterprise. Company's category is determined by the sales figures of the previous

year and the average number of employees or assets managed by that company. Depending on the indicators, enterprises are classified in categories I to IV. If the company has the authority to perform public administration functions in accordance with the procedure established by law, it shall be classified one category above than was established by the indicators. The table below defines coefficients based on the categories of enterprises.

Category	Sales revenue (EUR)	Average number of employees or managed assets (EUR)	Coefficients (set by the Seimas of the Republic of Lithuania, according to basic official salary amounts of state politicians, judges, state officials and state servants of the Republic of Lithuania)
I	≥57,924,004	≥1,000 or ≥ 150,000,000	19.2- 21.8
II	Revenues ≥57,924,004 or employees ≥1,000 or assets managed ≥150,000,000		16.2- 19.2
III	≥8,690,000	<1,000 and < 150,000,000	12.7- 16.2
IV	<8,688,601	<1,000 and < 150,000,000	9.3- 12.7

The higher the company's category, the higher is the coefficient of a fixed part of the monthly salary of executives. Coefficient of a fixed part of the monthly salary of managers of state enterprises with strategic importance for national security can be raised up to 75%, by reasoned decision of institution implementing the rights and obligations of state enterprise owners.

Based on the Resolution, variable part of a monthly salary of executive personnel cannot exceed 50% amount of the fixed part and is determined for financial year according to specific performance results of state enterprises, achieved in the previous financial year. Amount of variable part of monthly salary is determined by institution implementing the rights and obligations of state enterprise owners.

In addition, manager of a state enterprise can be awarded with a premium, which cannot exceed the amount of four fixed parts of their monthly salary, or premium from savings (used for salaries), which cannot exceed the amount of one fixed part of their monthly salary.

The Ruling is binding to all state enterprises except for **VĮ Ignalinos atominė elektrinė**, because of the nature of its activities and the fact that the company's activities and employees' salaries are mainly financed from the European Union funds.

The following is a summary of information on salaries of management personnel of state-owned enterprises in the year 2017. The summary includes data from 108 companies.

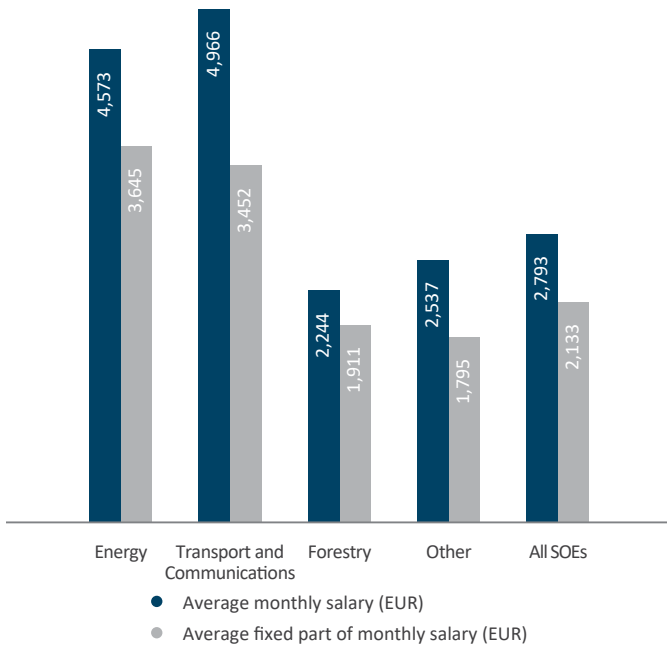
## Remuneration of Executives by Sectors

According to data received from 108 companies, the average monthly salary (before tax) of company managers in 2017 was EUR 2,793, while the average fixed part of a monthly salary was EUR 2,133. In 2017, the managers of Transport and Communications sector companies received the largest salaries, with average salary amounting to almost EUR 5 thousand and fixed part of the salary – EUR 3.5 thousand. Significantly higher salaries in the Transport and Communications sector were due to the fact that companies attributed to this sector had the highest income and the number of staff of all state-owned enterprises. The average salary of the executives in Energy sector amounted to EUR 4.6 thousand, while the fixed part of the salary was EUR 3.6 thousand.

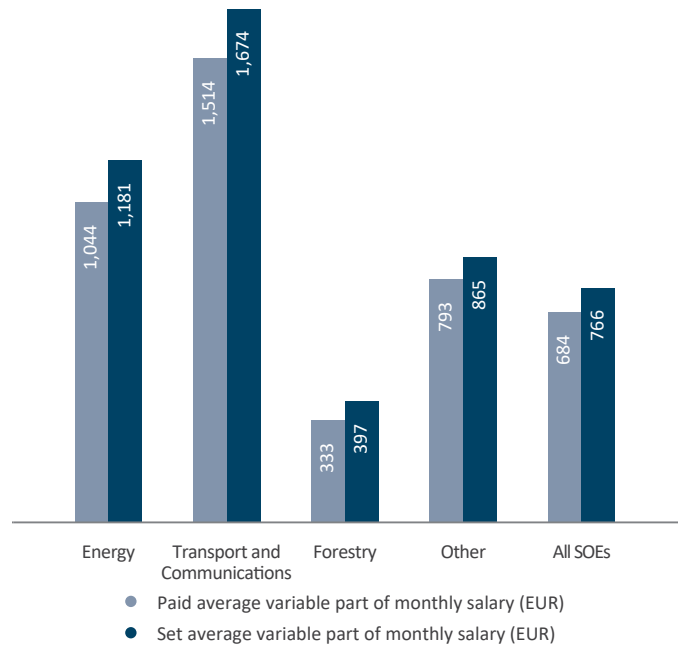
In 2017, not all of the companies paid their managers the variable part of the monthly salary, therefore, the average variable part of the monthly salary of managers of state-owned enterprises is presented only for those companies that have established it. The average variable part of the salary paid in 2017 in state-owned enterprises amounted to EUR 684, while the established maximum average variable part of the salary was EUR 82 higher. The largest relative difference between the established and paid amounts was in the companies of Forestry sector

and amounted to 16.1% from established average variable part of salary; the lowest (9.6%) in Transport and Communications sector companies. It is worth noting that the average variable part of monthly salary paid to the managers of Transport and Communications sector was the highest and on average amounted to EUR 1,514. The lowest variable part in 2017 was established and paid in Forestry sector. On average, the variable part of monthly salary paid to manager of **VĮ Valstybinis miškotvarkos institutas** and **forestry enterprises** amounted to EUR 333.

Remuneration of Executives by Sectors



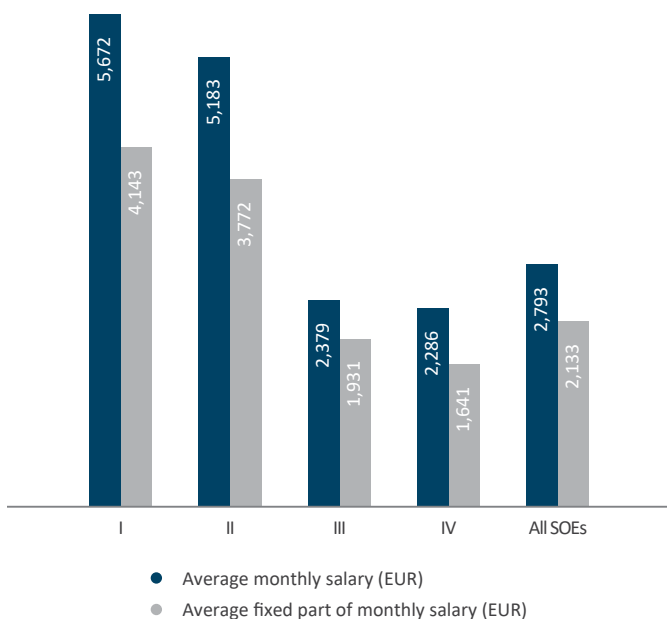
Variable parts of Remuneration of Executives by Sectors



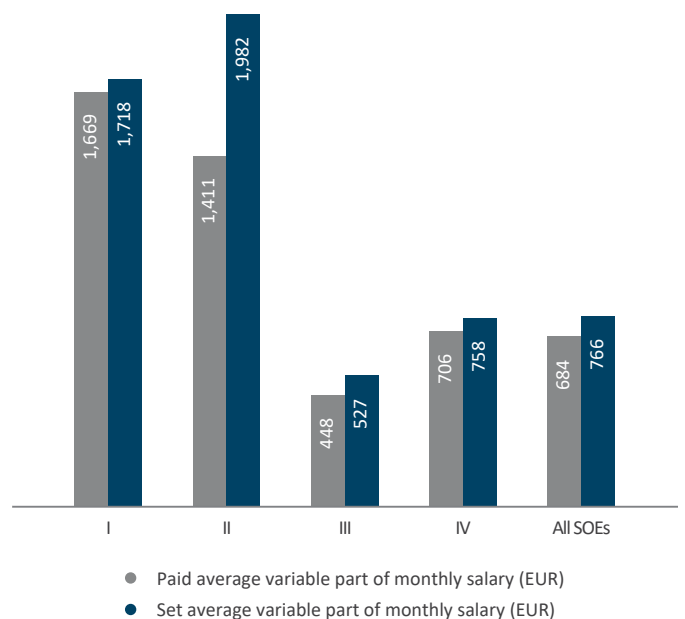
## Remuneration of SOEs' Executives by Categories

In 2017, the highest average monthly salary of managers and average fixed part of monthly salary, as regulated by the Resolution, was in Category I companies – manager's average monthly salary amounted to EUR 5,672. Meanwhile, the average monthly salary of the smallest enterprises (Category IV) amounted to EUR 2,286 and was more than two times lower than in the largest state-owned enterprises. Although, according to the Resolution, the variable part of the monthly salary can amount to 50% of fixed part of the monthly salary, in practice the variable part of the monthly salary usually falls below the maximum value. In the year 2017, the established average variable part of the monthly salary amounted to 32.1% of average fixed part of the monthly salary. This indicator was mainly reduced by **forestry enterprises**, because their established variable part of the salary amounted to 20.8% of average fixed part of the monthly salary. If we exclude **forestry enterprises**, then the established average variable part of the monthly salary in 2017 would amount to 45.9%. It is also worth noting that four enterprises have paid their managers only the fixed part of the monthly salary, and therefore, did not establish the variable part of the salary.

Remuneration of Executives by Categories

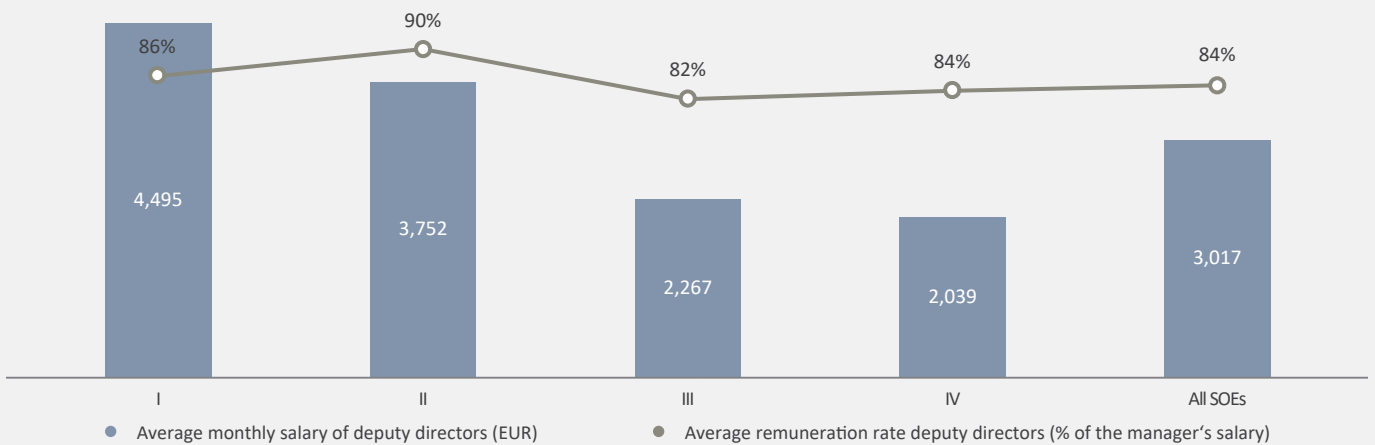
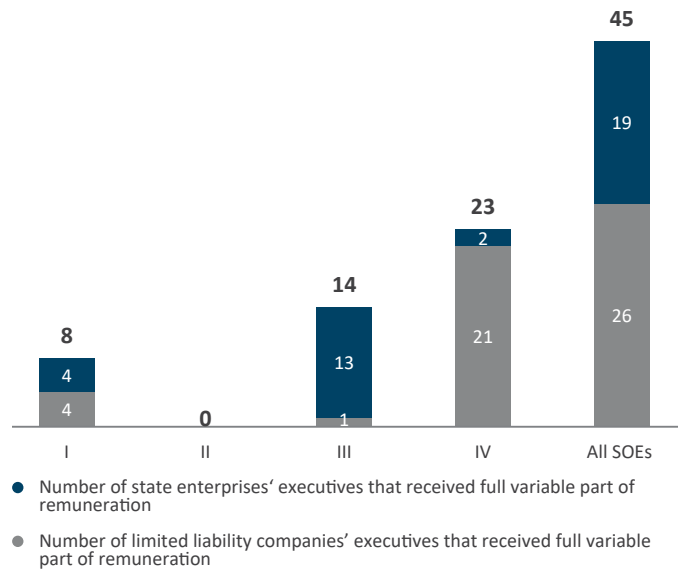


Variable part of Remuneration of Executives by Categories



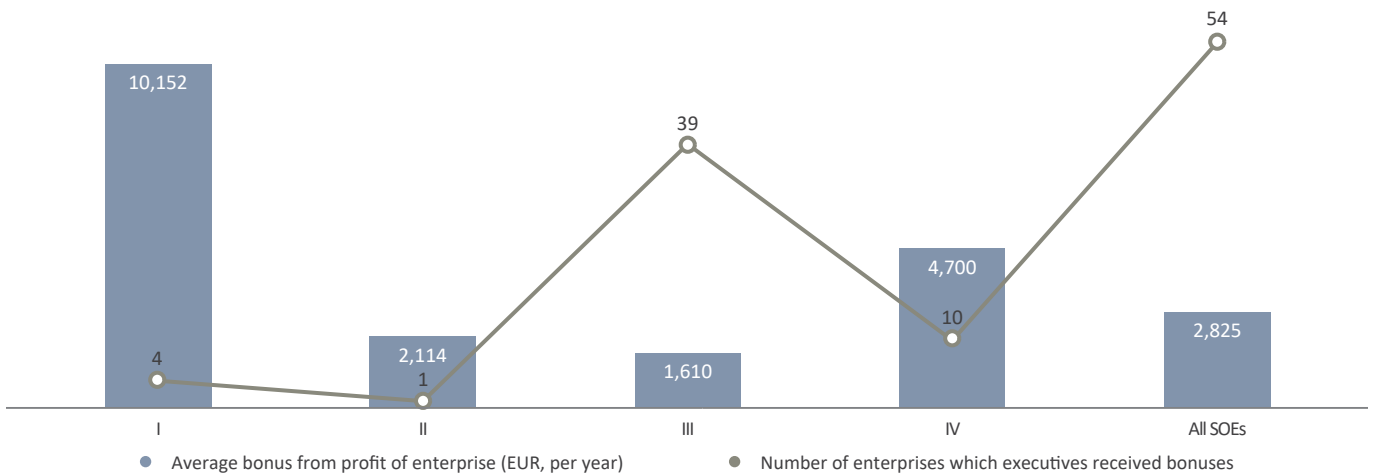
In 2017, out of 104 company managers, to whom variable salary rates and indicators (implementation of which would result in payment of established variable part of a monthly salary) were established by the institution implementing the rights and obligations of state enterprise owners, only 45 received the maximum variable part of a monthly salary. It was mostly the smallest companies (Category IV) who implemented all of established performance indicators.

According to the data presented by the companies, in 2017 deputy manager of a state-owned enterprise on average earned EUR 3,017 per month or 84% of average monthly salary of the manager. The highest salaries received by deputy managers were in Category I enterprises (EUR 4,495). It is worth noting that the deputy managers in Category II enterprises had the highest percentage of average monthly salary in comparison with average monthly salary of managers and amounted to EUR 3,752. Deputy managers of the smallest (Category IV) companies received the lowest average monthly salary. Their average monthly salary amounted to EUR 2,039 or 84% of average manager's monthly salary.



According to the Resolution, managers of state enterprises can be awarded with a premium from the enterprise's profit, which cannot exceed the amount of four fixed parts of their monthly salary, or a premium from savings (used for salaries), which cannot exceed the amount of one fixed part of their monthly salary. According to collected data, 54 companies awarded their managers with premiums (which averaged at EUR 2,825) in 2017. The highest paid premium amounted to EUR 17 thousand and

it was paid to a manager of a state enterprise. There is also an emerging tendency to note that the largest number of premiums was awarded to managers of Category III enterprises. The large number of Category III enterprises that awarded premiums were determined by the fact that the majority of those enterprises are **forestry enterprises** of which 34 out of 42 awarded premiums to their managers in 2017.



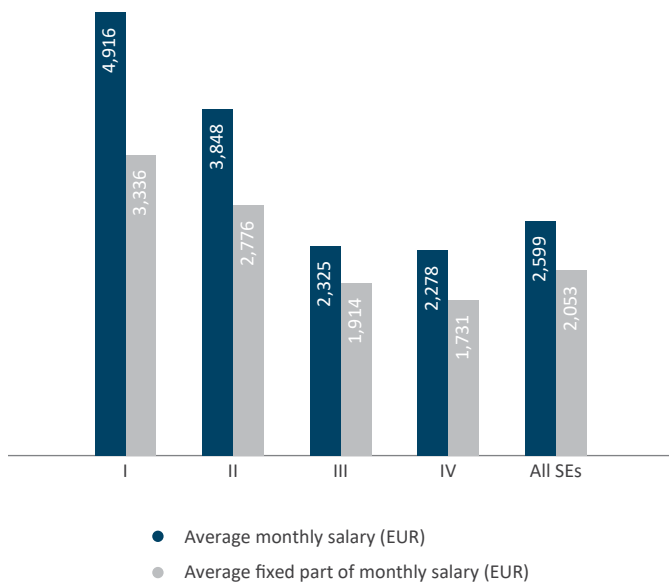
# Remuneration of SEs' Executives by Categories

The following is aggregated information only on salaries of state enterprises' managing personnel, since Government's Resolution is binding to those companies. In view of the fact that the Resolution does not apply to **VĮ Ignalinos atominė elektrinė**, the company's data is not included in the statistics of state enterprises.

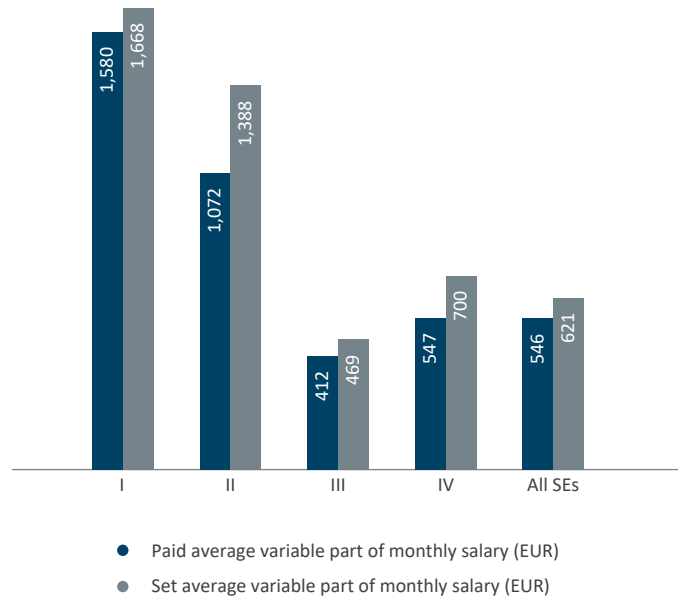
The average monthly salary of state enterprise managers in 2017 amounted to EUR 2,599, while the average fixed part amounted to EUR 2,053. The average monthly salary of managers in the largest (Category I) state enterprises amounted to EUR 4,916, while managers

of the smallest (Category IV) state enterprises on average earned EUR 2,278. Average established variable part of the monthly salary in state enterprises amounted to EUR 621, while the average paid variable part of the monthly salary amounted to EUR 546.

Remuneration of State Enterprises' Executives by Categories

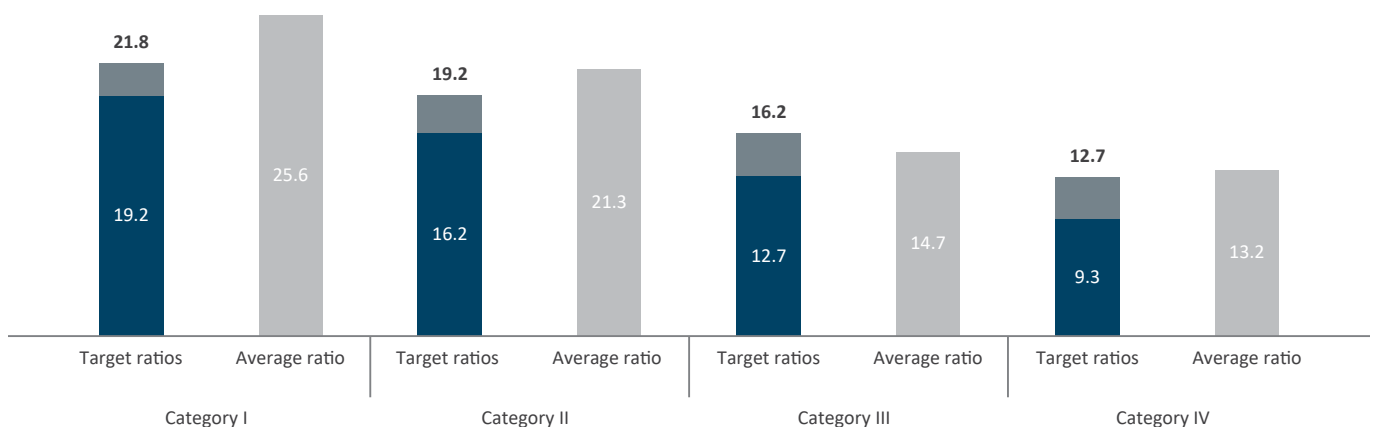


Variable Part of Remuneration of State Enterprises' Executives by Categories



The graph below shows the minimum and maximum possible ratios of the average fixed part of the monthly salary in each enterprise category, and what average ratios were set for enterprise managers. It is evident from the collected data that almost all institutions implementing the rights and obligations of state enterprise owners have set the maximum permissible average fixed part of the monthly salary for the managers' subordinate enterprises. The average

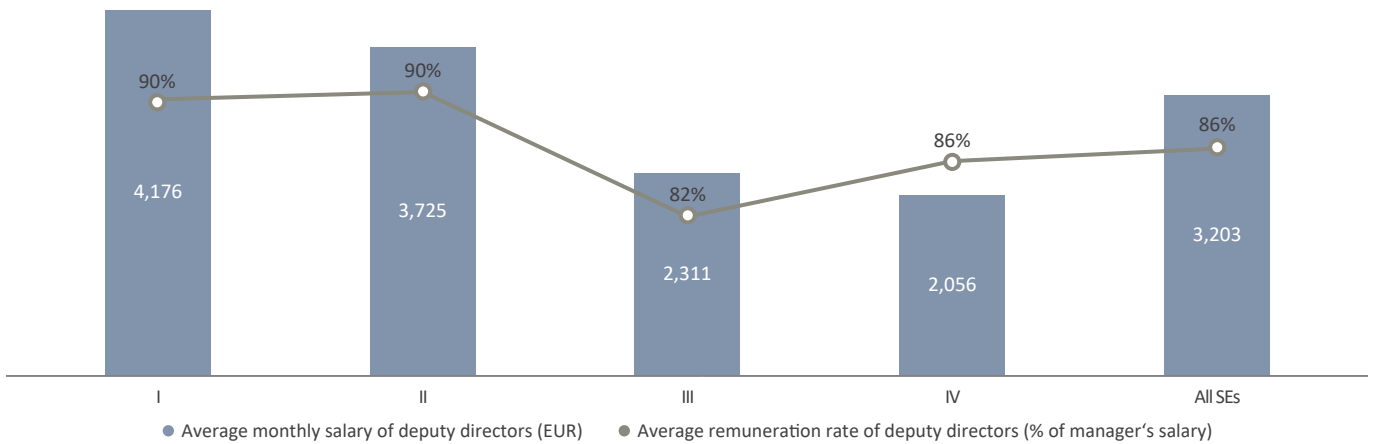
coefficient of fixed salary for I, II and III category enterprises was higher than maximum permissible, because coefficients were raised for managers of enterprises with strategic importance for national security: **VĮ Kelių priežiūra** (up to 28.3), **VĮ Oro navigacija** (up to 25.5), **VĮ Lietuvos oro uostai** (up to 32.3), **VĮ Klaipėdos valstybinio jūrų uosto direkcija** (up to 32.6) and **VĮ Vidaus vandens kelių direkcija** (up to 15.4).



- Minimum ratio (according to the basic amounts of official salary of politicians, judges, public officials and civil servants of the Republic of Lithuania as established by the Seimas of the Republic of Lithuania)
- Maximum ratio (according to the basic amounts of official salary of politicians, judges, public officials and civil servants of the Republic of Lithuania as established by the Seimas of the Republic of Lithuania)



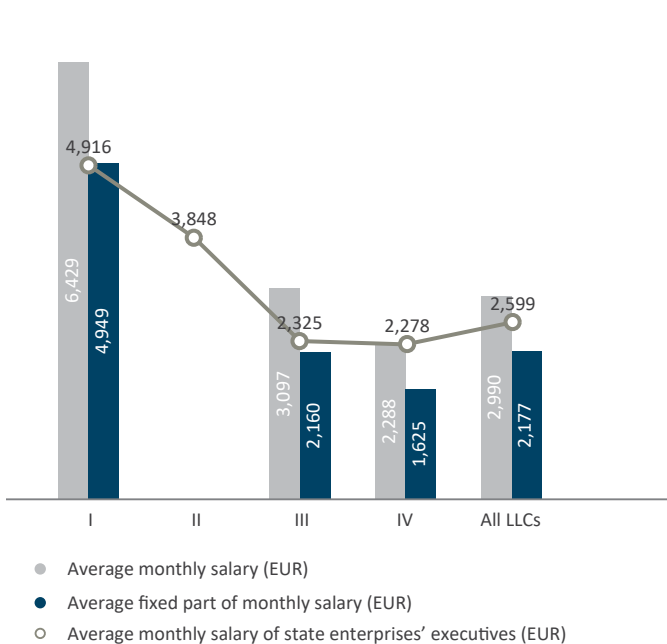
In 2017, deputy manager of a state enterprise on average earned EUR 3,203 per month or 86% of average monthly salary of the manager. The highest salaries received by deputy managers were in Category I enterprises (EUR 4,176).



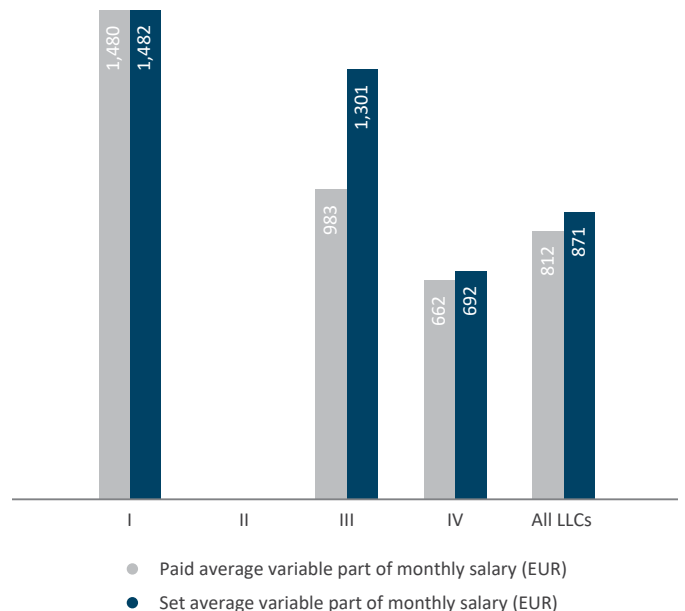
## Remuneration of Public/Private Limited Liability Companies' Executives by Categories

Although the Resolution requirements are only recommendatory for public limited liability companies and private limited liability companies, but a significant number of companies indicated a category when providing data. Companies that did not specify their category were assigned respective categories by the Governance Coordination Centre based on indicators referred in the Resolution. There are no public or private limited liability companies in Category II.

Remuneration of Executives of Limited Liability Companies by Categories



Variable Part of Remuneration of Executives of Limited Liability Companies by Categories



In 2017, average monthly salary of company managers amounted to EUR 2,990 and was EUR 391 higher than the average monthly salary of state enterprises' managers. Significant differences can be seen in salaries of largest companies' (Category I) managers. In 2017, average monthly salary of largest companies' managers amounted to EUR 6,429 and was EUR 1.5 thousand higher than the average monthly salary of state enterprises' managers of same category. The

salary of managers in companies, as in state enterprises, depend on the size of the company. The average monthly salary of managers of smallest companies (Category IV) was almost 3 times lower than managers of Category I companies and amounted to EUR 2,288 in 2017. In 2017, the average variable part of monthly salary paid to companies' managers amounted to EUR 812, while established average variable part of monthly salary was EUR 59 higher.

# Summary

- The average monthly salary of state-owned enterprise managers amounted to EUR 2,793 in 2017. When compared by sectors, it ranged from EUR 5 thousand in Transport and Communications sector to EUR 2.2 thousand in Forestry sector.
- When comparing Government established limits of fixed part of the salary of state enterprise managers with actually established fixed part, it is noteworthy that in most cases maximum permissible average fixed part of the monthly salary is established for state enterprise managers.
- The average variable part of the monthly salary paid to the state enterprise managers was only 12.1% lower than the established average, while 19 out of 67 state enterprise managers received the maximum variable part of the monthly salary in 2017. A trend now emerging suggests that indicators established for variable part are not ambitious enough and do not motivate to improve the company's performance. In some individual cases it may be due to the fact that salary limits set by the Resolution of the Government did not meet market conditions, therefore, to attract and retain competent company managers and at the same time to motivate them by setting ambitious goals was difficult.
- Although there is no significant difference between the average salary of state enterprise manager and private or public limited liability company manager, there is a trend that managers of the largest (Category I and II) state enterprises, whose salary limits are regulated by the Government Resolution, earn significantly less than managers of public or private limited liability companies, to whom the terms of the ruling are only recommended. In some individual cases this may be related to the salary restrictions (discussed above) applied to managers of state enterprises. This situation is slightly changed by the provision that companies with a strategic importance for national security are given the opportunity to pay a competitive salary to match those of large companies.
- In 2017, 54 companies awarded their managers with premiums, which averaged at EUR 2,825. The highest paid premium amounted to EUR 17 thousand. The largest number of enterprises that paid out premiums were **forestry enterprises**: 34 forestry enterprises' managers out of 42 were awarded premiums in 2017.

# Special Obligations of SOEs

Lithuanian state-owned enterprises, implementing state-owned asset policy, often perform both commercial activities and special activities and functions assigned by the Government, in order to ensure the implementation of State's social and strategic goals or the provision of public services (for example, **AB Lietuvos paštas Group** is assigned to ensure the provision of universal postal services and periodicals to rural area subscribers). The special functions of national importance performed by SOEs incorporate non-commercial special obligations (hereinafter – special obligations) that bring no profit to the enterprises and their fulfilment entails losses that are financed from the State budget or profit from commercial activities.

Special obligations are the functions performed by SOEs that a company would not assume on a commercial basis (or would do so for a price higher than the set price) and that are assigned to enterprises by decisions of the shareholder/owner, i. e. the State.

The performance of special obligations, if they are not compensated from the budget, negatively affect the overall financial results of the company (including commercial activities). An example of this could be the carriage of passengers by **AB Lietuvos geležinkeliai Group** on local routes – these activities are unprofitable and are covered by the profit of the company's commercial activities. Therefore, in assessing the performance of the SOE and its management bodies, in determining the objectives of the activity and the required return rates, it is important to distinguish and eliminate the influence of the special obligations on the financial results of the company.

It is also noticeable that the SOE, respecting the interests of its shareholders, carries out various unprofitable activities, which are not assigned by law or by a Government resolution, but by contract (for example, the carriage of passengers by **AB Lietuvos geležinkeliai Group**) or even informally. In view of this faulty practice, as well as the growing importance of proper assessment of special obligations when evaluating the requirements of return on equity approved by the Government, special obligation definition had to be reviewed. This report is based on the definition of the special obligations that was valid in 2017, but since May the 9th, 2018, a new definition of special obligations has entered into force:

It is considered that a special obligation is fulfilled by SOE if the obligation to perform a certain clearly defined function is established by laws or by resolutions of the Government of the Republic of Lithuania and at the time of fulfilling this function at least one of the following criteria is satisfied:

1. state budget allocations are granted for the performance of the function;
2. the performance of the function is sponsored by the European Union and (or) other funds.
3. the expenses of the performance of the function is covered by the income from other activities performed by the SOE;
4. pricing related to the performance of the function is regulated by the laws, the Government of the Republic of Lithuania or an institution authorized by it, and the profit margin of the price determined for a product or service is not included or limited in such a way that it does not allow the covering of alternative costs;
5. the performance of a public administration function.

The assignment of the function to the special obligations is possible only with the written approval from the VŠĮ Stebėsenos ir prognozių agentūra. A commercial function assigned by the state is not considered to be a special obligation.

The aggregated information about non-commercial functions disclosed in this part of the SOE activity report allows us to evaluate:

- the influence of non-commercial functions assigned by the State to the profitability of the overall portfolio and other financial ratios;
- the magnitude of non-commercial activities costs that are covered from the budget and are not reflected in the profit and loss accounts of the SOEs.

Financial information about special obligations is presented on the basis of the data provided by the companies and the analysis of the Governance Coordination Centre. It should be noted that the analysis does not include functions assigned to state-owned enterprises, whose regulated pricing ensures cost reimbursement from consumers' means, i. e. commercial special obligations (for example, electricity production, distribution, transmission and other related services). The functions which are not financially attractive when estimated on an individual basis but are necessary in order to obtain financial benefits from other, commercial functions (for example, the restoration and enhancement of forest resources) are also excluded.

## Financial Results of SOE Special Obligations

Based on the information obtained, more than a half of 105 SOEs are performing special obligations. In 2017, 65 enterprises performed special obligations, 42 of which were state **forest enterprises**. 17 companies of those performing special obligations had partially or completely excluded the costs incurred due to special obligations from their profit and loss accounts, and these costs were reimbursed directly from the State budget or other sources of financing, reducing the cost of sales or operating expenses by the sum of reimbursement.

The financial information collected from all SOEs, and split between special obligations and commercial functions, is provided below. Information about 105 enterprises is provided. However, the information of **UAB Respublikinė mokomoji sportinė bazė** and **VĮ Mūsų amatai** is not audited. Like in the other parts of this report, the information about **UAB Geoterma**, **UAB Klaipėdos žuvininkystės produktų aukcionas** and **VĮ Mašinų bandymo stotis** is not included.

PROFIT (LOSS) STATEMENT (EUR '000)	2016			2017		
	Commercial functions	Special obligations	Total	Commercial functions	Special obligations	Total
<b>Sales revenue</b>	<b>2,366,133</b>	<b>126,814</b>	<b>2,492,948</b>	<b>2,426,644</b>	<b>117,378</b>	<b>2,544,022</b>
Cost of goods sold	1,423,037	146,236	1,569,272	1,456,982	135,197	1,592,180
<b>Gross profit (loss)</b>	<b>943,097</b>	<b>-19,422</b>	<b>923,675</b>	<b>969,661</b>	<b>-17,819</b>	<b>951,843</b>
Operating expenses	688,223	39,216	727,439	719,000	39,020	758,019
<b>Operating profit (loss)</b>	<b>254,873</b>	<b>-58,637</b>	<b>196,236</b>	<b>250,662</b>	<b>-56,839</b>	<b>193,823</b>
Grants related to revenue	2,931	2,827	5,757	2,375	2,955	5,330
Other activities	6,335	-301	6,033	5,252	-301	4,951
Financial and investment activities	-7,474	-124	-7,598	-14,710	-180	-14,890
<b>Profit (loss) before taxes</b>	<b>256,664</b>	<b>-56,236</b>	<b>200,428</b>	<b>243,579</b>	<b>-54,364</b>	<b>189,215</b>
<b>Normalised profit (loss) before taxes</b>	<b>280,669</b>	<b>-56,236</b>	<b>224,433</b>	<b>318,595</b>	<b>-54,364</b>	<b>264,231</b>
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>			<b>31 DEC 2017</b>		
<b>Total asset</b>	<b>7,989,579</b>	<b>1,187,954</b>	<b>9,179,250</b>	<b>8,185,958</b>	<b>1,280,123</b>	<b>9,466,790</b>

## Sales Revenue and Profit

In 2017, the total sales revenue of the portfolio has exceeded EUR 2.5 billion. Most of it – 95.4% – was earned from commercial activities. In order to disclose the profit (loss) of special obligations before the taxation more accurately, the results of **Lietuvos energija**, **UAB, Group**, and **UAB EPSO-G Group**, were normalised in 2016 as well as 2017.

In 2017, SOEs earned EUR 117.4 million of sales revenue while carrying out special obligations, but the cost of sales and operating expenses were significantly higher than the turnover, which resulted in pre-tax losses due to special obligations for companies, amounting to EUR 54.4 million. At the same time, normalised pre-tax profit from commercial activities amounted to EUR 318.6 million. The normalised commercial activity profit before taxation grew in 2017 – it was 13.5% higher than in 2016, when it amounted to EUR 280.7 million. The net

profit (before taxation) of **Lietuvos energija**, **UAB** and **UAB EPSO-G Groups** dropped by EUR 42.8 million and EUR 7.4 million, respectively, but it was balanced by the normalised commercial activity net profit (before taxes) of **UAB Lietuvos geležinkeliai Group** growth from EUR -13.6 million in 2016 to EUR 65 million in 2017.

## Assets

In 2017, assets of companies included in the portfolio amounted to EUR 9.5 billion, of which 13.5% (EUR 1.3 billion) were directly attributed to the performance of special obligations. In 2017, the change in assets attributed to the implementation of special obligations amounted to EUR 92.2 million, thus increasing by 7.8% in comparison to 2016. In 2017, **VĮ Ignalinos atominė elektrinė** accounted for the largest share of the portfolio special obligations assets – EUR 701.4 million.

## Special Obligations Generating Highest Expenses

Presented below is the information on special obligations, the performance of which results in the highest expenses incurred by SOEs (based on all expenses of special obligations).

Enterprise	Special obligations	Revenue of special obligations (EUR '000)	Cost of special obligations (EUR '000)	Cost excluded from profit (loss) statement (EUR '000)	Net result of special obligations (EUR '000)
VĮ Ignalinos atominė elektrinė	Safe decommissioning of Ignalina Nuclear Power Plant	201.0	88,821.0	83,190.0	-5,430.0
VĮ Kelių priežiūra	Maintenance of roads of state significance and implementation of road safety measures on such roads	68,910.0	70,700.0	0.0	-1,790.0
AB Lietuvos geležinkeliai Group	Public services of passenger transport by rail on local routes	12,710.5	46,370.5	0.0	-33,660.0
VĮ Lietuvos naftos produktų agentūra	Purchase, sale, renewal (replacement) of state stocks of petroleum products	18,722.2	21,888.9	1,300.0	-1,866.7
AB Lietuvos paštas Group	Sum of special obligations:	9,539.4	16,281.0	5,486.9	-1,254.7
	Ensuring the provision of universal postal services throughout the territory of the Republic of Lithuania at least 5 working days a week	6,769.6	8,024.3	0.0	-1,254.7
	Delivery of periodicals to subscribers in rural areas	2,769.8	8,256.7	5,486.9	0.0
State forest enterprises	Forest selection development and preservation of forest genetic resources and afforestation, forest protection (fire and sanitary) and adaptation of the forest to the scientific and public needs	0.0	8,339.2	308.2	-8,031.0
VĮ Žemės ūkio informacijos ir kaimo verslo centras	Administration of agricultural registers and information systems	665.3	6,555.8	5,651.0	-239.5
VĮ Klaipėdos valstybinio jūrų uosto direkcija	Šventoji port, repair and maintenance of small and fishing vessels, infrastructure for the naval forces, infrastructure services for transportation to Kuršių Nerija, shipbuilding, ship repair	1,139.4	2,844.9	0.0	-1,705.5
VĮ Vidaus vandens kelių direkcija	Implementation of the program "Enabling transportation by waterways"	0.0	2,537.3	1,868.0	-669.3
	<b>Other special obligations:</b>	<b>8,445.8</b>	<b>14,727.9</b>	<b>6,564.7</b>	<b>282.6</b>
	<b>Special obligations, total</b>	<b>120,333.6</b>	<b>278,555.4</b>	<b>104,368.8</b>	<b>-54,364.1</b>

The largest expenses of special obligations, including the expenses not included in the financial statements, were incurred by the **VĮ Ignalinos atominė elektrinė**, which was assigned EUR 83.2 million for the execution of safe decommissioning of the power plant, and which were not included in the financial statements. This amount was reimbursed by the International termination fund of Ignalina nuclear power plant, the Government of the Republic of Lithuania, the special program of administration of Ignalina in Lithuania and other funds. The financial statements included EUR 5.6 million of expenses of special obligations.

Most of the expenses included in the financial statements are incurred by the State while performing the maintenance of roads of national significance and implementation of traffic safety. Eleven companies engaged in this activity, which were merged into one company - **VĮ Kelių priežiūra**, in 2017 incurred expenses of EUR 70.7 million. Although this activity is financed from the State budget, in 2017 companies had incurred more expenses than received funding, and the loss of special obligations had to be covered by profits earned while performing commercial activity.

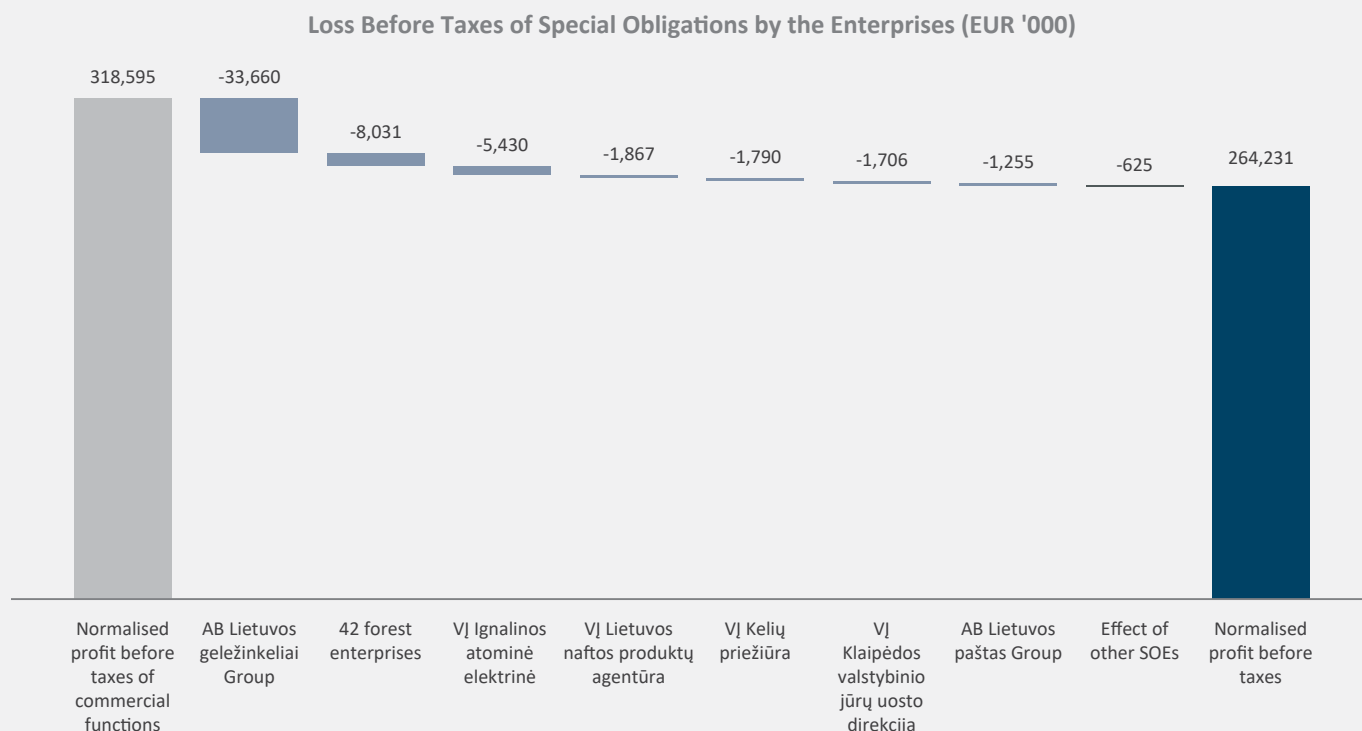
The cost of ensuring secure passenger carriage by rail on local routes was EUR 46.4 million. **AB Lietuvos geležinkeliai Group** received the income

of only EUR 10.1 million for the performance of this activity, and EUR 2.6 million income-related Government grant. The remaining expenses were covered from the income generated by commercial activities – freight transportation. **AB Lietuvos geležinkeliai Group**, as well as the majority of other companies, reimburses losses incurred during the performance of special obligations from profitable commercial activities.

When evaluating the information provided in the table, it is important to note that the costs incurred by the SOEs are calculated without including the target return on equity, i.e. adequate return on investment in assets that is required for performance of special obligations. This means that the enterprise will not receive an adequate return on the assets needed to perform the special obligations, even if the State fully reimburses directly incurred costs. It should also be noted that the costs of special obligations not included in the financial statements are financed by various grants – not only from the State but also from other various funds (e.g. European Union). Therefore, in assessing the costs incurred by the State while performing corresponding special obligations, if the grants are not included in the financial statements, the source of the subsidies for the enterprise concerned should be taken into account.

## Special Obligations with the Greatest Impact on Portfolio Profitability

Presented below is the information on profit before taxes of special obligations in the SOE portfolio by the enterprises which perform special obligations.



SOE normalised profit from commercial activities before taxes amounted to EUR 318.6 million. However, due to losses incurred while performing special obligations, the SOE portfolio normalised profit before the taxation amounted to EUR 264.2 million, that is, EUR 54.4 million less.

The biggest losses while performing special liabilities were incurred by **AB Lietuvos geležinkeliai Group**. This company incurred EUR 33.7 million net losses before taxes in 2017, while performing passenger carriage by rail on local routes. The losses were reimbursed by commercial activity (mainly freight transportation) profits. The total State costs of the passenger carriage on local routes in 2017, both directly and indirectly, were equal to EUR 36.3 million. In 2017 the State reimbursed only EUR 2.6 million to **AB Lietuvos geležinkeliai Group** to compensate for losses incurred and to cover the cost of discounted tickets for passengers travelling on favorable conditions.

The losses incurred by 42 **state forest enterprises** while performing special obligations amounted to EUR 8.0 million. **State forest enterprises** are responsible for the development of forest selection and conservation of forest genetic resources and afforestation, forest protection (sanitary and fire) and adaptation of the forest for the scientific and public needs. For the implementation of this special obligation in 2017 **state forest enterprises** used the grant of EUR 224.5 thousand that was not reflected in the company's financial statements. **State forest enterprises** covered the losses using commercial forestry business profits.

**VĮ Ignalinos atominė elektrinė**, performing Ignalina nuclear power plant decommissioning, nuclear and radioactive material and waste management, storage and disposal, in 2017 has incurred the losses of EUR 5.4 million.

**VĮ Klaipėdos valstybinio jūrų uosto direkcija** was introduced for the first time this year as a company with special obligations. The company is considered to be implementing special obligations of operating the Šventoji port, servicing the infrastructure for the naval forces, providing infrastructure for transportation services to the

Kuršių Nerija, renting small and fishing vessel repair and maintenance infrastructure, and leasing shipbuilding and ship repair infrastructure, which is not commercially viable. While performing the special obligations in 2017, the company incurred the loss of EUR 1.7 million and had to attribute the assets worth EUR 23 million for the performance of these activities.

Special obligations that the company **VĮ Lietuvos naftos produktų agentūra** is responsible for, are the implementation of the program for the accumulation and management of the State petroleum product stocks as well as the purchase, sale, renewal (replacement) of the State petroleum product stocks. In 2017 these liabilities generated EUR 1.9 million losses. Furthermore, during the performance of the State program for the accumulation and management of petroleum product stocks, EUR 1.3 million of expenses were reimbursed directly, reducing the company's costs by the same amount. The annual audited financial statements show the reduced costs.

While performing the special obligations in 2017, **VĮ Kelių priežiūra** incurred a loss of EUR 1.8 million. The main special obligations performed by the company are: maintenance of roads of State significance and implementation of road safety measures on these roads.

**AB Lietuvos paštas Group** is obligated to deliver of periodicals to rural residents and provide multipurpose postal services in rural areas for at least 5 working days a week. While performing these special obligations in 2017, the enterprise incurred the loss of EUR 1.9 million. Losses have resulted from the provision of universal postal services in rural areas, because the expenses of periodicals delivery were fully compensated by the State.

The results of the remaining 16 enterprises performing special obligations reduced the profit (increased losses) of the SOE portfolio by EUR 626.2 thousand before taxation. Of these 16 companies, the special obligations performed were loss-making for 6 companies, for other companies, generated revenues were equal to expenses, or the activities were slightly profitable.

## Disclosure of Special Obligations by Sectors

Below is the financial information on special obligations split by the four sectors. In providing the financial information on special obligations by the sectors, the incurred costs and their compensations, that are not reflected in the enterprises' profit (loss) statements, are added to the cost of sales, operating expenses and grants related to revenue. The final result – profit (loss) before taxes – remain unchanged.

PROFIT (LOSS) STATEMENT (EUR '000)	Energy		Transport and Communications		Forestry		Other	
	2016	2017	2016	2017	2016	2017	2016	2017
<b>Sales revenue</b>	<b>32,835</b>	<b>18,923</b>	<b>87,378</b>	<b>91,572</b>	<b>0</b>	<b>0</b>	<b>6,617</b>	<b>6,883</b>
Cost of goods sold	33,053	19,177	110,150	112,936	158	122	6,228	6,530
<b>Gross profit (loss)</b>	<b>-218</b>	<b>-253</b>	<b>-22,772</b>	<b>-21,364</b>	<b>-158</b>	<b>-122</b>	<b>389</b>	<b>353</b>
Operating expenses	60,866	92,448	29,979	27,117	8,023	8,218	12,384	11,930
<b>Operating profit (loss)</b>	<b>-61,084</b>	<b>-92,701</b>	<b>-52,751</b>	<b>-48,481</b>	<b>-8,181</b>	<b>-8,339</b>	<b>-11,995</b>	<b>-11,577</b>
Grants related to revenue	56,398	85,742	10,335	10,001	445	308	11,158	11,273
Other activities	-445	-409	0	0	0	0	8	-1
Financial and investment activities	148	71	-267	-244	0	0	-4	-6
<b>Profit (loss) before taxes</b>	<b>-4,983</b>	<b>-7,297</b>	<b>-42,684</b>	<b>-38,724</b>	<b>-7,735</b>	<b>-8,031</b>	<b>-833</b>	<b>-312</b>
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
<b>Total assets</b>	<b>738,776</b>	<b>795,121</b>	<b>339,800</b>	<b>340,069</b>	<b>2,992</b>	<b>3,337</b>	<b>107,550</b>	<b>142,085</b>

In 2017, the largest sales revenue from the performance of special obligations was earned by the Transport and Communications sector – EUR 91.6 million or 78.0% of the total portfolio turnover. The largest revenue (EUR 68.9 million) was received by **VĮ Kelių priežiūra**. Also, EUR 9.5 million was earned by **AB Lietuvos paštas Group**. Although the companies in the Transport and Communications sector earned the largest sales income, the sector's cost and operating expenses were the highest as well, and the sector's losses before taxation in 2017 amounted to EUR 38.7 million. The largest losses were incurred by **AB Lietuvos geležinkeliai Group** – EUR 33.7 million. While performing the special obligations in 2017, **AB Lietuvos paštas Group** incurred the loss of EUR 1.3 million.

Forestry sector enterprises did not receive any sales revenue from the performance of special obligations, but incurred significant operating expenses. In 2017, the operating costs of 42 state **forest enterprises** (Forestry sector) amounted to EUR 8.0 million.

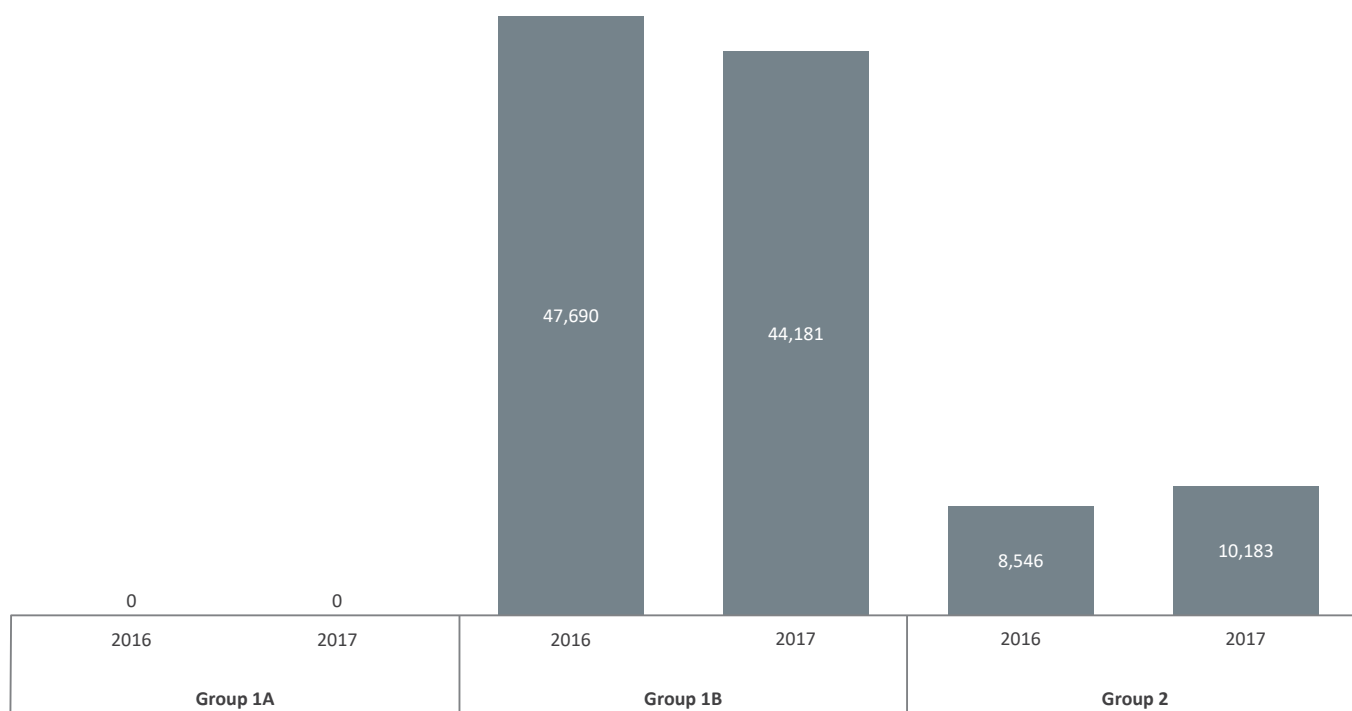
In the Energy sector, almost all turnover from special obligations was earned by **VĮ Lietuvos naftos produktų agentūra** (EUR 18.7 million out of EUR 18.9 million). **VĮ Ignalinos atominė elektrinė** incurred the largest losses before taxes – its loss before taxes in 2017 amounted to EUR 5.4 million while **VĮ Lietuvos naftos produktų agentūra** – EUR 1.9 million.

Companies that do not belong to the three sectors discussed above have generated EUR 6.9 million in revenues from special obligations in 2017. The cost of goods sold and operating expenses amounted

to EUR 18.5 million. However, the Other companies sector suffered a relatively small loss before taxes – EUR 312 thousand, because the cost of goods sold as well as operating costs of EUR 11 million were not included in the profit and loss statements and were directly reimbursed from the State budget or other sources of financing. The operating costs of **VĮ Žemės ūkio informacijos ir kaimo verslo centras** in 2017 were reduced by EUR 5.7 million, **VĮ Turto bankas** – by EUR 1.2 million, **VĮ Lietuvos žemės ūkio ir maisto produktų rinkos reguliavimo agentūra** and **VĮ Valstybės žemės fondas** – by EUR 1.0 million each, while the **VĮ distancinių tyrimų ir geoinformatikos centras Gis-centras** and **UAB Lietuvos žirgynas** – by EUR 0.9 million each.

The largest amount of assets that were attributed to special obligations were accounted by Energy sector companies – in 2017 the value of these assets amounted to EUR 795.1 million, from which EUR 701.4 million worth assets were managed by **VĮ Ignalinos atominė elektrinė**. In 2017, the Transport and Communications sector companies operated the assets worth EUR 340.1 million while performing their special obligations. The largest part – EUR 167.2 million – were the assets attributed to the special obligations of **AB Lietuvos geležinkeliai Group**. Special obligations' assets of Other companies sector amounted to EUR 142.1 million. Forestry sector companies in 2017 managed EUR 3.3 million worth assets related to special obligations. The value of Lithuanian commercial forests (EUR 1,118 million) is attributed to commercial activities performed by **state forest enterprises**.

## Loss Before Taxes from Special Obligations by the Groups of Enterprises (EUR '000)



#### Disclosure of Special Obligations by the Groups of Enterprises

Of all companies included in the special obligations portfolio, most of the companies (56) are attributed to Group 1B. The main goal of this group of companies is the growth of business value and the profitability of dividend or profit contributions, as well as the protection of the country's strategic interests. Out of the 56 companies mentioned above, 47 companies performed special obligations, and their losses made up the bigger part of all the special obligations losses. Both in 2017 and 2016, group 1B companies which performed special obligations incurred losses before taxation – in 2017 these losses amounted to EUR 44.2 million and in 2016 – EUR 47.7 million. The largest losses were accounted by **AB Lietuvos geležinkeliai Group** and 42 **state forest enterprises**, EUR 33.7 and EUR 8 million, respectively.

Of the 31 enterprises that were attributed to Group 2 (companies that should perform non-commercial activities), 13 companies did not perform

special obligations during the period under review, while 18 companies that performed these activities incurred a loss of EUR 10.2 million before taxes in 2017. The largest part of the losses – EUR 5.4 million – were incurred by **VĮ Ignalinos atominė elektrinė**. Of the 13 companies that did not perform special obligations (non-commercial special obligations), three companies – **VĮ Infostruktūra**, **UAB Būsto paskolų draudimas**, and **UAB Kauno Petrašiūnų darbo rinkos mokymo centras** strongly indicated that they perform only commercial activities, although the companies in Group 2 should perform non-commercial activities, i.e. activities that cannot be performed by other profit-making entities or which would perform such activities at a higher price.

There are also 18 enterprises included in the special liabilities portfolio, which are attributed to Group 1A – a group of companies whose purpose is to increase business value and dividends or profit contribution lucrativeness. None of these companies performed special obligations and all their activities were considered commercial.



# Conclusions

Special obligations allow us to evaluate the use of State funds. It also helps to reveal the profitability of the companies – a large part of the special obligations is financed from the commercial activities of the companies, and the assets and equity of the companies are used for the performance of these obligations. Although currently the companies do not have significant incentives to adequately assess their assets used for special obligations, the incentives should increase in the future – during the assessment of the achievement of the target equity return the special obligations performed should be considered, i.e. losses incurred while performing and equity dedicated to the performance of special obligations.

More than a half – 65 out of 105 – SOE were performing special obligations. Three companies that were attributed to Group 2, i. e. companies that should mostly perform non-commercial activities, have revealed that they had no non-commercial functions. Partly considering this faulty practice of how companies are attributed to the groups, on June the 20th, 2018, the Government has changed the Resolution Nr. 665 “Concerning the approval of the Description of the Guidelines on Assurance of State-owned Enterprise Activity, Transparency and Appointment of a Coordinating Authority” (Ownership guidelines) and abolished the attribution of SOEs to groups.

The total cost of special obligations performance in 2017 amounted to EUR 278.6 million. This amount includes costs incurred by 17 companies (EUR 104.4 million, of which EUR 83.2 million are the costs of the **VĮ Ignalinos atominė elektrinė**), which are not

recorded in the profit and loss accounts (costs are reimbursed by deducting subsidies). While performing special obligations in 2017, SOEs had incurred the loss of EUR 54.4 million, which was mostly compensated using commercial activities profit. Largest losses from the performance of special obligations were accounted by **AB Lietuvos geležinkeliai Group** and **state forest enterprises**, EUR 33.7 and EUR 8 million, respectively. SOEs normalised net profit from commercial activities before taxes amounted to EUR 318.6 million. If special obligations were fully compensated, and companies would not have to cover losses from special obligations using commercial activity profit, SOEs assets profitability before the taxes would increase by 20.6%.

In order to increase the transparency of the performance of special obligations and the use of public funds, it is recommended for enterprises with special obligations to ensure that the existing accounting systems allow to determine a objective distinction between costs and assets for commercial and non-commercial functions and provide this information publicly. It was noticed that currently not all companies have adequate accounting systems, information about grants received and non-commercial functions performed is not always disclosed with sufficient transparency. It is expected that in 2018 – 2019, after the merger of the **state forest enterprises** and the restructuring or merger of other enterprises, the number of companies performing special obligations will be reduced, and the performance of the special obligations and the resources necessary for said performance will be clearly disclosed.

# Sponsorship Provided by SOEs

On June 28th, 2017, the Government of the Republic of Lithuania has enacted resolution No. 533 "Concerning the Approval of the Description of the Procedure for Granting the State-owned Enterprises Sponsorship", which entered into force on January 1st, 2018. According to this resolution, the sponsoring company must follow the rules for the sponsorship management approved by the general shareholders' meeting, and if the company provides sponsorship through sponsorship funds specially created for this purpose, the company may follow the rules provided in the Law on Charity and Sponsorship Funds of the Republic of Lithuania, which correspond to the management rules of the sponsorship foundation established for that purpose by the certain company. The company can allocate no more than 3% of the reported financial year net profit for sponsorship, and the amount granted for sponsorship should not exceed EUR 500 thousand. The amount assigned to one recipient per year can not exceed EUR 300 thousand. Companies can not provide sponsorship if they experience losses in the reporting financial year. Companies are obliged to publish information about

the sponsorship provided on their website. This information must contain the rules for managing the company's sponsorship or the rules of sponsorship fund for sponsorship management, the information about the sponsorship granted during the past three financial years, the sponsorship provided and received, its use and also information on activities related to the implementation of the goals useful for society, specified in the Law on Charity and Sponsorship, reports submitted by sponsorship providers and recipients to the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania.

According to the Law of the Republic of Lithuania on Charity and Sponsorship No. I-172, a state enterprise can not provide sponsorship.

Information on the sponsorship provided by state-owned companies and compliance to resolution No. 533 is submitted below. Although the resolution is mandatory since 2018, information is provided on how the sponsorship granted in 2017 meets the new requirements.

Company name	Sponsorship provided in 2017				Information published on the company's website*		
	Amount of sponsorship (EUR '000)	The number of recipients	Maximum sponsorship per recipient (EUR '000)	Net profit in 2017 (EUR '000)	Part of net profit granted as sponsorship, %	Company's sponsorship management rules/ sponsorship foundation sponsorship management rules	Information about the sponsorship provided in the year 2017 (recipient, the purpose of the sponsorship, amount)
Lietuvos energija, UAB, Group	796.1	41	119.0	93,525.0	0.85	no	yes
AB Klaipėdos nafta	134.9	21	25.0	17,031.0	0.79	yes	yes
AB Lietuvos paštas Group	8.7	3	6.0	1,573.3	0.55	yes	yes
AB Lietuvos radijo ir televizijos centras	2.0	1	2.0	140.9	1.42	yes	yes
AB Smiltynės perkėla	13.1	53	1.7	690.9	1.90	yes	yes
UAB Viešųjų investicijų plėtros agentūra	0.9	2	0.5	235.9	0.39	yes	yes
AB Jonavos grūdai	2.6	9	0.5	940.4	0.00	no	partly
UAB Gyvulių produktyvumo kontrolė	0.3	1	0.3	-20.0	-	no	yes
UAB Šilutės polderiai	4.2	10	1.0	44.5	9.45	yes	partly
UAB Šilutės veislininkystė	0.5	3	0.2	8.7	5.75	n. d.	n. d.

\*Information relevant to July 17th, 2018, is provided.

<sup>1</sup> - The company did not provide sponsorship in the form of cash funds, it was provided in the form of services (ferry services for passengers and vehicles).

According to the data provided by state-owned enterprises, 10 out of 38 state-owned enterprises included in the portfolio provided sponsorship in 2017. In 2017, most of the sponsorship was provided by the **Lietuvos energija, UAB, Group**, which has provided EUR 796.1 thousand for sponsorship purposes, or 0.85% of net profit for the reporting period. More than 3% of company's net profit was allocated by **UAB Šilutės polderiai** (9.45% of net profit was allocated for sponsorship) and **UAB Šilutės veislininkystė** (5.75% of net profit was allocated for sponsorship). In 2017, **UAB Gyvulių produktyvumo kontrolė** has granted EUR 300 for sponsorship, despite the fact that the company suffered a net loss during the reporting period.

All companies which provided sponsorship in 2017, at least partly declared information about their sponsorship in 2017 on their websites. Company's sponsorship management rules or sponsorship foundation sponsorship management rules were not published on websites of three companies which provided sponsorship in 2017, including **Lietuvos energija, UAB, Group**, whose board has decided not to allocate sponsorship and initiate the termination of the sponsorship fund from the year 2018.



# Overview of SOE Portfolio Results

At the end of 2017, the calculated market value of state-owned enterprises accounted for EUR 5.9 billion. The portfolio earned a 5.1% return on equity for the State, and the total value added created by all SOEs during the year reached EUR 1.2 billion, i.e. 3.3% of the gross domestic product. At the end of 2017, 36 thousand employees worked in SOEs – 2.7% of total people employed in Lithuania.

## The number of SOEs has decreased during the year– the state owns 108 enterprises

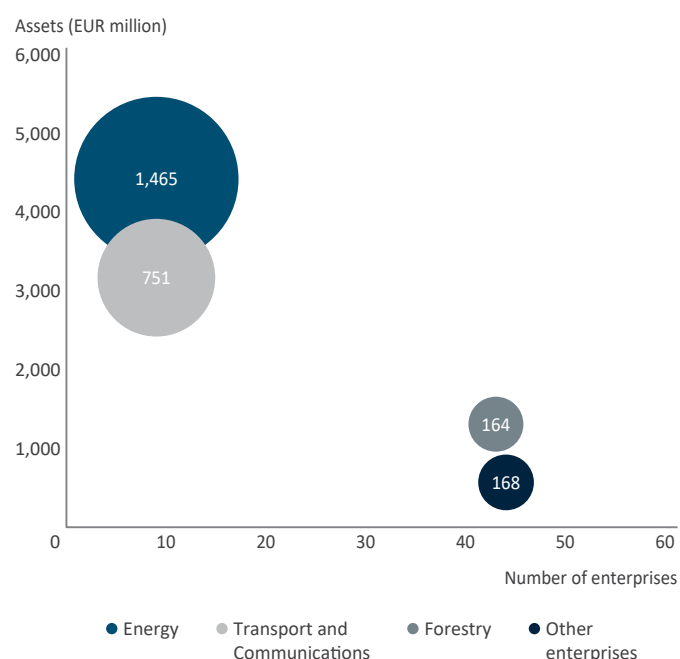
On December 31st, 2017, the state-owned 108, when a year ago – 118. The number of state-owned enterprises decreased, since November 2017 **regional road maintenance companies** were merged into **VĮ Kauno regiono keliai**, which was renamed into **VĮ Kelių priežiūra**. It should be also noted that in 2017 the decision was made to merge state forest enterprises and it was implemented on January 8th, 2018.

In total, the overview of SOE portfolio results includes the financial results of 105 SOE. The financial performances of **UAB Geoterma**, **VĮ Mašinų bandymo stotis**, and **UAB Klaipėdos žuvininkystės produktų aukcionas** were not included since they did not provide all the required data. Note that the portfolio includes unaudited financial results of **UAB Respublikinė mokomoji sportinė bazė** and **VĮ Mūsų amatai**.

All SOEs are divided into four sectors: transport and communications, energy, forestry, and other enterprises. The latter sector includes the enterprises which were not attributed to either of the first three sectors. The energy sector consists of nine SOEs which manage the biggest share of the portfolio asset – 46.7% (EUR 4,4 billion). The sales revenue of this sector in 2017 constituted 57.5% (EUR 1.5 billion) of the total revenue of the portfolio. The transport and communications sector includes nine enterprises as well, which manage 33.5% of the portfolio asset (EUR 3.2 billion), and earned 29.5% (EUR 751.5 Million) of the portfolio revenue. The forestry sector includes **42 forest enterprises** and **VĮ Valstybinis miškotvarkos institutas**. The assets of these enterprises comprise 13.8% (EUR 1.3 billion, including the value of commercial forests assessed by the Governance Coordination Centre) of the analysed SOEs' assets, and generated revenue was 6.4% (EUR 164.3 million) of total portfolio turnover. The other sector includes 44 enterprises, but their collective sales revenue in 2017 constituted only 6.6% (EUR 168.3 million) of the total portfolio revenue, and combined assets were 6.0% (EUR 568.6 million) of the total portfolio assets.

The chart below compares the numbers of enterprises comprising sectors, volumes of disposable assets and revenue. The size of a circle corresponds to the size of sales revenue (EUR million) inscribed in the circle.

The Number of Enterprises, Assets and Revenue (EUR million) by Sectors



## Sales revenue (EUR million)

2,271      2,482      2,499      2,549

## Normalised net profit (EUR million)

277.9

2014

226.8

2015

206.6

2016

279.7

2017

### Revaluation of assets and other one-off events in two groups of companies resulted in significant changes of SOE portfolio results

In 2016, **Lietuvos energija, UAB, Group** results were distorted by a natural gas price discount applied for household and non-household consumers (a negative effect of EUR 24.6 million); in 2017 the influence of natural gas price discount was smaller and comprised EUR 7.4 million. In 2017, **Lietuvos energija, UAB** subsidiary company **Lietuvos energijos gamyba, AB** reduced its fixed tangible assets. In 2017, the company included EUR 27.7 million losses in operating expenses and due to that the company accounted EUR 19.5 million less net profit than in 2016 when the net profit amounted to EUR 40.0 million.

The results of assets revaluation of **AB Amber Grid**, subsidiary company of **UAB EPSO-G Group**, influenced the results of the group. In 2017, **AB Amber Grid** revaluated its assets which value decrease

resulted in EUR 30.2 million losses. The effect of re-estimation of purchase of another subsidiary company **LITGRID AB** additional cost, resulted in the increase of net profit by EUR 0.8 million, of **UAB EPSO-G Group** as well. The deferred tax increased net profit by EUR 5.1 million and it was also taken into account.

Taking into consideration the extent of the impact of previously mentioned one-off factors had on the results, the normalised net result is calculated further in the overview of SOE portfolio results. Normalised net profit/loss is calculated by eliminating the effect of the atypical taxes to the State, as well as deducting the losses of assets revaluation and other one-off atypical factors of **Lietuvos energija, UAB, Group**, and **UAB EPSO-G Group**.

### The number of SOE employees decreased fourth year in a row

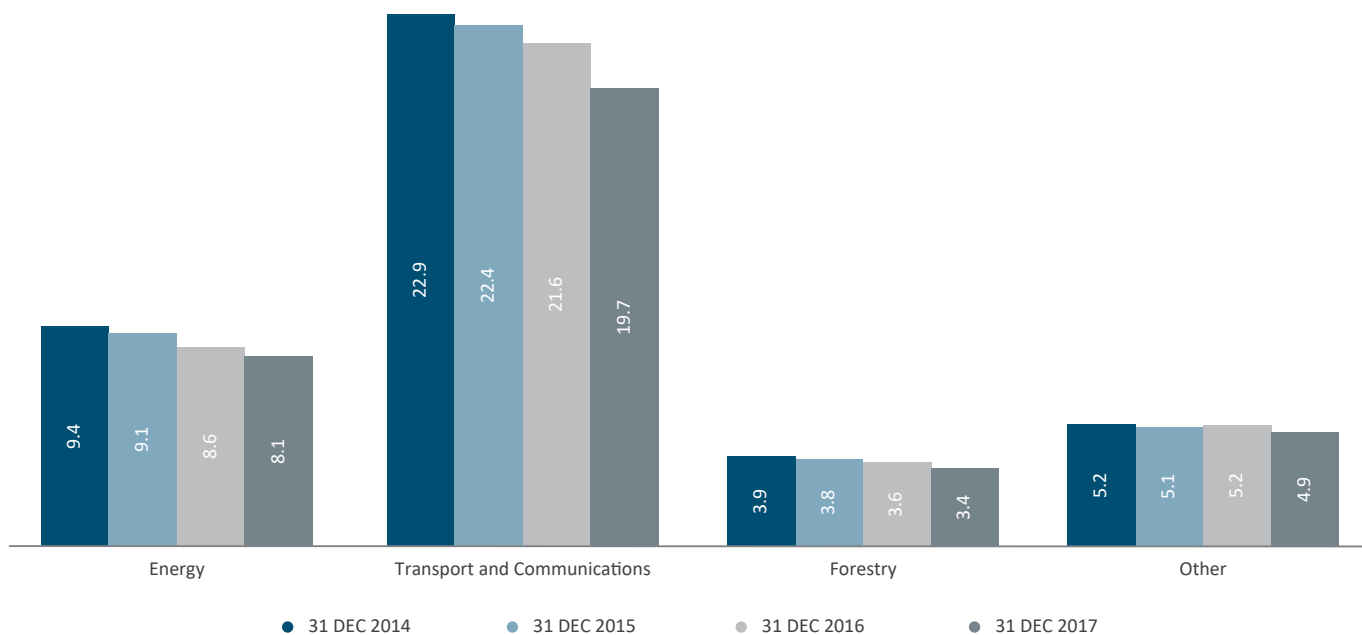
At the end of 2017, SOEs had 36,053 employees – 2,908 employees less than a year ago. More than half (54.5 %) of employees worked in the Transport and Communications sector, and the largest three employers – **UAB Lietuvos geležinkeliai**, **UAB Lietuvos paštas** and **Lietuvos energija, UAB, Groups** – collectively employed 55.2% (19,896) of all SOEs' employees.

At the end of 2017, the energy sector had 8,142 employees – in comparison with the number of employees in 2016, the number decreased by 4.8%. The number of employees mostly decreased in **Lietuvos energija, UAB, Group**. At the end of 2017, the transport

and communication sector employed 19,654 people, which was 9.0% less than a year ago. Mostly, the number of the employees in this sector was negatively affected due to the employee change in **AB Lietuvos geležinkeliai** – at the end of the analysed period, 9,968 employees worked in this company, i.e. 1,564 employees less than a year ago.

The number of employees in the forestry sector decreased by 6.3%. At the end of 2017, 3,366 employees were employed in this sector. The number of employees in other enterprises sector shrank by 6.1% down to 4,891 employees.

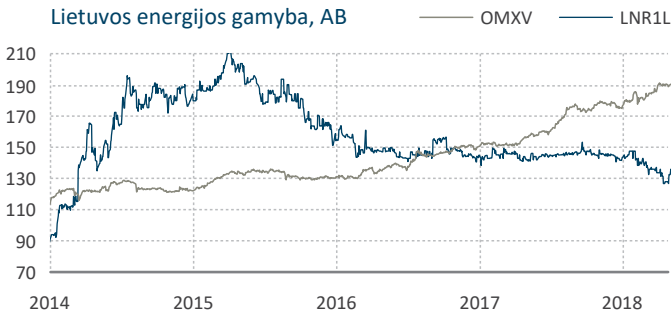
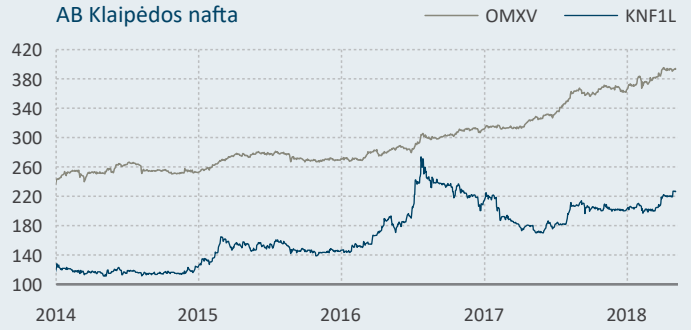
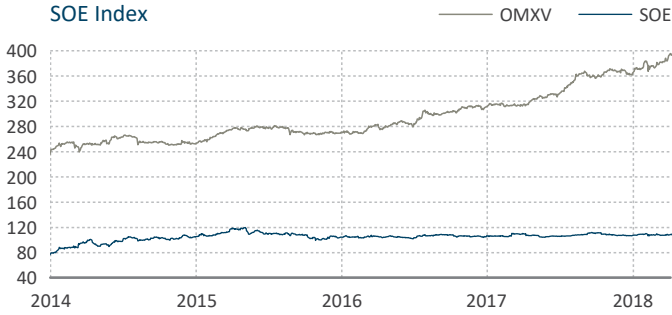
Employees ('000)





In 2017, the largest share (39.8%) of the market value of state-owned shares of the SOEs consisted of **AB Energijos skirstymo operatorius** (EUR 730.8 million), while the lowest (7.6%) – **AB Klaipėdos nafta** (EUR 139.8 million), the stock price of which has fallen the most - by 5.6%. The share price of this company fell mostly in the first half of the year, due to worse than expected results published in 2016. **AB Amber Grid** share price increased by 12.9%, up to EUR 241.2 million of the value of the state shareholding. The stock prices of other companies remained at a similar level - a decrease amounted up to 0.5%.

An index compiled of state-owned shares of the SOEs shows the changes in the value of quoted state-owned assets starting at the end of 2016. The index of the SOEs grew by 0.8% from the end of 2016 to the end of 2017. During the same period, the stock index of NASDAQ OMX Vilnius increased by 17%.



# P/E ratio

## Shares of majority of listed Lithuanian state-owned enterprises remain relatively cheaper when compared to foreign peers' averages

In order to determine the nominal value of shares of listed Lithuanian State-owned enterprises, their P/E ratio was calculated. This ratio between companies' market capitalisation and earnings reflect expectations of investors and assessment of company's prospects. However, it is rather an indicative ratio that makes sense only when comparing its size in perspective of time and in the context of similar companies. The benchmarking analysis used P/E ratios of companies from developing countries operating in relevant sectors.

P/E ratios of listed Lithuanian state-owned enterprises, classified in the same sectors, differ considerably reflecting fundamental aspects of activities of enterprises. P/E ratio of shares of **AB Energijos skirstymo operatorius**, operating in energy sector, as of 2017 is estimated at 9.9 and is 3 times lower than the average (30.1) in the energy sector of foreign companies. Therefore, shares of **AB Energijos skirstymo operatorius** can be regarded as cheap. Although while more expensive, shares of **Lietuvos energijos gamyba, AB** can be regarded fairly cheap, with P/E ratio of 19.3.

Shares of **LITGRID AB**, operating in the same sector, are estimated as the most prized of listed Lithuanian companies with P/E ratio of 36.9, exceeding the average of foreign companies in 2017.

P/E ratio of **AB Klaipėdos nafta**, which is attributed to oil and gas distribution sector, was estimated at 11.4. Compared to average of foreign companies operating in this sector (38.2), shares of **AB Klaipėdos nafta** are valued as 3 times cheaper.

Listed Lithuanian SOEs	P/E				Comparable foreign sectors*	P/E 2017
	2014	2015	2016	2017		
AB LESTO	-	7.7	-	-	Energy	30.1
LITGRID AB	-	252.5	19.9	36.9	Energy	30.1
Lietuvos energijos gamyba, AB	14.8	-	9.9	19.3	Energy	30.1
AB Klaipėdos nafta	12.8	6.4	14.8	11.4	Oil and Gas Distribution	38.2
AB Lietuvos dujos	32.2	16.0	-	-	Oil and Gas Distribution	38.2
AB Amber Grid	-	13.3	10.6	-	Oil and Gas Distribution	38.2
AB Energijos skirstymo operatorius	-	-	8.3	9.9	Energy	30.1

\* For comparison purposes, we use the ratio averages of companies belonging to sectors in developing countries from regions such as Eastern Europe, Asia, and Latin America, to which listed Lithuanian state-owned enterprises can be attributed.

At the end of 2015, **AB Energijos skirstymo operatorius** and **Lietuvos energijos gamyba, AB** have suffered losses, at the end of 2017 losses were incurred by **AB Amber Grid**, therefore, their P/E ratios for those periods cannot be calculated. As **AB Energijos skirstymo operatorius** started its operations on the 1st of January,

2016, after reorganisation of **AB LESTO** (electricity supply and distribution company) and merging with natural gas distribution company **AB Lietuvos dujos**, P/E of these companies is calculated only for their year of operation.



# Aggregated Financial Information of SOEs

The following table contains summarised financial information of all SOEs based on the audited financial statements for 2017.

<b>PROFIT (LOSS) STATEMENT (EUR '000)</b>	<b>2016</b>	<b>2017</b>
<b>Sales revenue</b>	<b>2,498,700</b>	<b>2,549,353</b>
Cost of goods sold	1,569,272	1,592,180
<b>Gross profit (loss)</b>	<b>929,427</b>	<b>957,173</b>
Operating expenses	727,438	758,019
Profit (loss) from other activities	6,036	4,951
<b>Operating profit (loss)</b>	<b>208,026</b>	<b>204,105</b>
<i>Operating profit margin</i>	<i>8.3%</i>	<i>8.0%</i>
<b>EBITDA</b>	<b>560,566</b>	<b>614,233</b>
<i>EBITDA margin</i>	<i>22.4%</i>	<i>24.1%</i>
Financing and investing activities	-7,598	-14,890
<b>Profit (loss) before taxes</b>	<b>200,428</b>	<b>189,215</b>
Profit tax	38,618	-130
<b>Net profit (loss)</b>	<b>161,810</b>	<b>189,345</b>
Minority share in profit (loss)	15,696	9,894
<b>Normalised net profit (loss)</b>	<b>206,646</b>	<b>279,656</b>
<i>Normalised net profit margin</i>	<i>8.3%</i>	<i>11.0%</i>
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Intangible assets	76,580	81,079
Tangible assets	6,018,826	6,006,658
Financial assets	127,853	70,371
Other non-current assets	265,326	231,891
Biological assets	1,054,185	1,118,953
<b>Non-current assets</b>	<b>7,542,770</b>	<b>7,508,952</b>
Inventories, prepayments and contracts in progress	503,712	545,735
Amounts receivable within one year	550,431	615,568
Other current assets	90,585	153,816
Cash and cash equivalents	491,752	642,719
<b>Current assets</b>	<b>1,636,479</b>	<b>1,957,837</b>
<b>Total assets</b>	<b>9,179,250</b>	<b>9,466,789</b>
<b>Equity</b>	<b>5,357,343</b>	<b>5,547,380</b>
Minority shareholder equity	121,683	117,463
<b>Grants and subsidies</b>	<b>1,505,933</b>	<b>1,489,306</b>
Non-current liabilities	1,353,019	1,416,315
Current liabilities	962,954	1,013,788
<b>Liabilities</b>	<b>2,315,973</b>	<b>2,430,103</b>
Financial liabilities	1,258,964	1,371,879
<b>Total equity and liabilities</b>	<b>9,179,249</b>	<b>9,466,789</b>
<b>RATIOS</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Normalised ROA	2.2%	3.0%
Normalised ROE	3.9%	5.1%
D/E	23.5%	24.7%
<b>RETURN TO THE STATE (EUR '000)</b>	<b>2016</b>	<b>2017</b>
Assigned dividends (share of the State)	113,383	130,668
Assigned profit contributions	7,785	42,184
<b>Dividends and profit contributions to the State:</b>	<b>121,168</b>	<b>172,853</b>
Property Tax	6,939	7,060
Raw material tax	21,665	22,521
<b>Total</b>	<b>149,772</b>	<b>202,434</b>
<b>INFORMATION ABOUT EMPLOYEES</b>	<b>2016</b>	<b>2017</b>
Number of employees	38,961	36,053
Number of executives	378	315

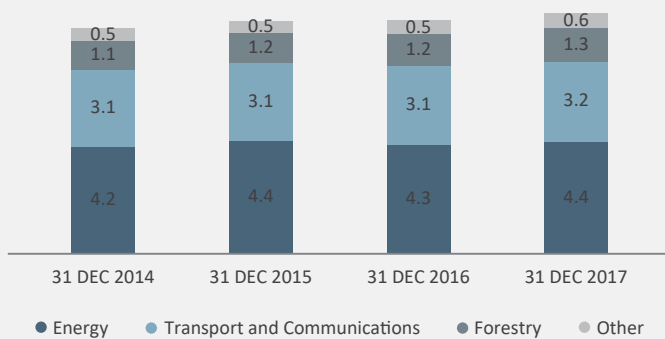
# Assets and Investments

At the end of 2017, SOEs' (State-Owned Enterprises) assets' carrying amount amounted to EUR 9.5 billion – 3.1% more than at the end of 2016. The assets of Energy sector increased by 2.8%, up to EUR 4.4 billion and comprised almost half of the entire SOE portfolio asset value. The assets of the Transport and Communications sector's enterprises increased slightly – 1.5% or by EUR 46 million, the assets of the Forestry sector increased by 5.5% and amounted to EUR 1.3 billion. The assets of Other Enterprises sector increased by 10.1% and amounted to EUR 568.6 million at the end of 2017.

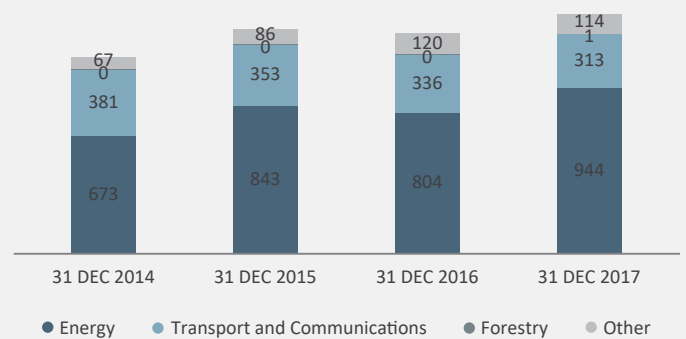
In 2017, financial liabilities grew by 8.9% up to EUR 1,371.9 million. The increase of SOE portfolio financial liabilities was caused by 17.4% growth of the financial liabilities of the Energy sector's enterprises. In 2017, financial debts of the Energy sector's enterprises amounted to EUR 943.9 million and comprised 68.8% of the entire portfolio value of financial liabilities. The biggest share of financial liabilities in the Energy sector belongs to **Lietuvos energija, UAB, Group** which financial liabilities increased by EUR 119.7 million within 2017 and amounted to EUR 613.9 million. The increase of financial liabilities

was present in the Forestry sector as well. The liabilities of this sector's enterprises grew from Eur 414.5 thousand up to EUR 1,293.5 thousand. During the reference period, the financial liabilities of the Transport and Communications sector and Other Enterprises sector decreased respectively by 6.8% and 4.8%. The decrease of financial liabilities of the Transport and Communication sector was mainly influenced by the decrease of financial debts of **AB Lietuvos geležinkeliai Group** by EUR 32.9 million, Other Enterprises – the decrease of financial liabilities of **VĮ Turto bankas** by EUR 19.4 million.

Assets (EUR billion)



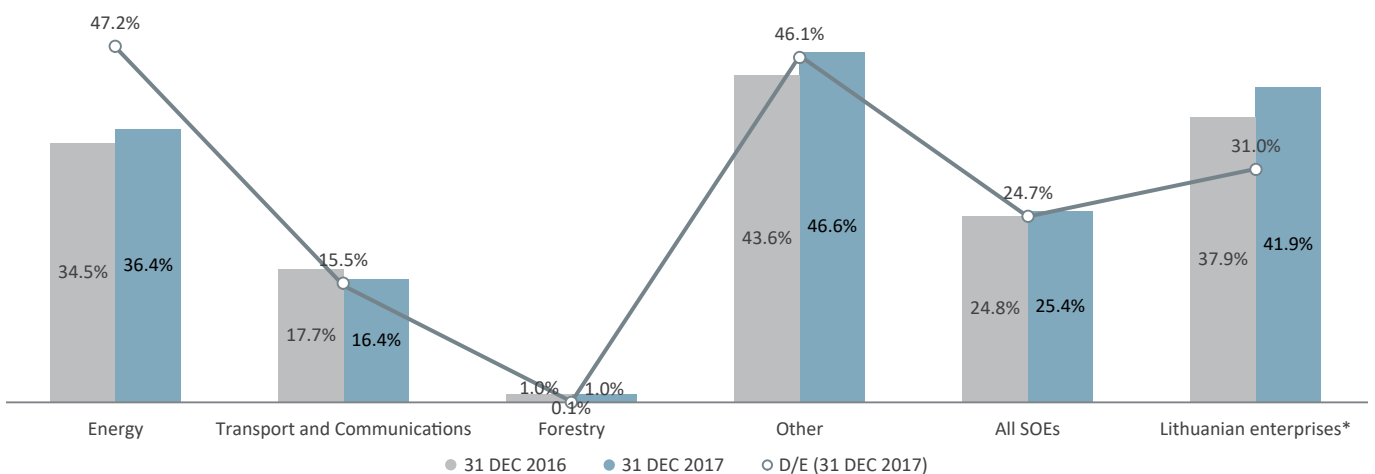
Financial Liabilities (EUR million)



The debt to assets ratio of the SOE portfolio increased by 0.6 percentage point within the year and amounted to 25.4% at the end of the reference year and was smaller by 16.5% (the data of Statistics Lithuania) in comparison with the financial indicators of all Lithuanian enterprises. Other Enterprises sector accounted for the biggest share of assets, covered by liabilities. The ratio of the liabilities and assets of this sector exceeded the average of Lithuanian enterprises by 4.7%. Other Enterprises sector includes the enterprises providing financial

services and loss-making companies which caused a high ratio of liabilities. At the end of 2017, the liabilities of the Energy sector's enterprises comprised 36.4% of the enterprise assets of this sector. The indicator of the Transport and Communications sector decreased by 1.3% in 2017 and decreased more than twice in comparison with the indicator of the Energy sector at the end of the year. The liabilities of the Forestry sector have remained significantly low – 97.9% of the enterprises' assets of this sector are covered with equity.

Liabilities to Assets Ratio



\*Source: Statistics Lithuania

The carrying amount of equity of the SOE portfolio increased by 3.5% up to EUR 5,547 million in 2017. During the reference period, the value of the equity of Other Enterprises increased the most - by 15.1%, i.e. EUR 32.4 million. The growth of the equity of the Forestry and the Transport and Communications sectors' enterprises were steadier –

respectively 5.5% and 3.6%. The equity of the Energy sector remained without any significant changes – it increased by 1% and amounted to EUR 1,999.2 million at the end of the year. The value of the equity of the total SOE portfolio increased by 3.5%, or EUR 190 million during the reference period and amounted to EUR 5,547.5 million at the

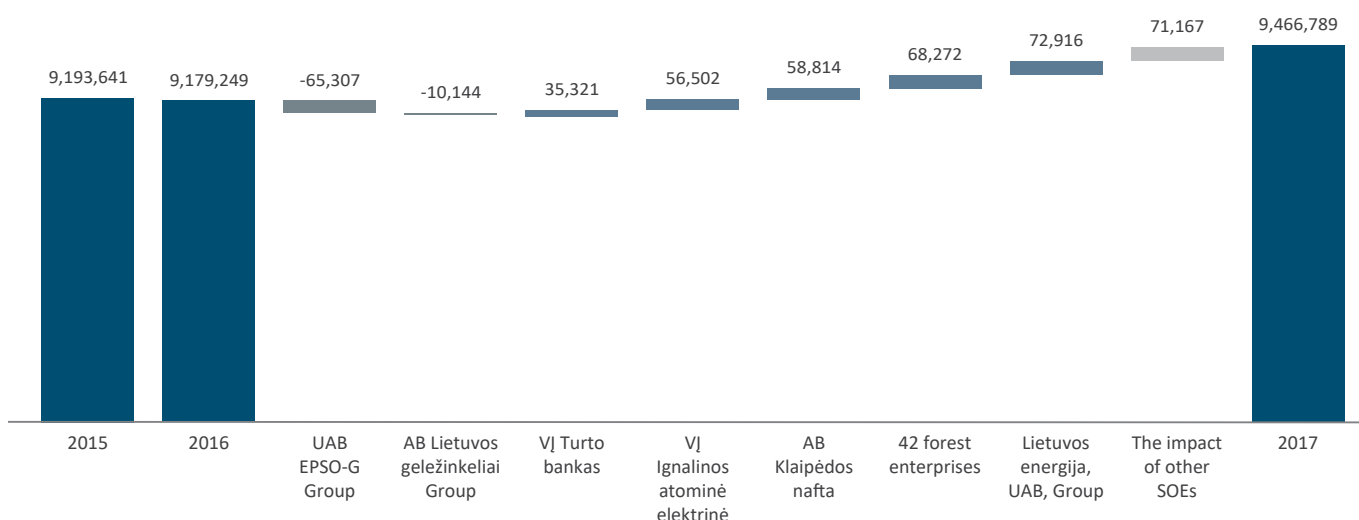
end of the period. In 2017, the amount of SOE portfolio grants and subsidies decreased by 1.1% down to EUR 1,489.3 million. The biggest share of the grants and subsidies during the reference period went for the Energy sector which grants decreased by 2.9% or EUR 24.7 million. This decrease was influenced by the value of the grants for **Lietuvos energija, UAB, Group** which decreased by EUR 84.6 million.

At the end of 2017, the ratio of SOE portfolio financial liabilities and equity amounted to 24.7% and, in comparison with 2016, increased by 1.2%. In comparison with the indicator of all Lithuanian enterprises, the level of SOEs indebtedness remained conservative and was 6.3%

(data of Statistics Lithuania) lower at the end of the reference period. At the end of 2017, the biggest financial debt to equity ratio was in the Energy and Other Enterprises sectors – 47.2 and 46.1 percentage points, respectively. The ratio of financial liabilities and equity of the Forestry sector, as in the previous year, remains close to zero (including the estimated value of commercial forests which increases equity).

The information displaying the changes of the carrying amount of SOE portfolio assets according to the enterprises which had the biggest influence on the results of the entire portfolio is provided below.

Change in Assets of the SOE Portfolio by the Enterprises (EUR '000)



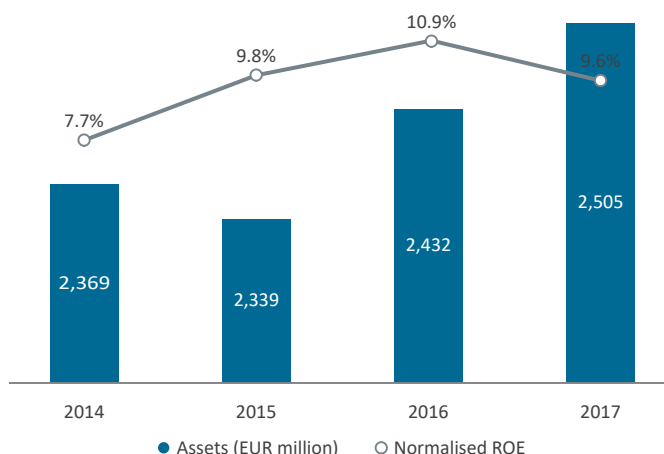
↑ The carrying amount of **Lietuvos energija, UAB, Group** assets increased by EUR 72.9 million during the reference period and amounted to EUR 2,505.1 million at the end of 2017. The increase of the assets was mainly caused by the increase of current assets of 10.9% up to EUR 410.3 million, due to the increased stocks as well as prepayments and the value of expenses of subsequent periods. In 2017, the value of fixed assets for reselling increased by EUR 78.4 million.

↑ During the reference period, the value of assets of **state forest enterprises** grew by EUR 68.3 million or 5.5 percentage points. This increase was caused by the increased value of forests estimated by the method of discounted cash flow, which, according to the assessment performed by Governance Coordination Centre at the beginning of 2018, amounted to EUR 1,117.6 million and, in comparison with 2016, was 6.1% bigger. The increase of the value of forests managed by forest enterprises was caused by bigger annual forest growth and the increased price of roundwood.

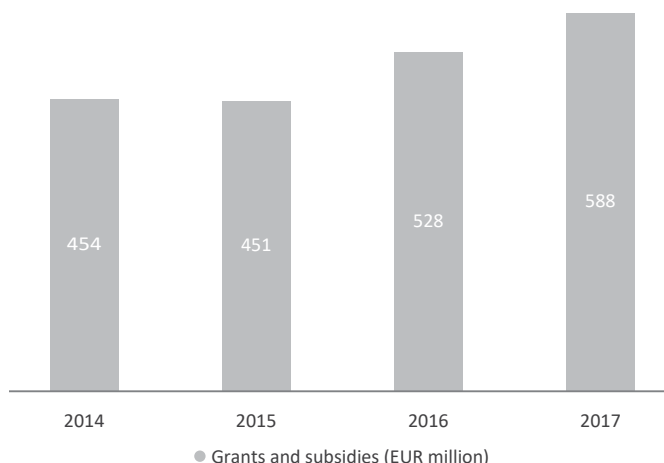
↑ **AB Klaipėdos nafta** assets, during the reference period, increased by 24.3% and amounted to EUR 301.2 million at the end of the year. The main cause of this change is the almost double increase in value of the enterprise's cash and cash equivalents, which grew from EUR 42.1 up to EUR 81.7 million during 2017. At the end of 2017, current short-term deposits of the enterprise amounted to EUR 65 million of this value.

↑ **VĮ Ignalinos atominė elektrinė** assets increased by 8.8% during 2017 and amounted to EUR 701.4 million at the end of the year. The growth of the assets was mainly affected by the increased grants and subsidies by EUR 60.4 million s. The majority of which was comprised of EUR 58.2 million larger grants and subsidies as well as EUR 119 million bigger grants allocated to non-current assets. During the reference period, in comparison with 2016, subsidies for construction works decreased significantly - by EUR 91.6 million.

Lietuvos energija, UAB, Group



VĮ Ignalinos atominė elektrinė



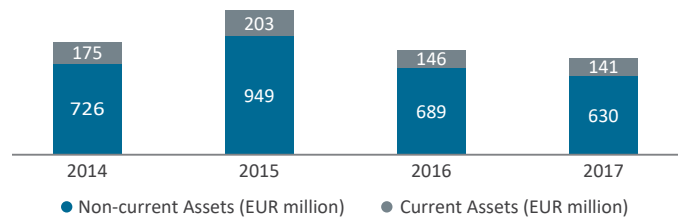
↑ On 31 December 2017, **VĮ Turto bankas** managed the assets valued EUR 194.8 million, i.e. 22.2% more than at the end of 2016. The change of assets was mainly affected by the increase of fixed assets held for sale of EUR 5 million and the increase of value of managed investment property by EUR 25.4 million.

↓ The assets of **UAB EPSO-G Group** during the reference period dropped by EUR 65.3 million and comprised EUR 770.5 million at the end of 2017. The change of assets was caused by the decrease of fixed assets of the group by EUR 59.8 million. The decrease of fixed assets of the group was caused by the performed asset revaluation of AB Amber Grid, a subsidiary of the group, taking into account the equal accounting principles of non-current assets applicable within the group, during which the decrease of the asset value of EUR 35.5 million was recorded. During the reference period, the current assets of the group decreased as well, i.e. it dropped by EUR 5.5 million. The decrease of the value cash and cash equivalents by more than twice significantly affected the decrease of the current assets – from EUR 16.7 million to EUR 8.1 million.

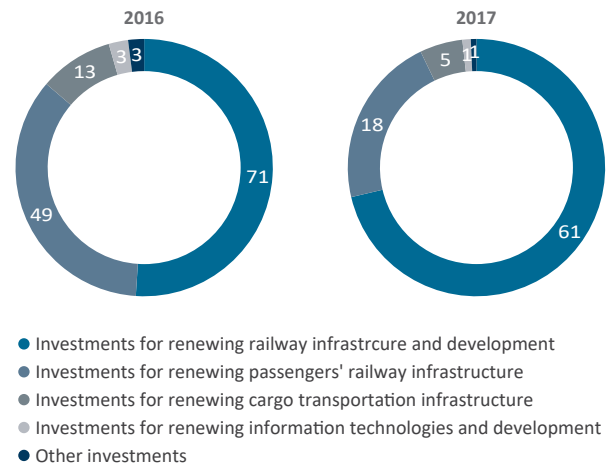
↓ The assets of **AB Lietuvos geležinkeliai Group** amounted to EUR 2,067.6 million at the end of 2017, and in comparison with 2016, decreased by EUR 10.1 million. The decrease of the assets was mainly caused by the decrease of investments of 38.9%. In 2017 the largest part of investments were allocated to the renewal of railway infrastructure and development as well as for renewing passenger railway infrastructure, which, in comparison with 2016, decreased by 14.6% and 62.6%, respectively.

↑ The assets of **the remaining SOEs** increased by EUR 71.2 million within the year which contributed to the overall growth of SOE portfolio assets. Out of 57 enterprises, which asset changes were not detailed, the carrying amount of 27 enterprises assets increased, 30 – decreased.

UAB EPSO-G Group



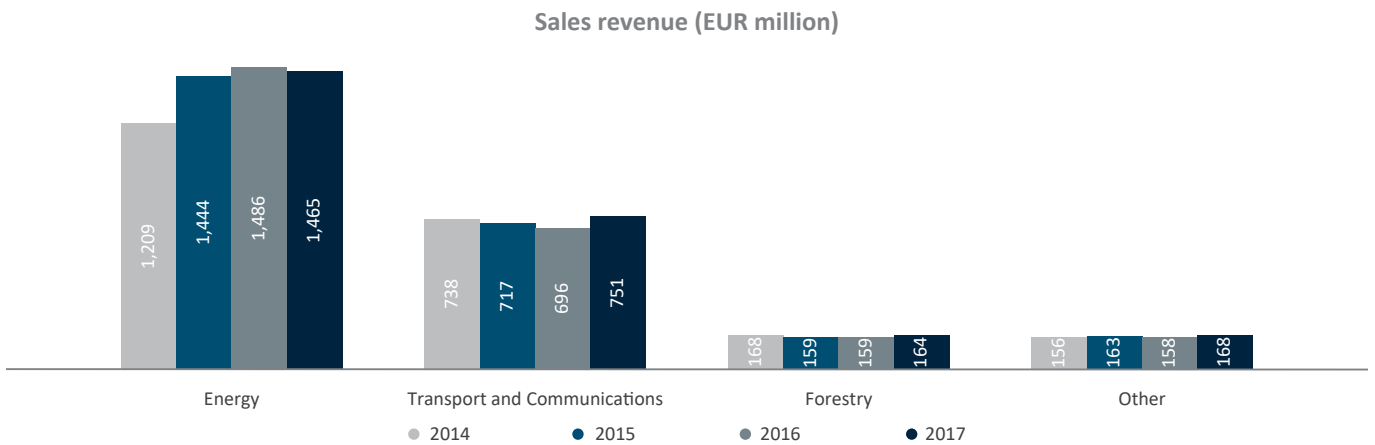
AB Lietuvos geležinkeliai Group's investments (EUR million)



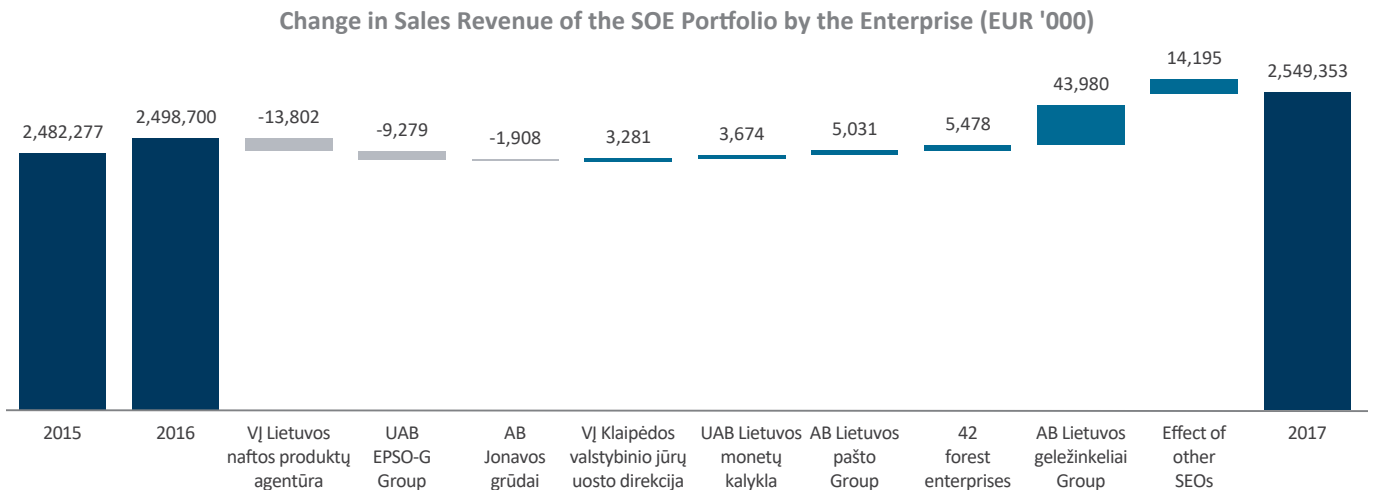
# Sales Revenue

## SOE revenue increased by 2%

In 2017, SOE portfolio sales revenue comprised EUR 2,549.4 million and, in comparison with the results of 2016, increased by 2%. The overall increase of the portfolio revenue was caused by 8% increase of revenue of transport and communications sector which boosted from EUR 696 million to EUR 751.5 million. This change was also highly affected by the increase of sales revenue of **AB Lietuvos geležinkeliai Group** by 10.9% and the increase of sales revenue of **AB Lietuvos paštas Group** by EUR 5 million. Sales revenue increased in other sectors as well: the increase of revenue of other enterprises sector amounted to 6.2% (from EUR 158.5 million to EUR 168.3 million), and the increase of revenue of forestry sector amounted to 3.6%. In contrast to 2016, when revenue of the biggest SOE sector – Energy—was the only increasing one, the decrease of sales revenue of this sector was discovered in 2017, which amounted to 1.4%. The decrease of sales revenue of **VĮ Lietuvos naftos produktų agentūra** and **UAB EPSO-G Group** by 4% contributed to the decrease of Energy sector revenue which resulted in EUR 13.8 million decrease.



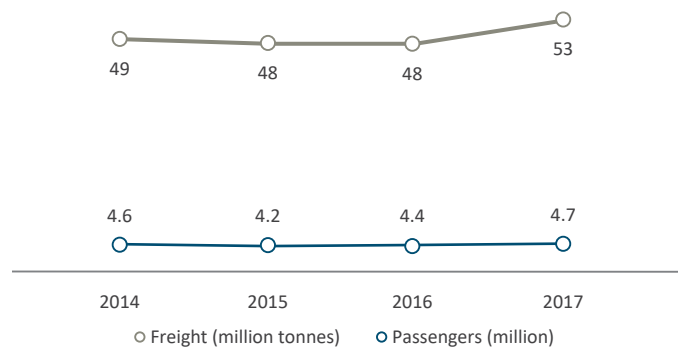
Hereafter is presented the information on the changes in the sales revenue of the SOE portfolio by the enterprises that had the greatest effect on the results of the entire portfolio.



↑ The revenue of **AB Lietuvos geležinkeliai Group** increased by 10.9% up to EUR 448.1 million. The increase of the revenue in 2017 was mainly affected by the 10.9% increase of freight transportation and infrastructure usage revenue which amounted to 85.2% of all sales revenue of the Group. This growth was affected by the increased volume of freight transportation by 10.5% up to 52.6 million tonnes – the volume of international transportation, which amounted to 70.5% of all cargo transportation, increased by 13.8%, local cargo transportation increased by 3.3%.

↑ The revenue of **42 forest enterprises** increased by 3.5% or EUR 5.5 million and amounted to EUR 161.6 million. The increase of sales revenue of round wood grew by 4.1% due to its increased price contributed to the latter change of sales revenue.

### AB Lietuvos geležinkeliai activity statistics



↑ The increase of sales revenue of **AB Lietuvos paštas Group** amounted to 6.9% and comprised EUR 5 million. In 2017, the enterprise earned EUR 76.9 million sales revenue, out of which 62.5% comprised the revenue of postal service provision, increased by 11.3% due to the increase of revenue of object shipping services provided to private persons. Financial services comprising 15.7% in the sales revenue structure and increased by 3.7%. This growth was caused by the increase of revenue for money orders by 17.7% due to the increase of money order services by 15.1%.

↑ During 2017, the sales revenue of **UAB Lietuvos monetų kalykla** increased by 88.3% or EUR 3.7 million and comprised EUR 7.8 million. The increase of revenue in 2017 was mainly caused by the increased need for circulation and circulation collector (commemorative) which directly contributed to the increase of sales revenue of these coins from EUR 0.5 to 3.5 million. Sales of circulation collector (commemorative) coins increased by 20.4% and amounted to EUR 3.5 million. The increase of sales revenue was mainly determined in the countries of the European Union (the increase amounted to EUR 3.6 million or 141.8%), when the sales revenue in third countries increased by 3.4%.

↑ The sales revenue of **VĮ Klaipėdos valstybinio jūrų uosto direkcija** increased by 5.8% in 2017 and amounted to EUR 59.8 million. The increase of sales revenue was mainly affected by the port charges which comprised 87.5% of all sales revenue, and grew by 6.2%. It was affected by 7.6% increase of Klaipėda port handling, during 2017 the total handling amounted to 43.2 million tonnes of marine freight, i.e. 3 million tonnes more than in 2016.

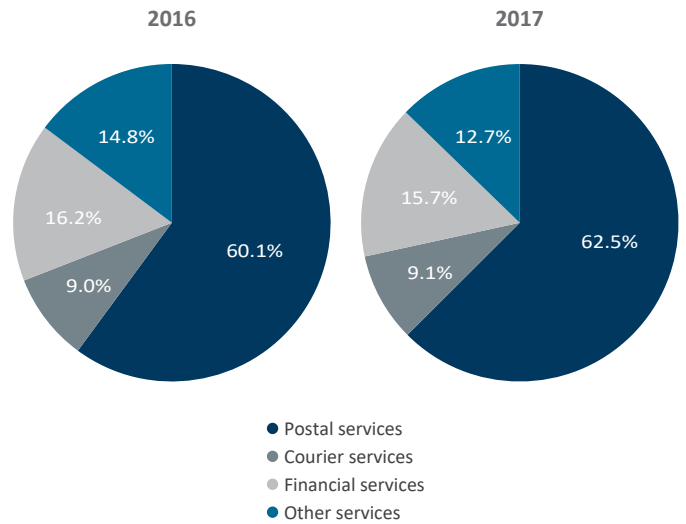
↓ The decrease of sales revenue of **VĮ Lietuvos naftos produktų agentūra** amounted to EUR 13.8 million and, in comparison with the earned revenue in 2016, it decreased by 41%. It was mainly caused by the decrease of sales revenue from replacement of state stocks by 42.6%, from EUR 13.5 million to EUR 2.1 million.

↓ The decrease of sales revenue by 4% of **UAB EPSO-G Group** resulted in the decrease of the portfolio sales income, by EUR 9.3 million. EUR 8.6 million or 25.4% up to EUR 42.5 million increased revenue of system services and by EUR 0.3 million increased revenue of energy transmission did not outweigh the general decrease of sales revenue, which was significantly affected by the decreased prices of energy and gas transmission services for Lithuanian consumers since 2017. The revenue of gas transportation, which comprised 25% of all sales revenue, decreased by 5.9% and comprised EUR 56.2 million, and the decrease of energy balancing revenue amounted to EUR 4.3 million.

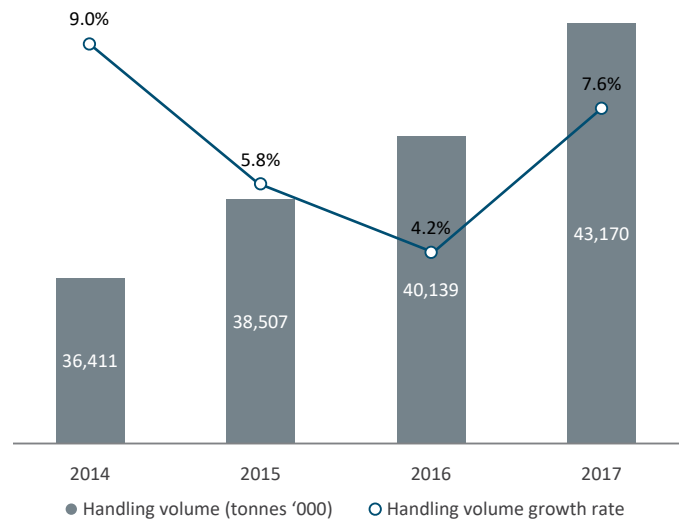
↓ The sales revenue of **AB Jonavos grūdai** decreased by EUR 1.9 million and it comprised 25.1%. The revenue of sold grain, which comprised the most significant part – 54.1% – in the overall structure of sales revenue, decreased by 42.4% due to the decrease of grain sales (47.7%) in 2017 and it serves as the main reason for the decrease of sales revenue. The income for grain storage decreased by 5.4% as well.

↑ In 2017, the revenue of **other SOEs** was by EUR 14.2 million bigger than in 2016 and likewise increased the overall volumes of SOE portfolio sales revenue. Of 56 enterprises, whose changes in their sales revenue were discussed in detail, 25 enterprises experienced revenue growth, 30 enterprises – a decline, and VĮ Vidaus vandens kelių direkcija, whose activities are funded by direct State grants and subsidies, the sales revenue, as in 2016, did not account any revenue at all.

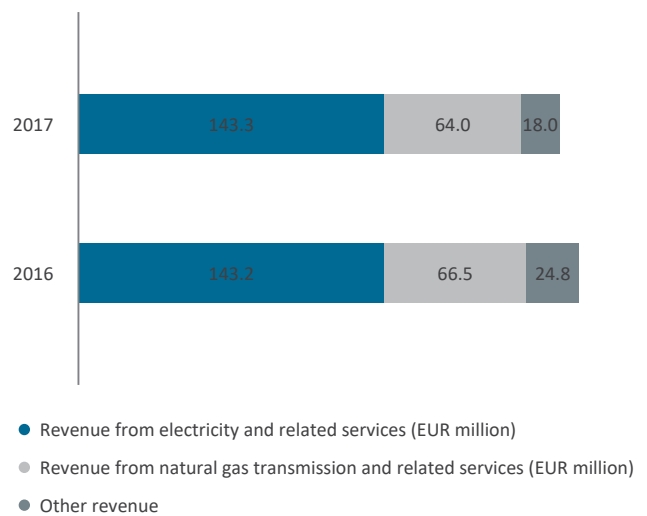
Revenue Structure of AB Lietuvos paštas Group



Handling of VĮ Klaipėdos valstybinio jūrų uosto direkcija



Revenue Structure of UAB EPSO-G Group



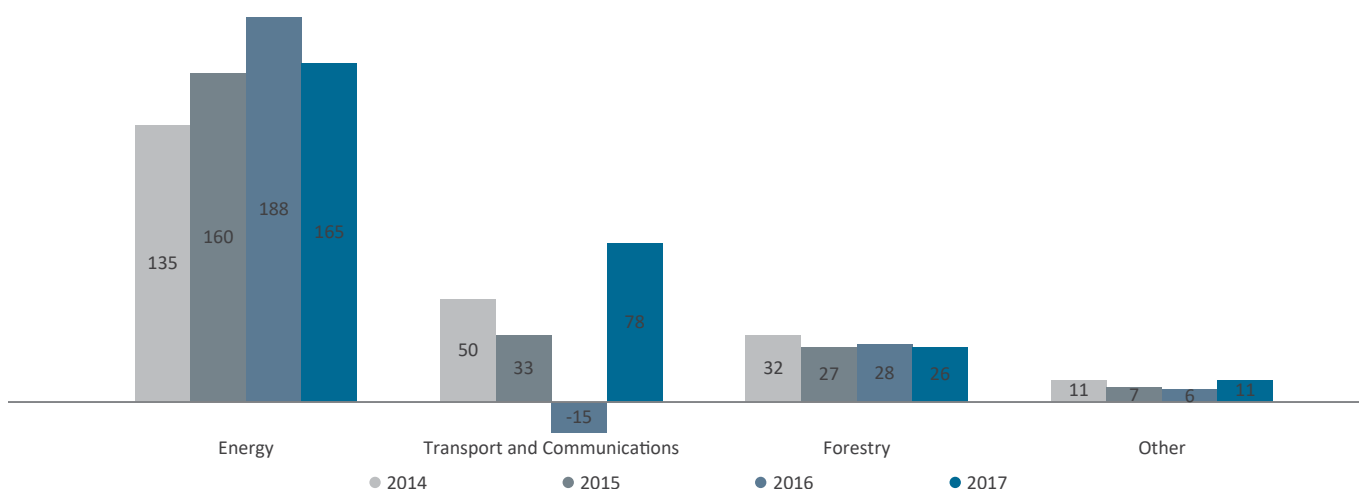
# Normalised Net Profit

## Normalised net profit increased by 35.3%

State-owned enterprises in aggregate earned EUR 279.7 million in normalised net profit in 2017, and it is 35.3% more than in 2016. The portfolio's normalised net profit growth was mainly influenced by transport and communications sector companies, particularly **AB Lietuvos geležinkeliai Group** and **VĮ Klaipėdos valstybinio jūrų uosto direkcija**. This sector's normalised net profit grew by EUR 92.6 million, up to EUR 77.5 million. Other companies sector's normalised

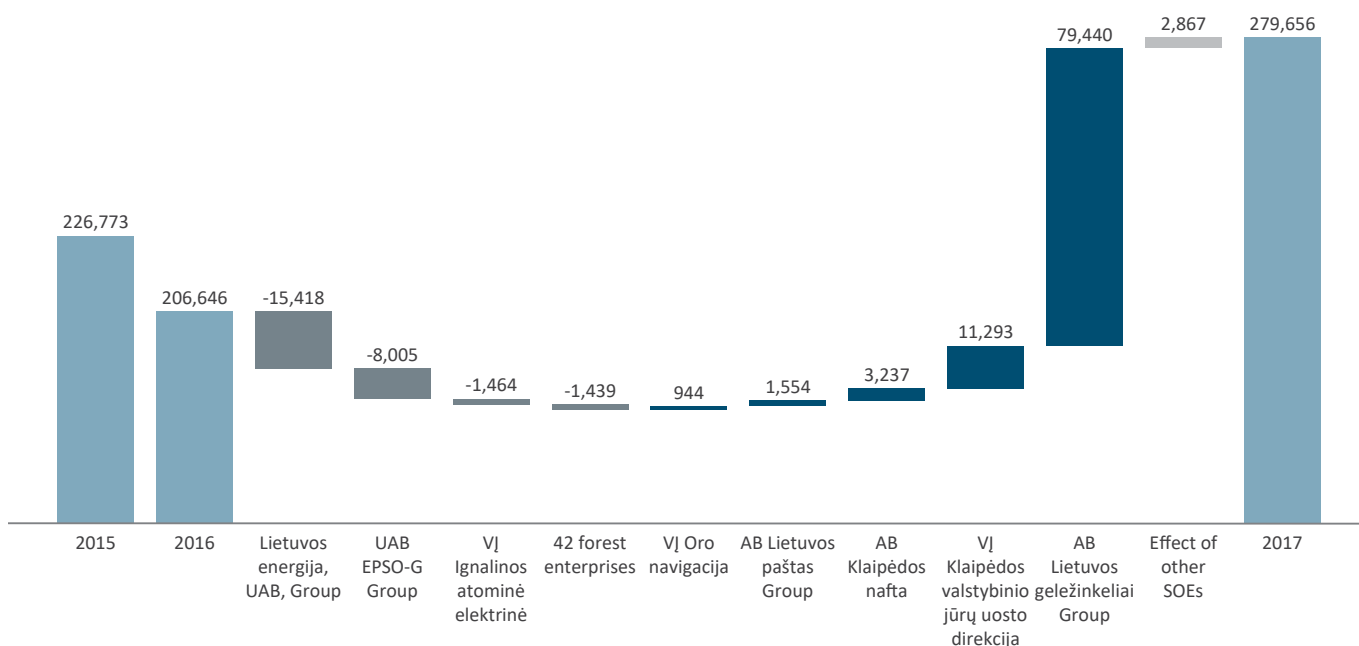
net profit has increased by 68.7%, up to EUR 10.6 million. The energy sector's normalised net profit has decreased noticeably and - by 12%, i.e. EUR 22.5 million. The biggest impact on these changes was made by the reduction of normalised net profit of **Lietuvos energija, UAB** and **UAB EPSO-G Groups**. The results of the forestry sector reduced by 5.2%, down to EUR 26.4 million.

Normalised net profit (EUR million)



Hereafter is presented the information on the changes in the normalised net profit of the SOE portfolio, specifying the changes by companies that had a major influence on the portfolio performance.

Change in Normalised Net Profit of the SOE Portfolio by the Enterprises (EUR '000)



↑ The net profit of **AB Lietuvos geležinkeliai Group** increased by EUR 79.4 million in 2017, from EUR 52.5 million loss in 2016 to EUR 27 million net profit in 2017. Growth of freight transportation income was a major factor in the company's commercial activity, contributing to a significant increase in net profit. The revenue of this activity increased by EUR 37.4 million or 10.9% in

comparison with 2016, up to EUR 381.5 million. Another important factor was fine imposed by the European Commission by the amount of EUR 27,873 thousand in the competition case concerning the railway track separation in Mažeikiai-Rengė railway line, which caused a significant change in provisions and an increase in operating costs of 2016.

↑ **VĮ Klaipėdos valstybinio jūrų uosto direkcija** earned the normalised net profit of EUR 38.9 million in 2017, 40.9% more than in 2016. There was an increase in handling of all types of cargo, especially the bulk cargo turnover, it has grown by 15,8%. Due to income growth of increased handling, the company's income reached EUR 59.8 million, 5,8% more than in 2016. Due to the cost groups non-changing or decreasing, enterprise was able to save 9.5% of the costs and reach EUR 4.6 million net profit growth before the taxation. The net profit was also increased by EUR 6.6 million due to deferred income tax expenses.

↑ **AB Klaipėdos nafta** earned the net profit of EUR 17 million in 2017, and this is EUR 3.2 million more than in the previous period. The most significant impact on the change was made by 2.5% (EUR 2.6 million) increase of income, which was increased by the sale of oil remains in Subačius Fuel Base and LNG terminal sales revenue. The net profit increase by another EUR 0.8 million, compared to 2016, was observed due to the profit tax exemption for investment projects.

↑ Net profit of **AB Lietuvos paštas Group** grew by EUR 1.6 million in comparison with 2016, when the Group's net profit amounted to EUR 18.9 thousand. The main reason for this change is 7% (EUR 5 million) increase in sales revenues. This growth was achieved by a substantial increase in the volume of goods delivered to private persons – income from this service group grew by 17,9%, up to EUR 14.5 million. Courier service income grew by 8% and amounted to EUR 7 million.

↑ **VĮ Oro navigacija** normalised net profit has grown by EUR 0.9 million, from EUR 2.2 million in 2016 up to EUR 3.1 million in 2017. According to the financial statements before normalization, the company's net profit was EUR 0.3 million lower, however, with the normalisation of net profit, considering the EUR 1.3 million revaluation of assets, growth of company results is observed.

↓ **Lietuvos energija, UAB, Group** earned the normalised net profit of EUR 126.7 million in 2017, it is 10.8% less than in 2016. Sales revenues remained alike, but the company identified significant reclassifications of group companies regulated income, increasing the differences between annual profitabilities, which could explain the difference of EUR 27.8 million between the net profit for 2016 and 2017. As tariff recalculations are specific to the activities of regulated companies, they are not normalised and reveal the cyclical nature of the activity.

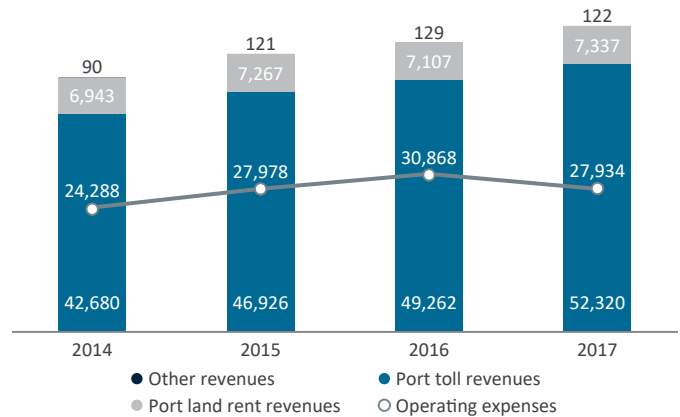
↓ **UAB EPSO-G Group** earned the normalised net profit of EUR 26.9 million in 2017, it is EUR 8 million less than in 2016. Taking into account that the revaluation of AB Amber Grid assets in 2017, which had influenced the net profit of the group, was normalised, the largest impact on the decrease of the group's normalised net profit was 4%, or EUR 9.3 million, decrease in sales revenues. Revenues was affected the most by the balancing (regulating) electricity and natural gas sales revenues, decreasing by 19.4% and 5.9%, respectively.

↓ **VĮ Ignalinos atominė elektrinė** incurred normalised net loss of EUR 5.4 million during the reporting period, it was EUR 1.5 million or 36.9% bigger. Taking into account that the big part of the costs is covered by various grants such as budgetary or EU, while the sales revenues in 2017 amounted to just EUR 201 thousand. The general and administrative (operating) expenses increased by 35.1% (up to EUR 5.4 million), and these expenses had direct influence on the growth of the normalised net loss.

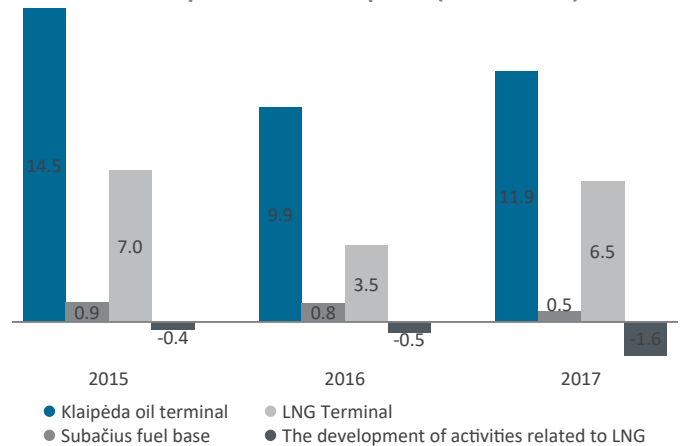
↓ In 2017, **42 forest enterprises** earned EUR 1.4 million less than during the same period in 2016. Although the revenues of companies increased by 3.5%, up to EUR 161.6 million, due to the increase of round wood prices, cost of goods sold increased by 1.9%, up to EUR 63.9 million. However, operating expenses were the main factors influencing the decrease in profit, which, partly due to the reorganization of the forest enterprises, grew rapidly – by 7.3%, up to EUR 91.9 million. The costs of environmental and social activities also contributed to the costs increase, it grew by 3.9%, up to EUR 8 million.

↑ **Other SOEs** in 2017 earned EUR 2.9 million higher normalised net profit than in 2016, and this increased the overall normalised net profit of the SOE portfolio. Out of 55 companies, which net result changes were not described in detail, the normalised net profit of 33 companies increased, of 22 – declined.

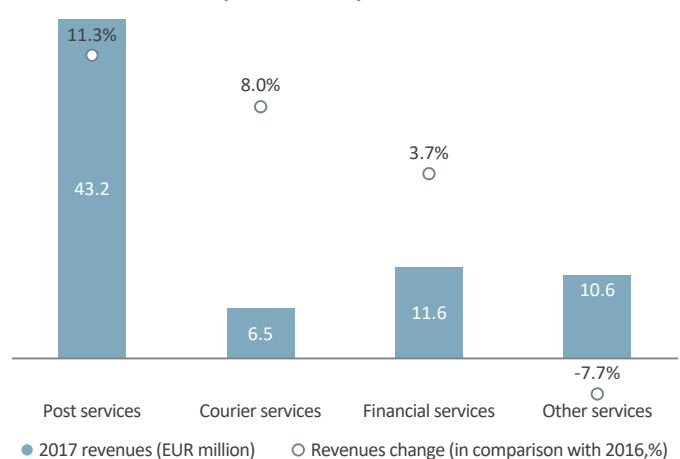
VĮ Klaipėdos valstybinio jūrų uosto direkcija (EUR'000)



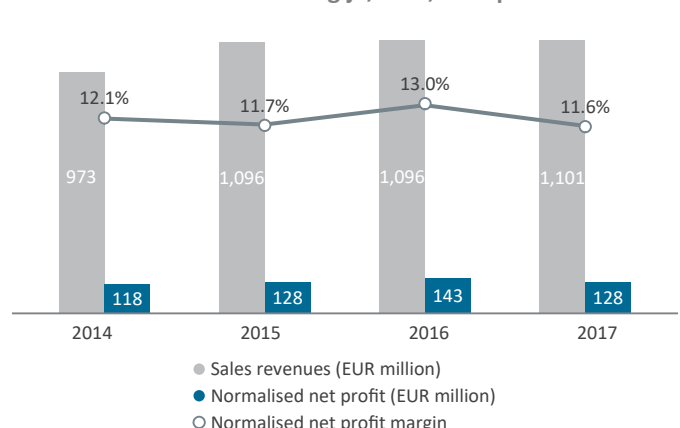
AB Klaipėdos nafta net profit (EUR million)



AB Lietuvos paštas Group's revenues structure



Lietuvos energija, UAB, Group

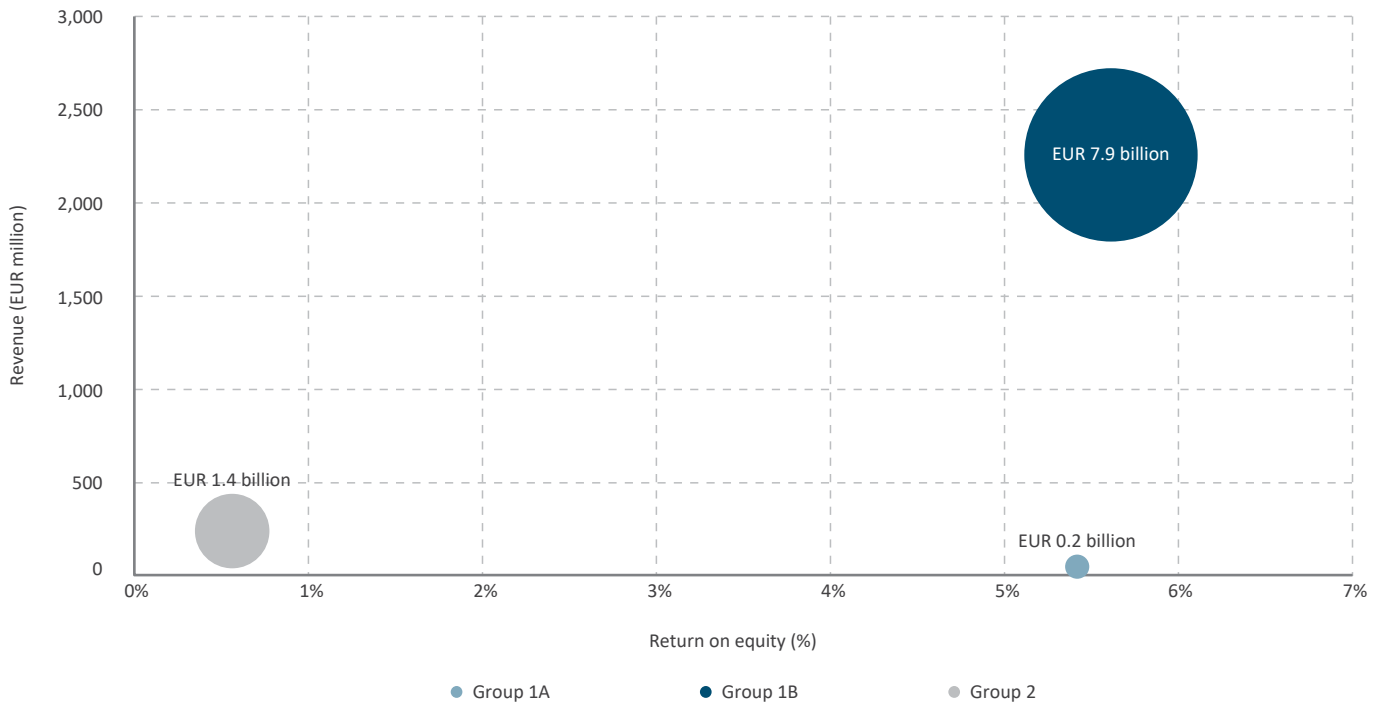




# Implementation of State Objectives

In the Ownership Guidelines approved by the Government, all SOEs are divided into three groups: 1A, 1B and 2. Group 1A companies carry out exclusively commercial activities and from them the State expects the growth of business value and the dividend or profit contributions yield. Companies in Group 1B have two goals: these companies must strive to increase the value of the business and implement the State's social or political objectives, to ensure strategic interests of the State, etc. Enterprises in Group 2 must primarily pursue social and political goals of the State and carry out activities of non-commercial nature, but in order to ensure the continuity of their activities, they should not be loss-making.

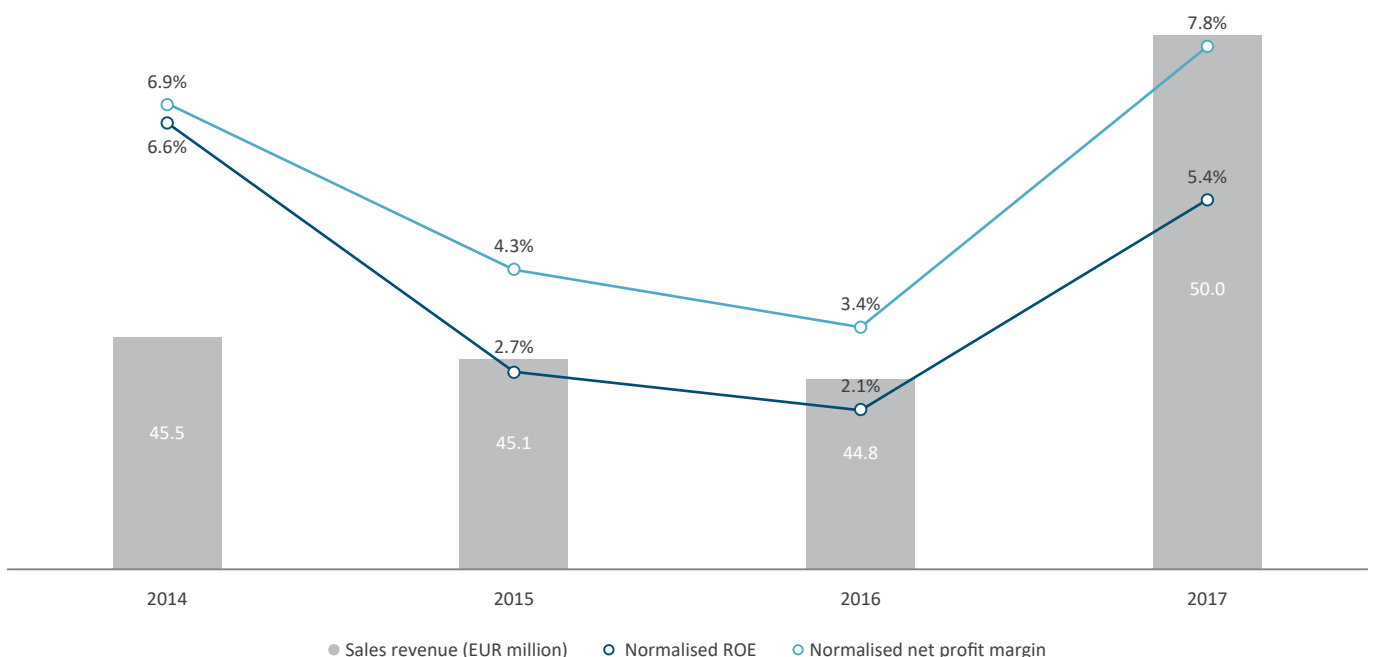
SOE Groups by Ownership Guidelines



Group 1A consists of 18 companies included in the portfolio, among them the largest ones are **VĮ Visagino energija**, **UAB Toksika** and **AB Giraitės ginkluotės gamykla**. This group was the lowest in terms of assets and income: the total value of Group 1A's assets in 2017 was EUR 152.7 million, revenue - EUR 50 million. Although companies in this group are expected to receive the highest profitability and a contribution to the State budget in the form of dividends and profit contributions,

these companies have fallen behind Group 1B companies by their return on equity. In 2017, the normalised ROE indicator for companies belonging to Group 1A was 5.4%. In 2017, **AB Problematika** and **AB Informacinio verslo paslaugų įmonė** earned the largest amount of normalised net profit, EUR 1.6 million and EUR 1 million, respectively. **AB Problematika** normalised return on equity ratio was 19.5%, **AB Informacinio verslo paslaugų įmonė** – 89.7%.

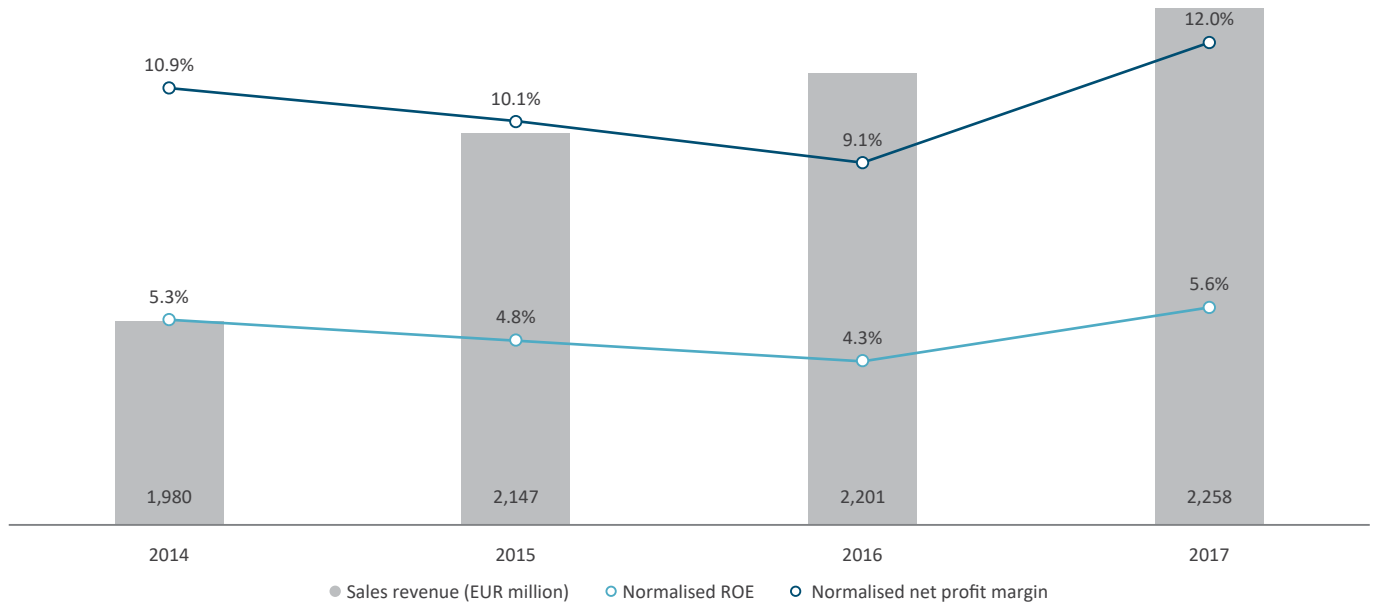
Group 1A Enterprises



The Group 1B is the largest in terms of income and assets. It comprises 56 companies included in the portfolio of the SOEs with a total book value of assets of EUR 7.9 billion in 2017 (83.1% of the SOE portfolio's value), and revenue of EUR 2.3 billion (88.6% of the SOE portfolio's turnover). This category covers the major Energy and Transport and Communications sectors of SOEs – **Lietuvos**

**energija, UAB, Group, AB Lietuvos geležinkeliai Group, VĮ Klaipėdos valstybinio jūrų uosto direkcija, AB Lietuvos paštas Group, AB Klaipėdos nafta, VĮ Lietuvos oro uostai, UAB EPSO-G Group** and others. There are also **42 forest enterprises** assigned to this group.

### Group 1B Enterprises



The profitability of Group 1B companies is the most difficult to measure as these companies are faced with both commercial and non-commercial goals that are necessary to ensure the implementation of the interests of the State. In spite of the assignment of special obligations, the Group's return on equity has grown over the past four years. Compared to 2016, the return on Group 1B companies grew by 1.3 percentage points and in 2017 reached 5.6%.

In 2017, Group 1B earned a net profit of EUR 271.4 million (eliminating one-off asset revaluation losses, atypical taxes to the State, etc.), which was 35.6% more than in 2016. The Group's profitability growth was mostly influenced by the results of **AB Lietuvos geležinkeliai Group**. In 2017, **AB Lietuvos geležinkeliai Group** earned a net profit of EUR 27 million, while in 2016, due to a fine imposed by the European Commission on railway track deconstruction in Mažeikiai-Rengė railway section, it suffered a loss of EUR 52.5 million.

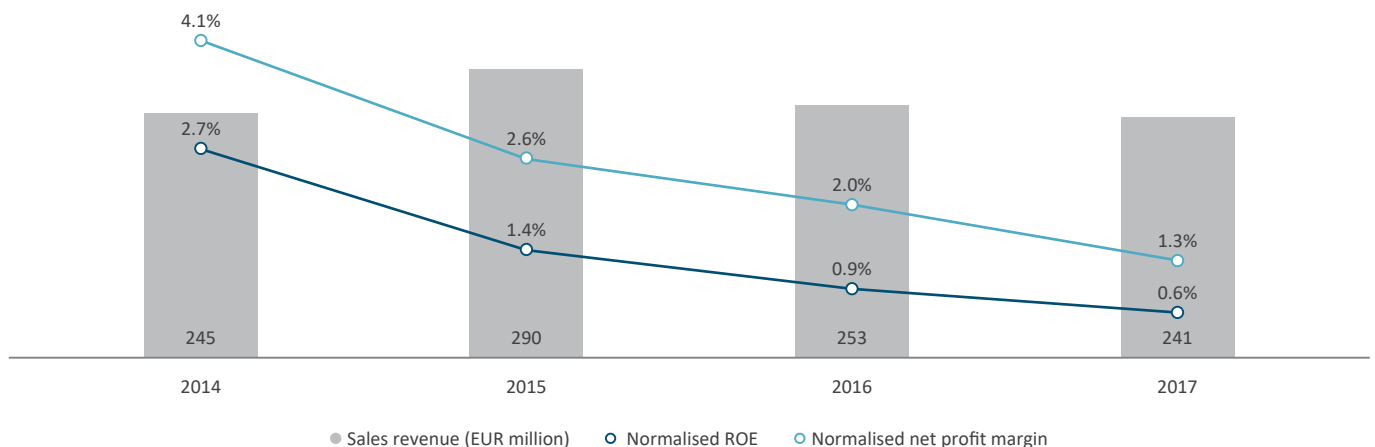
The general rate of return for Group 1B companies is affected by the fact that the return on equity of the **forest enterprises** is calculated by including the value of commercial forests, determined by the discounted cash flow method, into the value of equity. According to an assessment by the Governance Coordination Centre in the

beginning of 2018, the commercial value of the forest at the end of 2017 amounted to EUR 1,117.6 million and accounted for 87.5% of the total **forest enterprises'** equity value. Taking into account the estimated value of the forest, the return on equity in 2017 amounted to 2.1%. After the political decision to include the value of forests into **forest enterprises'** balances and after independent evaluation of their value, the return rates for these enterprises could change depending on the value of the forests established by independent evaluation.

In 2017, all companies included in the portfolio of Group 1B were profitable. Among the largest companies in this group, the best performance indicators were of **UAB EPSO-G Group** (normalised ROE indicator in 2017 – 11.3%), **Lietuvos energija, UAB, Group** (normalised ROE reached 9.6%) and **AB Klaipėdos nafta** (normalised ROE in 2017 – 8.7%).

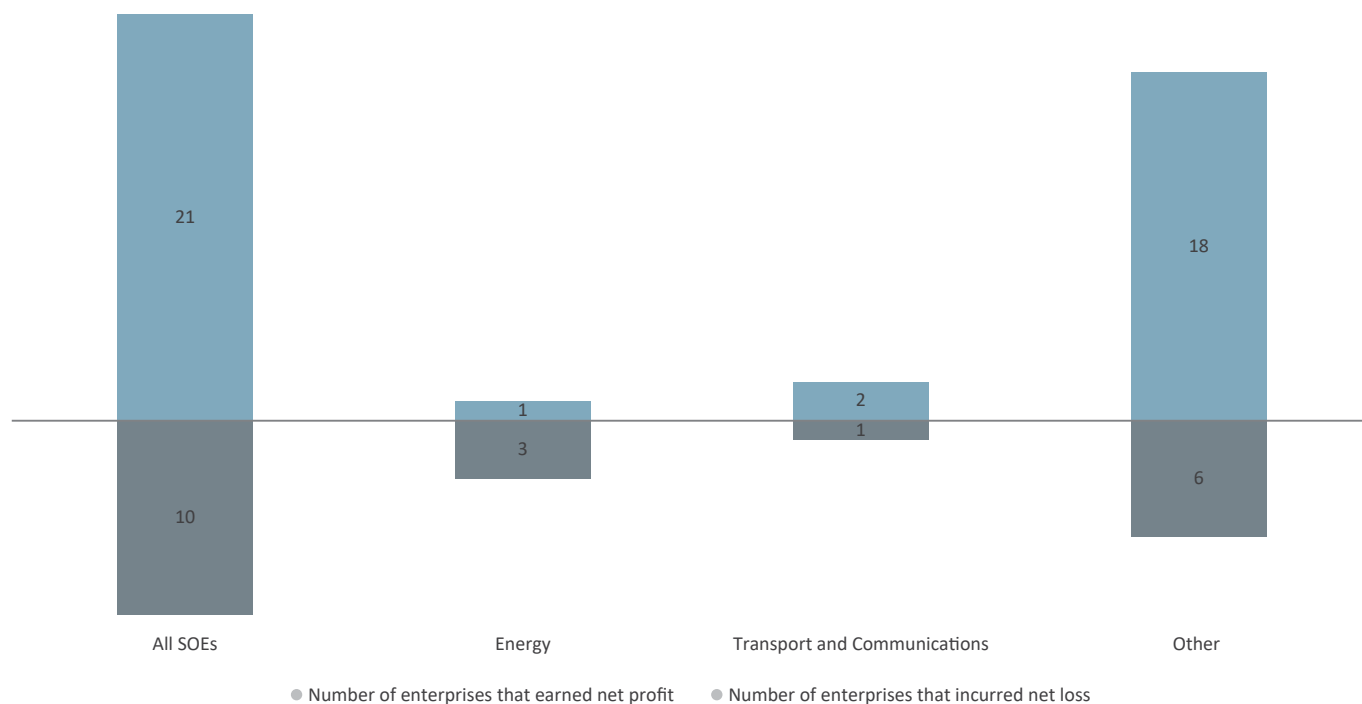
Group 2 includes 31 companies incorporated in the portfolio of the SOEs. In 2017, the book value of the Group was EUR 1.4 billion, with revenue of EUR 241.2 million. The largest enterprises of this Group – **VĮ Kelių priežiūra, VĮ Lietuvos naftos produktų agentūra, VĮ Oro navigacija, VĮ Registrų centras** and **VĮ Regitra**.

### Group 2 Enterprises



It should be noted that the return on equity of this Group of companies in 2017 amounted to 0.6%. Such an indicator of return is broadly in line with the State's objectives for this Group (to pursue profitable activities).

### Group 2 Enterprises

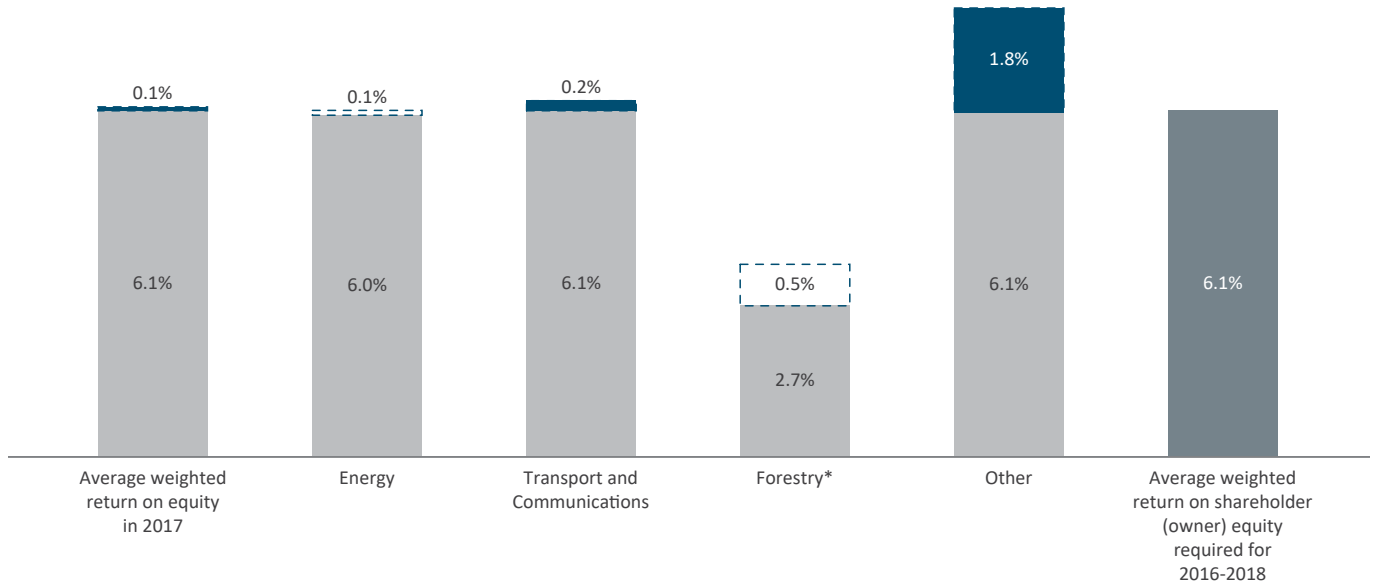


The highest profit in Group 2 was earned by **VĮ Kelių priežiūra** and **VĮ Oro navigacija**, having earned EUR 3.8 million and EUR 3.1 million of normalised net profit, respectively, with a normalised ROE of 3.2 and

6.8%, respectively. In 2017, ten companies suffered losses in the Group, with the largest losses incurred by **VĮ Ignalinos atominė elektrinė** (EUR 5.4 million).

# Implementation of Objectives Set by the Government

In 2016 Lithuanian Government decided, that the enterprises engaged in commercial activities (enterprises of Groups 1A and 1B) should have to achieve individually set average annual return on equity for 2016-2018, while **forest enterprises** should strive to achieve an annual aggregate net profit of at least EUR 40 million on average during the same period (after deducting property and raw material taxes to the State from operating expenses together with the expenses of special obligations while performing ecological and social activities, less profit tax).



\* As forest enterprises are not subject to equity return requirement, their results were not included in the weighted average 2016 - 2018 return on equity.

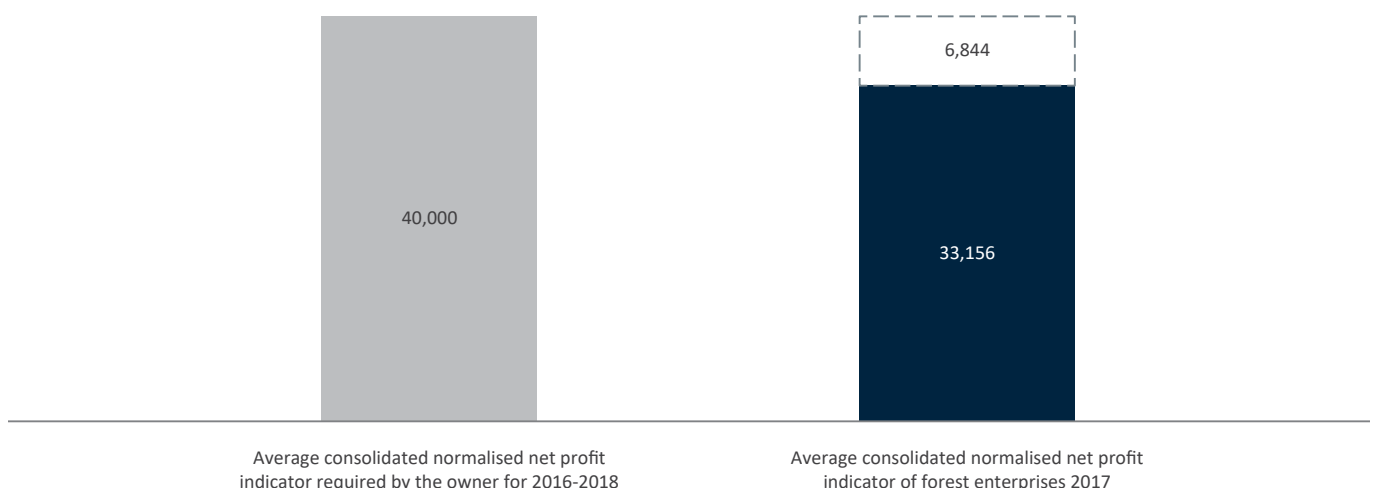
When assessing the return on equity of state-owned enterprises, the taxes on assets and raw materials to the State are eliminated as well as the effect of special obligations, reduced by the part of the corporate income tax. One-off factors such as asset revaluation are not eliminated.

In 2017, the weighted average return on equity of companies in groups 1A and 1B was 6.2%, which was 0.1 percentage points more than the Government's requirement. The indicator set by the Government was achieved by 8 out of 17 companies in Group 1A and 11 out of 16 companies in Group 1B (this number does not include **42 forest enterprises** belonging to Group 1B as they are subject to a consolidated net profit indicator requirement). The assessment of the return on equity does not include **UAB Respublikinė mokomoji sportinė bazė** because of the negative equity in 2016. In 2017, the best result was achieved by Other enterprises' sector, with an average

weighted return on equity ratio of 7.9%, which is 1.8 percentage points higher than the Government's requirement. During the accounting period, the Transport and Communications sector's companies achieved higher returns than demanded, with a weighted average return on equity of 6.3%, whereas, the Energy sector's return on equity was 6% and was 0.1 percentage point lower than the Government's requirement.

**Forests enterprises** are not subject to the requirement for return on equity. According to the Government's requirements, **forest enterprises** must earn at least EUR 40 million of consolidated net profits annually during 2016-2018. In 2017, these companies together earned a normalised net profit of EUR 33.2 million, which is 17.1% less than the requirement established by the Government. The average return on equity of the **forest enterprises** in 2017 was 2.7%.

The Implementation of the Government Requirements for the Forest Enterprises (EUR '000)



Below is presented the return on equity of individual enterprises in 2017 (after deducting property and raw material taxes to the State as well as the financial influence of special obligations).

Enterprise	Group	Normalised ROE in 2017	Average shareholder (owner) required ROE for 2016-2018
Lietuvos energija, UAB, Group	1B	7.0	5.7
UAB EPSO-G Group	1B	-1.2	8.8
AB Klaipėdos nafta	1B	8.7	5.9
VĮ Visagino energija	1A	1.9	5.2
UAB Geoterma	1A	n. d.	5.8
AB Lietuvos geležinkeliai	1B	5.6	5.5
AB Lietuvos paštas Group	1B	17.5	7.3
AB Smiltynės perkėla	1B	9.9	6
VĮ Klaipėdos valstybinio jūrų uosto direkcija	1B	8.5	7.5
VĮ Lietuvos oro uostai	1B	2.4	5.7
AB Lietuvos radijo ir televizijos centras	1B	0.4	5.9
VĮ Valstybinis miškotvarkos institutas	1A	8.1	5.5
UAB Projektų ekspertizė	1A	10.4	5.6
VĮ Statybos produkcijos sertifikavimo centras	1B	12.4	6.6
VĮ Mūsų amatai	1B	2.1	6.2
UAB Lietuvos kinas	1A	30.4	5.9
UAB Respublikinė mokomoji sportinė bazė <sup>1</sup>	1A	-	5.7
UAB Lietuvos monetų kalykla	1B	5.8	5.5
AB Informacinio verslo paslaugų įmonė	1A	89.7	6.6
AB Detonas	1B	15.4	5.6
AB Problematika	1A	19.5	5.6
UAB Universiteto vaistinė	1A	2.6	7.4
AB Giraitės ginkluotės gamykla	1A	5.7	6.6
UAB Toksika	1A	1.0	6.3
UAB Lietuvos parodų ir kongresų centras LITEXPO	1A	5.7	5.7
UAB poilsio namai Baltija	1A	-10.4	6.4
AB Vilniaus metrologijos centras	1B	8.3	6.6
VĮ Infostruktūra	1B	4.1	6.6
AB Jonavos grūdai	1B	13.5	7
UAB Panevėžio veislininkystė	1A	-76.8	4.6
UAB Šilutės polderiai	1A	5.6	5.9
UAB Valstybinė projektų ir sąmatų ekspertizė	1A	9.4	5.6
UAB Aerogeodezijos institutas	1A	-40.6	5.6
UAB Dotnuvos eksperimentinis ūkis	1A	3.5	5.1
UAB Upytės eksperimentinis ūkis	1A	8.5	4.3

<sup>1</sup> – In January 2016, UAB Respublikinė mokomoji sportinė bazė had a negative equity capital, therefore, the return on equity for the enterprise was not calculated.

# Return from SOEs to the State

In 2017, SOEs' return to the State amounted to EUR 202.4 million, which was 35.2% more than in 2016. Of these, the amounts of dividends and profit contributions allocated to the State amounted to EUR 172.9 million, and, in comparison with 2016, it has increased by 42.7%. The proportion of atypical taxes to the State has grown by 3.4% and in 2017 amounted to EUR 29.6 million.

Dividends allocated to the State by the companies of Energy sector amounted to EUR 91.3 million - 15.7% less than in 2016. The decrease was mostly influenced by 22.3% reduction in the amount of dividends allocated by **Lietuvos energija, UAB**, which in 2017 amounted to EUR 78.3 million, and accounted for 85.3% of all the Energy sector's dividends. The amount of **AB Klaipėdos nafta** dividends was also significant, amounting to EUR 12.3 million. **UAB EPSO-G** has allocated the dividends of EUR 682 thousand for the year 2017. **UAB EPSO-G** only allocated 0.5% of distributable net profit for dividends, as due to the financial obligations to **Lietuvos energija, UAB** concerning the acquisition of **LITGRID AB** and **AB Amber Grid** shares, it was unable to allocate the amount of dividends required by the State's legal acts (60% of company's distributable profits).

Transport and Communications sector's companies have allocated dividends and profit contributions worth EUR 65.7 million to the State budget for the year 2017, which was EUR 62.7 million more than for the year 2016. 51.8% (EUR 34 million) of the Transport and Communications sector's dividends and profit contributions in 2017 consisted of dividends allocated by **AB Lietuvos geležinkeliai**, which in 2016 did not allocate dividends due to accumulated losses. The results of the Transport and Communications sector were also greatly influenced by EUR 22.3 million profit contribution of **VĮ Klaipėdos valstybinio jūrų uosto direkcija** - 2017 was the first time in 7 years the company has allocated any profit contributions. In comparison with 2016, the allocated profit contributions of **VĮ Kelių priežiūra** and **VĮ Lietuvos oro uostai** have increased

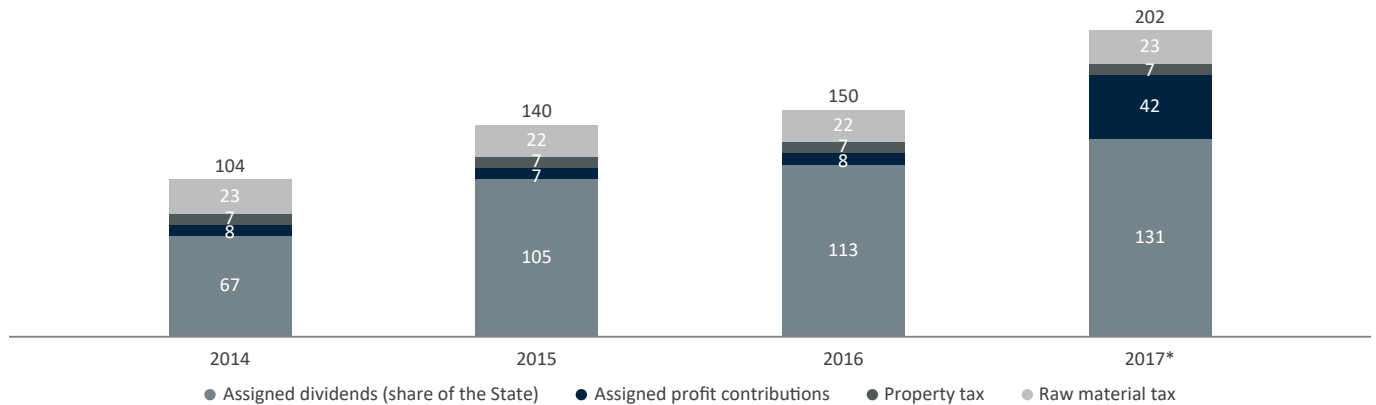
significantly, reaching EUR 4.5 million (in 2016, **road maintenance companies** allocated EUR 667 thousand to the State budget) EUR 3.4 million. (in 2016 - EUR 1.7 million), respectively.

**VĮ Valstybinis miškotvarkos institutas** for 2017 will complement the State budget with the profit contribution of EUR 62.2 thousand, **forest enterprises** plan to allocate about EUR 4.4 million of profit contributions.

The amounts of dividends and profit contributions allocated by Other Enterprises sector amounts to EUR 11.5 million or 78.8% more than in 2016. The largest part of dividends and profit contributions allocated by this sector was **VĮ Regitra** profit contribution, which amounted to EUR 4.8 million in the year 2017, - EUR 3.4 million more than in 2016. **AB Problematika** allocated a significant contribution to the State budget in 2017 - the amount of dividends of this company amounted to EUR 1,244 thousand, while **VĮ Registrų centras** allocated the profit contribution to the State which amounted to EUR 1,111 thousand.

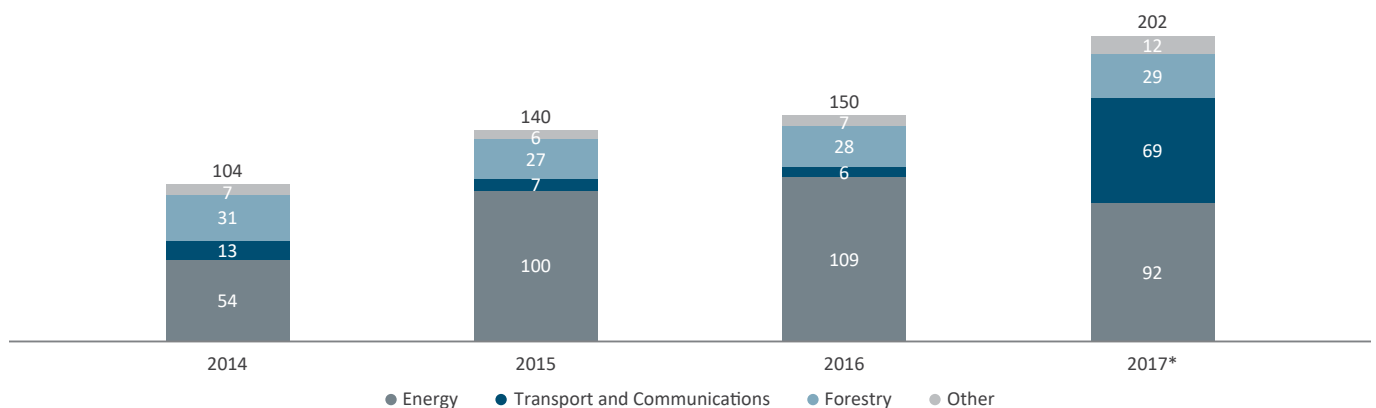
The atypical taxes paid by the SOEs in the year 2017, were EUR 978 thousand higher than in 2016 and amounted to EUR 29.6 million. The largest part of atypical taxes was paid by the **forest enterprises**: EUR 22.5 million raw material tax and EUR 2.3 million property tax. The largest part of property tax was paid by the Transport and Communications sector companies (EUR 3.4 million, of which EUR 2.2 million were paid by **VĮ Kelių priežiūra**).

Return from SOEs to the State (EUR million)



\* The distribution of forest enterprises profits in 2017 has not been approved, therefore, the amount of the planned profit contributions of the forest enterprises are included in the amount of profit contributions for the year 2017.

Return from SOEs to the State (EUR million)



\* The distribution of forest enterprises profits in 2017 has not been approved, therefore, the amount of the planned profit contributions of the forest enterprises are included in the amount of profit contributions for the year 2017.

# Value Added of SOEs

Value Added (VA) shows how much value is generated by the overall efforts of the company's capital owners, management and employees. This part explains the direct contribution of enterprises to the national budget, as well as assesses how the added value created is distributed among the parties concerned - shareholders (owners), creditors, employees and the State which receives the corporate taxes. The assessment of the VA is particularly relevant for the SOEs, since a large part of them must bring in line the objective of profit-making with the fulfilment of the special obligations entrusted to them and the satisfaction of the public interest. In addition, the SOEs provide financial returns to the shareholder not only in the form of net profit but also through the taxes paid to the budget, therefore the analysis of the VA helps to assess the total value created by these companies for the State.

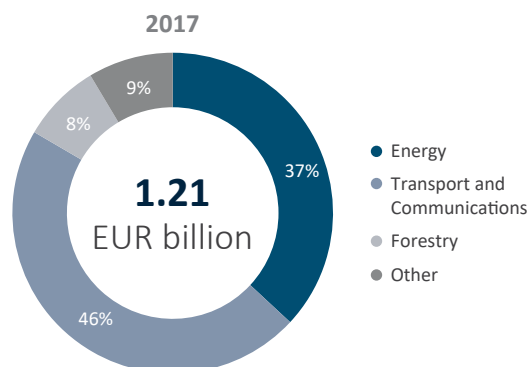
The value added of enterprises included in the portfolio of the SOEs has been calculated on a basis of the audited annual financial statements of the SOEs for 2017 (except **UAB Respublikinė mokomoji sportinė bazė** and **VĮ Mūsų amatai**, whose statements are not audited) and information provided by the companies on employee payroll,

taxes paid and interest expense incurred. In the calculation of the value added of enterprises, the effect on the financial results of the companies of one-off events of the revaluation of assets, which are listed at the beginning of the description of the results of the portfolio of the SOEs, was eliminated.

Value Added (EUR million)	2015	2016	2017
Operating revenue	2,410	2,499	2,549
Other revenue	15	10	8
Product and service acquisition costs	1,341	1,376	1,351
<b>Value added before financial activity</b>	<b>1,085</b>	<b>1,132</b>	<b>1,206</b>
Financial activity results	4	11	4
<b>Distributable value added</b>	<b>1,088</b>	<b>1,144</b>	<b>1,210</b>
<b>Value added distribution (EUR million)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>For the capital owners</b>	<b>133</b>	<b>143</b>	<b>197</b>
Dividends and profit contributions paid to the State	110	121	173
Dividends paid to minority shareholders	5	3	5
Interest paid to creditors	17	19	19
<b>For the employees</b>	<b>566</b>	<b>604</b>	<b>607</b>
Salaries	360	385	383
Social security taxes	158	170	176
Employee retention costs, reimbursed from the State budget, structural EU and other funds	47	48	48
<b>EU funds and funds from the budget of the Republic of Lithuania, which reimburse employee retention costs</b>	<b>-47</b>	<b>-48</b>	<b>-48</b>
<b>Taxes paid to the State</b>	<b>57</b>	<b>75</b>	<b>48</b>
<b>Funds for the company investments</b>	<b>380</b>	<b>370</b>	<b>407</b>
Depreciation	294	312	331
Net profit	85	58	76
<b>Value added</b>	<b>1,088</b>	<b>1,144</b>	<b>1,210</b>

In 2017, the value added created by all the SOEs amounted to EUR 1.21 billion and was 5.8% higher than a year ago. Operating income increased by 2.0% (EUR 50.7 million), while the cost of creating value added decreased by 1.9% (or EUR 25.6 million). The results of financial activity changed significantly - fell by 65.7% (from EUR 11.2 million to EUR 3.8 million).

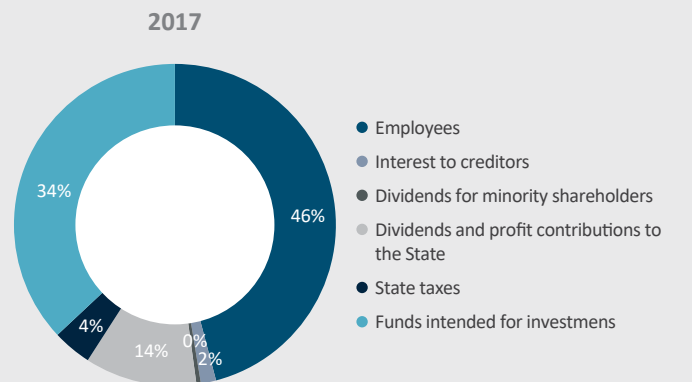
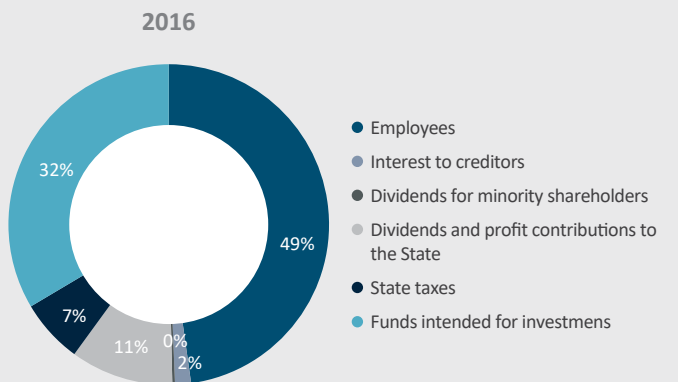
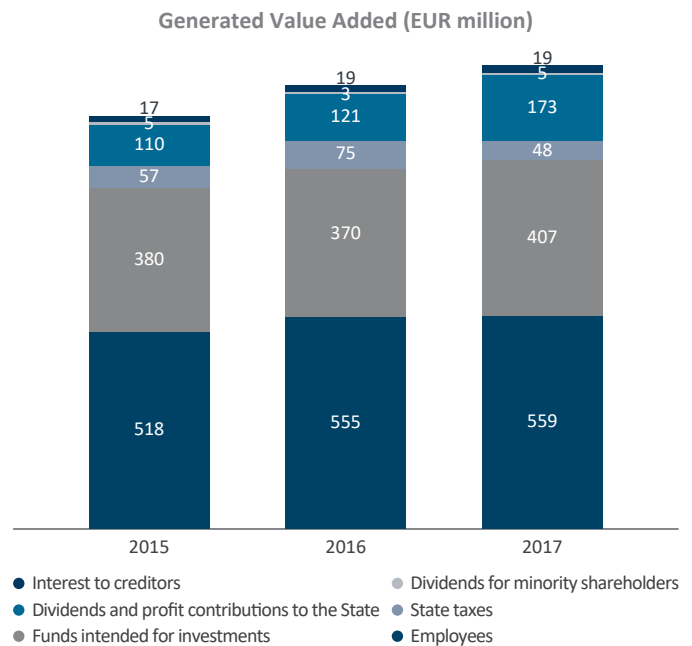
Overlooking the sector of the SOEs, the value added of Transport and Communications sector's companies increased to EUR 558.6 million in 2017 and was EUR 104.8 million or 23.1% higher than in 2016. The contribution of Energy sector to the national economy decreased and at the end of 2017 amounted to EUR 451.1 million, 9.2% less than a year ago. Companies of Forestry and Other enterprises sector created EUR 97.9 million (0.9% more) and EUR 102.7 million (7.1% more) of the value added.



Comparing the value added of the SOEs with the Lithuanian GDP, it was calculated that the contribution of the SOEs to the State economy was 3.3%, i.e., 0.2 percentage points lower than in 2016. The most significant part of the created value falls on several of the largest SOEs: the value added created by **AB Lietuvos geležinkeliai Group** was EUR 342.3 million, **Lietuvos energija, UAB, Group** - EUR 307.3 million, **UAB EPSO-G Group** - EUR 98.6 million. The total contribution of these three groups of companies to the country's GDP was 2% in 2017.

46.2% of the total value added created in 2017 was assigned to employees' compensation - employees' salaries, social insurance taxes and other benefits. This figure does not include EUR 48.2 million (3.9% of the total value added) of employees' compensation costs, reimbursed by the State budget or EU funds, which are not reflected in the profit and loss statements. These costs are just redistribution of funds between different parties concerned (national and supranational institutions and employees of the SOEs) and do not change the amount of distributable value added.

The total amount of 16.3% of the value added created, or EUR 197 million, were allocated for capital owners (for the State, minority shareholders and creditors). The SOEs dividends and profit contributions for 2017 amounted to EUR 172.9 million (14.3% of the total added value created). EUR 18.7 million will be allocated for creditors in the form of interest



The State also receives the value added in the form of collected taxes. In 2017, this share decreased from 6.6 to 4% of all created value added and amounted to EUR 47.9 million. Part of all taxes paid to the State are atypical taxes (raw materials and property taxes). In 2017, atypical taxes paid by the SOEs to the State amounted to EUR 29.6 million and were EUR 1 million higher than a year ago. The major part of them was paid by the **forestry enterprises** - EUR 24.8 million, the largest share (EUR 22.5 million) of which was the raw materials tax paid by the **forestry enterprises**. A major part of the property tax was paid by the Transport and Communications sector enterprises - EUR 3.4

million. Energy companies paid EUR 0.5 million of the property tax, and Other enterprises sector - EUR 0.8 million.

By allocating value added to all parties concerned, 32.3% of the value added created in 2017 (EUR 406.8 million) could be retained by the enterprises. Those would be the funds dedicated for development, for investments in restoration of depreciation of assets, loan repayment, financing of working capital and other corporate needs. Compared to 2016, this amount increased by 10%.

### Distribution of Value Added Between the Enterprise and Owners (EUR million)





# Operating Efficiency

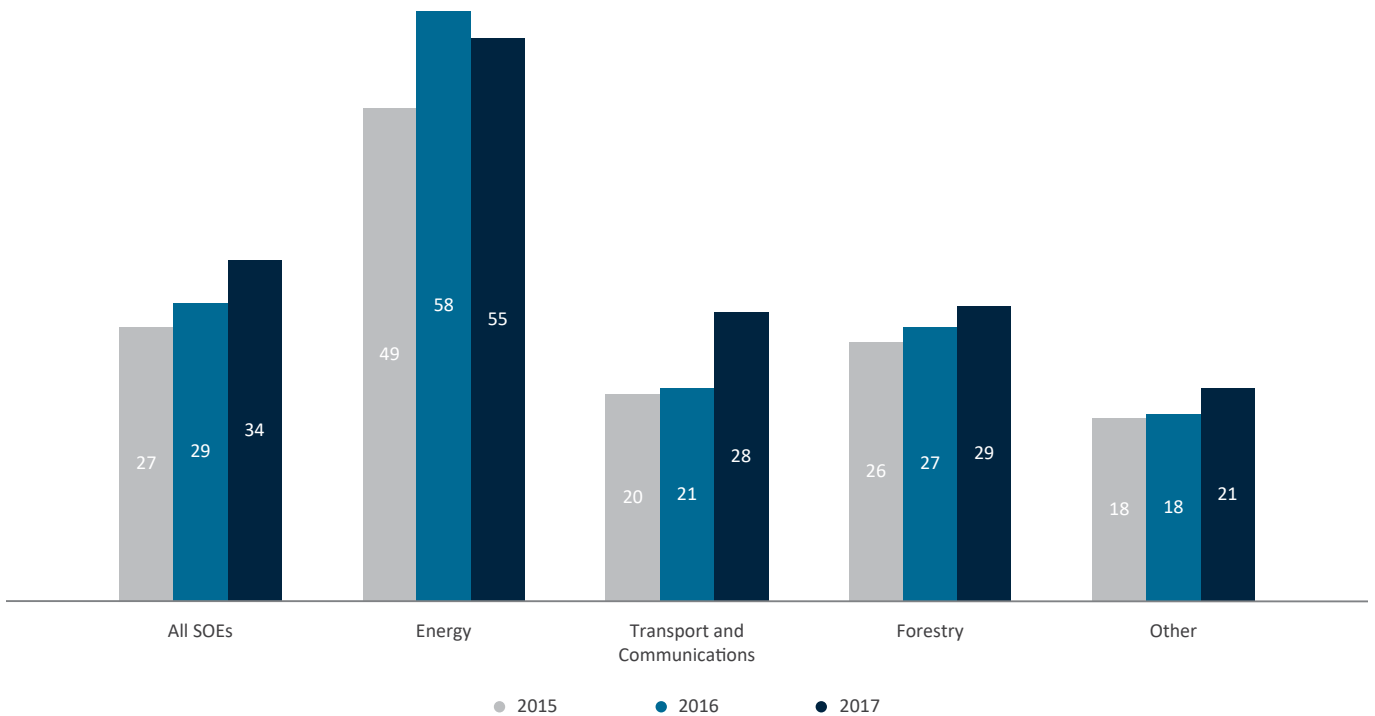
## The operating efficiency of the SOEs increased by 14.4%

In this section of the SOE portfolio overview, the efficiency of the SOEs is estimated by calculating the value added created by the SOEs per employee. This makes it possible to measure the efficiency of enterprises on a much broader scale - not only by measuring the income or profit earned by companies but also by including value added to employees.

While total value added increased and the number of employees decreased, value added created by one employee in the SOE in 2017, compared with 2016, increased by 14.4% and amounted to EUR 33.6 thousand. In terms of SOEs' sectors, the largest value added to the employee (EUR 55.4 thousand – 4.6% less than a year ago) was created by the Energy companies, which have relatively higher fixed capital and lower human resources requirements. In the Transport

and Communications sector, the value added per employee increased from EUR 21 thousand in 2016 to EUR 28.4 thousand in 2017, i.e. 35.3%. In Other enterprises sector, the value added per employee increased by 14.1%, but remained the lowest – EUR 21 thousand. In the Forestry sector, the value added per employee also increased and in 2017 reached EUR 29.1 thousand – 7.7% more than in 2016.

Value Added per Employee (EUR '000)



# Return on Equity According to DuPont Analysis

## SOE portfolio return on equity amounted to 5.1%

At the end of 2017, the normalised SOE portfolio return on equity amounted to 5.1% and, comparing with financial results of 2016, increased by 1.2 percentage points. The growth of portfolio income and the normalised net profit resulted in a 2.7 percentage point increase of the normalised net profit of SOEs, which at the end of 2017 amounted to 11%. During the accounting period, both sales revenue and corporate assets increased while the turnover of assets has not changed and remained at 0.27. During 2017, while equity and assets of the SOE portfolio increased by 3.2% and 1.5% respectively, the financial leverage ratio declined marginally and reached 1.71.

The Energy and Transport and Communications sectors, that own the largest SOEs, had the most significant impact on the results of the portfolio. The assets of the companies belonging to these sectors together amounted to 80.5%, normalised net profit – 86.8%, sales revenue – 87.0%, and equity – 72.9% of the total size of the SOE portfolio.

## DuPont analysis

DuPont analysis is recognised and widely used method of analysis of the results of company activities that allows breaking down the return on equity ratio into its components, determining sources of return, evaluating their effect on the result, and identifying the potential for improvement of operations. Return on equity (ROE) broken down in the manner is a product of operating efficiency, measured by net profit margin, efficiency of asset usage, measured by asset turnover, and financial leverage of the company.

$$\text{ROE} = \text{Net Profit Margin (Net Profit/Sales Revenue)} \times \text{Asset Turnover (Sales Revenue/Assets)} \times \text{Financial Leverage (Assets/Equity)}$$

SOE Portfolio Normalised ROE	Energy Sector Normalised ROE	Transport and Communications Sector Normalised ROE	Forestry Sector Normalised ROE	Other Enterprises' Sector Normalised ROE
2016: 3.9% 2017: 5.1%	2016: 9.6% 2017: 8.3%	2016: -0.8% 2017: 3.9%	2016: 2.4% 2017: 2.1%	2016: 3.0% 2017: 4.6%
<b>Normalised Net Profit Margin</b> 2016: 8.3% 2017: 11.0%	<b>Normalised Net Profit Margin</b> 2016: 12.6% 2017: 11.3%	<b>Normalised Net Profit Margin</b> 2016: -2.2% 2017: 10.3%	<b>Normalised Net Profit Margin</b> 2016: 17.6% 2017: 16.1%	<b>Normalised Net Profit Margin</b> 2016: 3.9% 2017: 6.3%
<b>Asset Turnover</b> 2016: 0.27 2017: 0.27	<b>Asset Turnover</b> 2016: 0.34 2017: 0.34	<b>Asset Turnover</b> 2016: 0.22 2017: 0.24	<b>Asset Turnover</b> 2016: 0.13 2017: 0.13	<b>Asset Turnover</b> 2016: 0.32 2017: 0.31
<b>Financial Leverage</b> 2016: 1.74 2017: 1.71	<b>Financial Leverage</b> 2016: 2.24 2017: 2.19	<b>Financial Leverage</b> 2016: 1.61 2017: 1.58	<b>Financial Leverage</b> 2016: 1.02 2017: 1.02	<b>Financial Leverage</b> 2016: 2.34 2017: 2.35

The normalised return on equity of the Energy sector was 1.3 percentage points lower during the period analysed comparing with 2016. The decrease was mainly due to a 12.0% contraction of the sector's normalised net profit. With a slight decrease in the sector's income and assets, the assets turnover did not change and remained at 0.34. In 2017, the financial leverage ratio decreased from 2.24 to 2.19 because of the repayment of the borrowed capital.

The normalised return on equity of the Transport and Communications sector became positive in 2017, increased by 4.7 percentage points and reached 3.9%. During the accounting period, net profit margin increased by 12.6 percentage points and reached 10.3% at the end of the year as a result of higher normalised net profit for sector's companies. Sector enterprises' equity grew faster than assets and the value of financial leverage ratio fell from 1.61 to 1.58. Assets turnover slightly grew and reached 0.24

The normalised return on equity of the Forestry sector slightly decreased to 2.1% in 2017. Corporate revenue increased by 3.6%, however, the normalised profit decreased by 5.2%. It led to the decrease of 1.5 percentage points of the normalised net profit margin in 2017. While sales revenue and corporate assets grew at a similar rate, the asset turnover ratio remained unchanged at 0.13. During the accounting period, due to only a slight change in financial liabilities of companies, the financial leverage ratio remained stable at 1.02.

The normalised return on equity of other companies grew by 1.6 percentage points in 2017 and reached 4.6% at the end of the period. The change was driven by a 68.7% increase in normalised net profits of the sector. During the accounting period, when companies earned more income and the value of their managed assets increased, the turnover of assets did not change significantly – from 0.32 in 2016 to 0.31 in 2017. When the equity capital of enterprises grew slower than the assets, the financial leverage ratio increased by 0.01, to 2.35. Net profit margin during the accounting period reached 6.3%.



# Transport and Communications

A convenient geographical location, access to the Baltic Sea, developed road and rail infrastructure determines the influence of the Transport and Communications sector on the national economy. SOEs operating in this sector, as infrastructure managers, are one of the essential elements for the further development of the Transport and Communications sector.

In 2017, the State managed 9 enterprises in the Transport and Communications sector: road maintenance, railway, water transport, airport, postal and telecommunication service companies, which together in 2017 managed 33.5% of the total assets of SOEs and earned

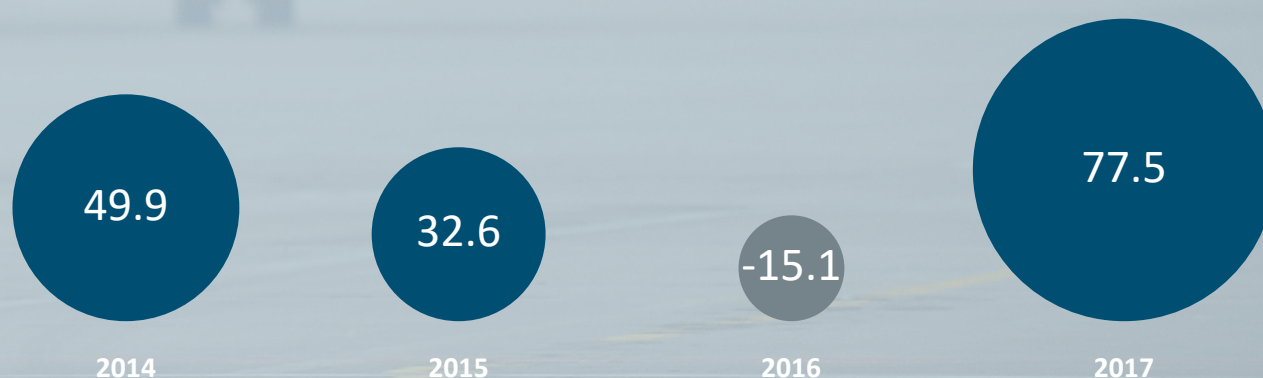
29.5% of all revenues of the SOEs. The number of enterprises, comparing with 2016, decreased as 11 regional road maintenance enterprises were reorganized and the **VĮ Kelių priežiūra** was established, which from 1 November 2017 operates as one enterprise with 11 branches.

Enterprise	Field of activity	Turnover in 2017 (EUR '000)	Assets at the end of 2017 (EUR '000)	Number of employees at the end of 2017	State's share
AB Lietuvos geležinkeliai Group	Passenger and freight transportation	448,100	2,067,572	9,968	100.0%
VĮ Kelių priežiūra	Maintenance of roads of national significance	80,055	128,526	2,600	100.0%
AB Lietuvos paštas Group	Provision of postal and courier services, financial services	76,940	72,059	5,415	100.0%
VĮ Klaipėdos valstybinio jūrų uosto direkcija	Klaipėda Port Infrastructure Management	59,795	582,528	242	100.0%
VĮ Lietuvos oro uostai	Vilnius, Kaunas and Palanga airport exploitation	33,130	187,208	619	100.0%
VĮ Oro navigacija	Provision of specialised services in the airspace of the country	28,757	55,170	313	100.0%
AB Lietuvos radijo ir televizijos centras	Broadcasting radio and television programs	19,854	38,569	321	100.0%
AB Smiltynės perkėla	Passenger and vehicle transfer by ferry to the Kuršių nerija	4,836	8,691	78	100.0%
VĮ Vidaus vandens kelių direkcija	Maintenance and exploitation of inland waterways	0	28,146	98	100.0%

## Sales revenue (EUR million)



## Normalised net profit (EUR million)



## Financial Results

In 2017, companies in the Transport and Communications sector earned a revenue of EUR 751.5 million – 8% or 55.5 million more than in 2016. **AB Lietuvos geležinkeliai Group** had the strongest impact on overall revenue growth for the Transport and Communications sector, as its revenue increased by 10.9% (EUR 44 million) and amounted to EUR 448.1 million. This was influenced by the growth of revenues from freight transport, making up 85.2% of the total group turnover. Growth was driven by a 10.9% increase in freight revenues, amounting to EUR 381.5 million. Revenues from sales of other companies in the sector increased significantly: revenue of **AB Lietuvos paštas Group** grew by 7% (EUR 5 million), **VĮ Klaipėdos valstybinio jūrų uosto direkcija** earned 5.8% (EUR 3.3 million) more revenue, while **VĮ Lietuvos oro uostai** increased revenue growth by 10.8% (EUR 3.2 million). The negative change in sales revenue was recorded only in the **VĮ Kelių priežiūra**, where the annual turnover was -1.9% or EUR -1.6 million.

The costs of the sector in 2017 grew by 3.9% and amounted to EUR 462.2 million. The biggest impact was caused by the increase in the cost of goods sold of 6.1% (EUR 20.3 million) of **AB Lietuvos geležinkeliai Group** because of increased sales. At that time, the decrease in operating expenses of the sector amounted to 19.4% due to the decrease in the operating costs of **AB Lietuvos geležinkeliai**, which has more than halved (51.4%) during the accounting period.

In 2017, the normalised net profit of the Transport and Communications sector increased from a loss of EUR 15.1 million incurred in 2016 to a profit of EUR 77.5 million. In 2017, the largest normalised net profit of the Transport and Communications sector companies was earned by **VĮ Klaipėdos valstybinio jūrų uosto direkcija**, earning a net profit of EUR 38.9 million, which, compared with the result achieved in 2016, increased by 40.9% or EUR 11.3 million. **AB Lietuvos geležinkeliai Group** also contributed significantly to the growth of the normalised profit of the sector by earning a net profit of EUR 27 million, when in

2016, it suffered a net loss of EUR 52.5 million. The reason for this was that in 2016, the European Commission imposed a fine on **AB Lietuvos geležinkeliai Group** totaling EUR 27,873 thousand in the competition case concerning the railway track separation in Mažeikiai-Rengė railway line, which caused a significant change in provisions and an increase in operating costs. **VĮ Lietuvos oro uostai** earned EUR 2.8 million, i.e. 25.4% or EUR 1 million less than in 2016, which was the largest negative impact on sector's results. In 2017, only one enterprise, **VĮ Vidaus vandens kelių direkcija**, which loss compared to 2016 was 2.6 times higher and reached EUR 0.6 million, reported a negative net result.

In 2017, the book value of assets managed by Transport and Communication companies increased by 1.5% and reached EUR 3.2 billion. **VĮ Klaipėdos valstybinio jūrų uosto direkcija**, which assets increased by 6.1% or EUR 33.5 million, had the greatest impact on the overall growth. Asset growth was driven by 64.7% growth in current assets due to the increase in short-term investments (growth of EUR 11 million) and cash and cash equivalents (growth of EUR 17.1 million). An increase in the value of **VĮ Lietuvos oro uostai** was 11.9%, which amounted to EUR 19.9 million and had a significant impact on the growth of the value of portfolio assets. This was due to an increase in the value of fixed assets by 13.7% due to construction in progress. The assets of **AB Lietuvos geležinkeliai Group**, accounting for 66.3% of the total assets of the sector, decreased by 0.5% in 2017 (EUR 10.1 million).

As both the normalised net profit and equity of the sector increased during the year, return on equity for 2017 amounted to 3.9%, and was one of the lowest of all SOE sectors, outpacing only the return on the Forestry sector's equity. The debt to equity ratio in 2017 amounted to 15.5% – 1.7 percentage points less than a year ago. The ratio of debt to equity decreased mainly due to lower financial liabilities and higher equity. The equity capital of the portfolio was mostly increased by

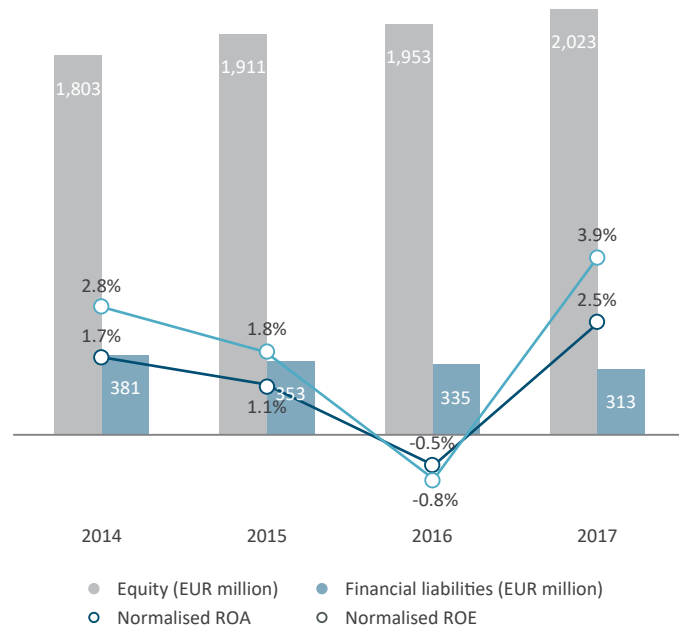
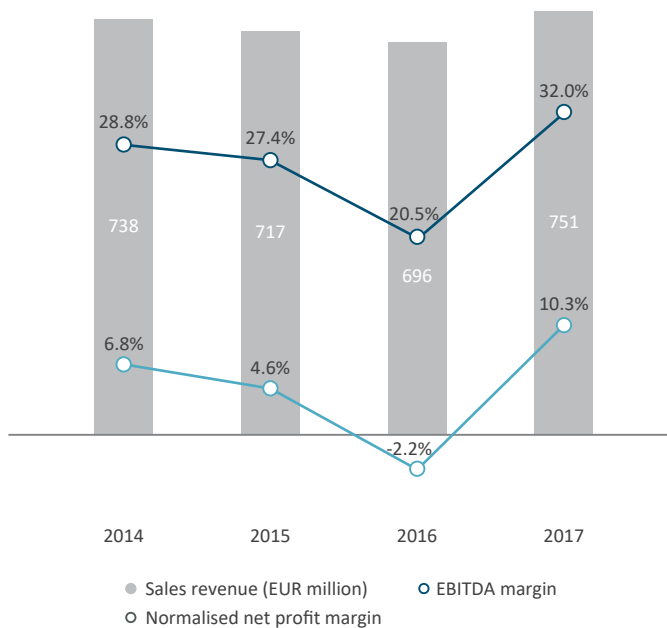
<b>PROFIT (LOSS) STATEMENT (EUR '000)</b>	<b>2016</b>	<b>2017</b>
<b>Sales revenue</b>	<b>696,005</b>	<b>751,467</b>
Cost of goods sold	444,932	462,235
<b>Gross profit (loss)</b>	<b>251,072</b>	<b>289,232</b>
Operating expenses	265,064	213,540
Other operating profit (loss)	4,957	2,417
<b>Operating profit (loss)</b>	<b>-9,034</b>	<b>78,110</b>
<i>Operating profit margin</i>	<i>-1.3%</i>	<i>10.4%</i>
<b>EBITDA</b>	<b>142,389</b>	<b>240,786</b>
<i>EBITDA margin</i>	<i>20.5%</i>	<i>32.0%</i>
Financial and investment activities	-5,960	-5,900
<b>Profit (loss) before taxes</b>	<b>-14,995</b>	<b>72,210</b>
Profit tax	3,121	-1,009
<b>Net profit (loss)</b>	<b>-18,116</b>	<b>73,219</b>
Minority share of net profit (loss)	4	7
<b>Normalised net profit (loss)</b>	<b>-15,083</b>	<b>77,549</b>
<i>Normalised net profit margin</i>	<i>-2.2%</i>	<i>10.3%</i>
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Intangible Assets	33,488	31,815
Tangible Assets	2,783,429	2,771,571
Financial Assets	22,774	5,257
Other non-current assets	1,587	8,339
Biological assets	0	0
<b>Non-current assets</b>	<b>2,841,278</b>	<b>2,816,982</b>
Inventories, prepayments and contracts in progress	69,480	66,868
Amounts receivable within one year	82,956	63,964
Other current assets	23,046	23,394
Cash and cash equivalents	105,683	197,262
<b>Current assets</b>	<b>281,165</b>	<b>351,488</b>
<b>TOTAL ASSETS</b>	<b>3,122,443</b>	<b>3,168,470</b>
<b>Total equity</b>	<b>1,952,518</b>	<b>2,022,981</b>
Minority shareholder equity	69	71
<b>Grants and subsidies</b>	<b>616,730</b>	<b>626,016</b>
Non-current liabilities	325,810	303,236
Current liabilities	227,385	216,237
<b>Liabilities</b>	<b>553,194</b>	<b>519,473</b>
Financial liabilities	335,632	312,925
<b>Total equity and liabilities</b>	<b>3,122,443</b>	<b>3,168,470</b>
<b>RATIOS</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Normalised ROA	-0.5%	2.5%
Normalised ROE	-0.8%	3.9%
D/E	17.2%	15.5%
<b>RETURN TO THE STATE (EUR '000)</b>	<b>2016</b>	<b>2017</b>
Assigned dividends (share of the State)	578	34,848
Assigned profit contributions	2,400	30,805
<b>Dividends and profit contributions to the State</b>	<b>2,978</b>	<b>65,653</b>
Property tax	3,430	3,448
<b>Total</b>	<b>6,408</b>	<b>69,100</b>
<b>INFORMATION ABOUT EMPLOYEES</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Number of employees	21,602	19,654
Number of executives	84	39

**VĮ Klaipėdos valstybinio jūrų uosto direkcija** (+ EUR 38.7 million), **AB Lietuvos geležinkeliai Group** (+ EUR 27 million), **VĮ Lietuvos oro uostai** (+ EUR 1.9 million), **AB Lietuvos paštas Group** (+ EUR 1.6 million). The financial liabilities of the sector were mostly reduced by **AB Lietuvos geležinkeliai Group** (- EUR 32.9 million), **VĮ Klaipėdos valstybinio jūrų uosto direkcija** (- EUR 2 million) and **AB Smiltynės perkėla** (- EUR 1 million).

Compared to 2016, the amount of dividends and profit contributions assigned by the sector to the State in 2017 increased significantly – from EUR 3 million to EUR 65.7 million. The biggest part of all dividends and profit contributions assigned was made up of dividends allocated by **AB Lietuvos geležinkeliai Group** – EUR 34 million, profit contribution

of **VĮ Klaipėdos valstybinio jūrų uosto direkcija** amounted to EUR 22.3 million, and **VĮ Lietuvos oro uostai** whose profit contribution has almost doubled compared to 2016, reaching EUR 3.4 million. Dividends and profit contributions were also allocated by **VĮ Kelių priežiūra** – EUR 4.5 million (EUR 0.76 million in 2016), **VĮ Oro navigacija** and **AB Smiltynės perkėla** each one allocated EUR 0.5 million, and dividends paid by **AB Lietuvos radijo ir televizijos centras** amounted to EUR 0.3 million. Profit contributions and dividends were not allocated by two companies in the sector: **AB Lietuvos paštas Group** and **VĮ Vidaus vandens kelių direkcija**.

Changes in sales revenue, equity, financial liabilities and profitability of the sector for 2014-2017 are presented in the graphs below.



## Railways

Lithuania is crossed by two international railway corridors: East-West Corridor IX branches connecting Ukraine and Belarus with Klaipėda Seaport, and Kaunas with Kaliningrad and the North-South corridor I connecting Helsinki and Warsaw. The East-West Corridor is strategically important due to the transport of goods from Belarus to Klaipėda Seaport. Meanwhile, the North-South Corridor is not yet integrated due to the use of different tracks, but by the year 2020 the Baltic States should be fully integrated with the European network.

To ensure the success of the European rail system, priority is given to the renovation and modernisation of railway infrastructure on international transport corridors. In developing the railway infrastructure, the main attention is paid to ensuring the technical co-operation between Lithuania and Europe, ensuring the implementation of modern safety and environmental requirements, increasing the utilisation of railways and train speed, and promoting combined transport.

In October 2015, the first railway section of the international project Rail Baltica from the border of Lithuania and Poland to Kaunas was successfully completed. At the 120 kilometres long Rail Baltica international railroad, a new European standard gauge was built (1,435 mm wide) and an existing wide rail gauge (1,520 mm) was upgraded alongside it. On the whole track, 233 kilometres of new rails were built for 1,435 mm and 1,520 mm wide roads, including station tracks.

In June 2016, regular service of the European Rail Baltica route on the route Kaunas - Białystok - Kaunas started. On this route, the modern

Polish 2-wagon trains with 127 seats run on weekends. From Warsaw, passengers can continue their journeys to Berlin, Vienna, Prague and other European cities with other matched-up trains.

In September 2017, for the first time the **AB Lietuvos geležinkeliai Group** initiated hybrid security exercises involving more than 10 public institutions and 1,000 employees. During the exercises, attempts were made to defend against cyber-attacks and to eliminate threats in cooperation with specialised services. Also, the effectiveness of interinstitutional cooperation was assessed.

In 2017, the European Commission completed an investigation on the Mažeikiai-Rengė section, owned by **AB Lietuvos geležinkeliai Group**, which was dismantled in 2008. The European Commission has imposed a fine of EUR 27,873 thousand on the company due to the fact that, after dismantling the track between Lithuania and Latvia, the company created barriers to fair competition in the rail freight market and violated EU antitrust rules.

At the end of 2017, the overall length of the Lithuanian railway network lasted 1,911.3 kilometres and remained unchanged compared to 2016. The largest part of the network consists of 1,520 mm wide gauge in the CIS and the Baltic States. The length of the electrified track in 2017 increased by 24.9% and reached 152.4 kilometres. The infrastructure of the Lithuanian railway network is managed and operated by the state-owned enterprise **AB Lietuvos geležinkeliai Group**.

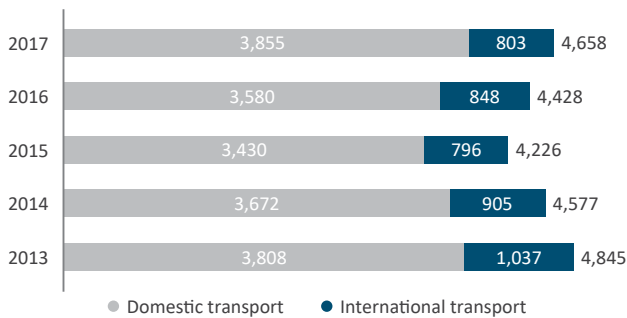
# Passenger Transportation

In 2017, 4.7 million passengers were carried by rail - 5.2% more than in 2016. Domestic transportation services grew by 7.7% - up to 3.9 million passengers and accounted for 82.8% of all passenger traffic. The increase in the number of passengers was conditioned by the renewal of passenger rolling stock park, increased frequency of trains and train speed, new services offered (Vilnius-Palanga, Vilnius-Nida combined routes), improvement of passenger train timetables (in co-operation with regional and city municipalities, train routes at major train stations were coordinated as well as transportation by train and bus), marketing tools - development of ticket sales channels, etc. The most popular routes are Naujoji Vilnia - Vilnius - Kaunas (34.8% of all carriages), Vilnius - Klaipėda (13.8%) and Vilnius - Ignalina - Turmantas (12.8%).

Transportation via international routes in 2017 decreased by 5.3% and amounted to 0.8 million passengers. After completion of the Vilnius-Minsk electrification project in 2017, it is expected to increase the attractiveness of this route. As a result of a significant decrease in passenger flows, the route Vilnius - Moscow was cancelled and, at the beginning of 2018, exploitation of the Vilnius - Daugavpils route started.

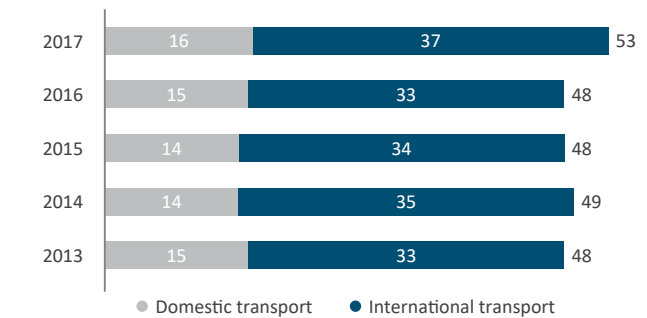
The transport of passengers by rail remains unprofitable, however, **AB Lietuvos geležinkeliai Group** is obligated to ensure the provision of these services in satisfying the needs of society.

Passenger Transportation via Lithuanian Railways ('000)



Source: AB Lietuvos geležinkeliai Group

Freight Transportation via Lithuanian Railways (million tonnes)



Source: AB Lietuvos geležinkeliai Group

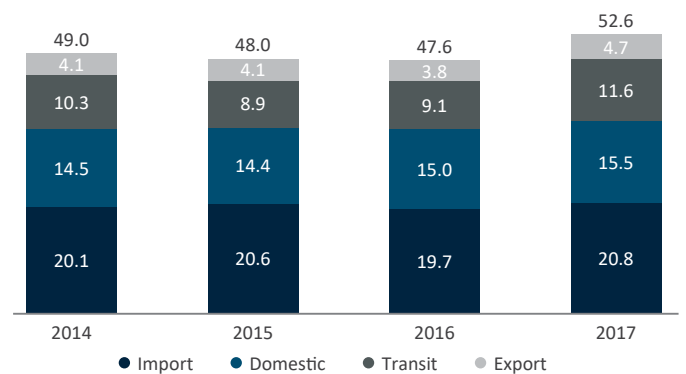
# Freight transportation

Freight transportation accounts for the bulk of railway revenues. In 2017, the revenue from freight transportation and use of railway infrastructure amounted to 85.2% of the total revenue of **AB Lietuvos geležinkeliai Group**, which increased by 10.9%. In 2017, freight volumes grew by 10.5% and reached 52.6 million tonnes. It is important to note that, despite the growth of freight volumes in Lithuania, freight volumes in the neighboring Baltic States declined: 8.4% in Latvia and 0.8% in Estonia. In total, 29.5% or 15.5 million tonnes of cargo were transported via local routes in Lithuania. Transportation via local routes grew by 3.3%. As in previous years, the market for local transportation via rail remains dependent on the results of several Lithuanian large factories: AB ORLEN Lietuva, AB Lifosa, AB Achema, AB Akmenės cementas and AB Dolomitas.

In 2017, the volume of transit freight increased by 28.8%, which accounted for 22.1% of the total cargo volume. Volume of imports and exports of goods grew by 5.4% and 21.5% respectively, and together made up 25.5 million tonnes or 48.3% of the total amount of goods carried by rail in 2017. 29% increase in cargo transit through the Kaliningrad region resulted in the growth of international transportation by 13.8%. Freight transportation via Klaipėda Seaport grew by 8% due to the transportation of fertilizers from Belarus.

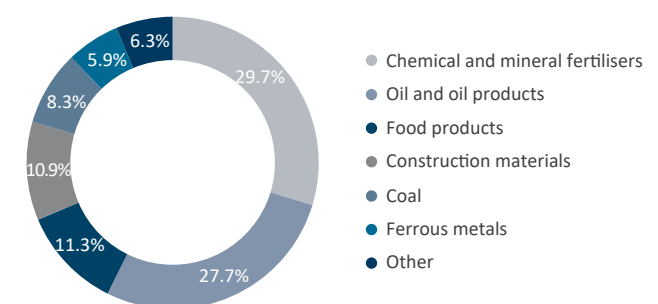
Looking at the structure of shipments in 2017, chemical and mineral fertilizers accounted for the largest part of the transported cargo - 29.7% or 15.6 million tonnes, whereas the share of oil and its products slightly lagged behind in the overall structure of shipments, which amounted to 27.7% and made up 14.6 million tonnes. The fastest, 61.7%, growth of volumes in 2017 was recorded for transported coal, which made up 8.3% of the cargo structure. Food products accounted for 11.3%, construction materials - 10.9%, ferrous metals - 5.9%, and other goods - 6.3% of all 2017 shipments.

Structure of Freight Transported via Lithuanian Railways (million tonnes)



Source: AB Lietuvos geležinkeliai Group

Structure of Freight Transported via Lithuanian Railways in 2017

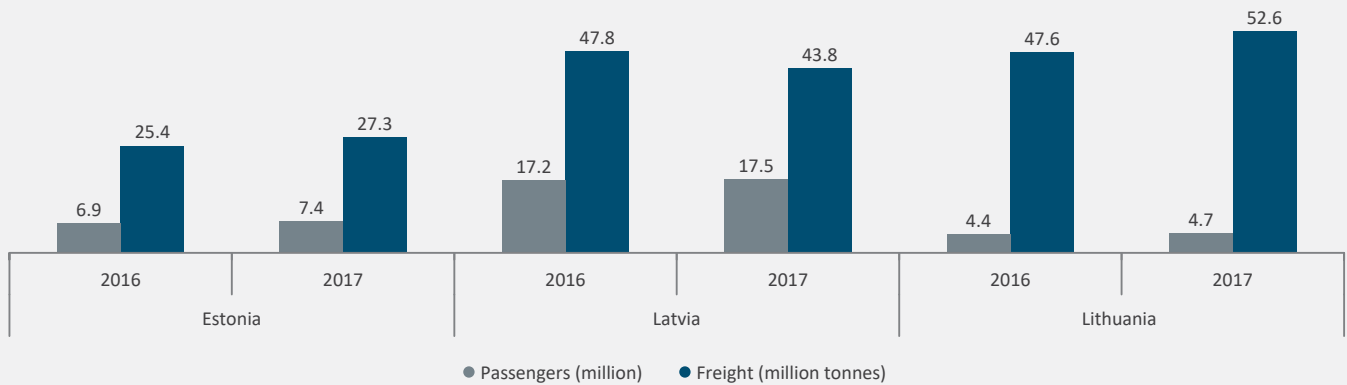


Source: AB Lietuvos geležinkeliai Group

Comparing the volumes of passengers and cargo traveling via Lithuanian railways with other Baltic States, Latvian railways are distinguished, having carried 17.5 million passengers in 2017 (almost 4 times more than in Lithuania). In Estonia, 7.4 million passengers were transported, which is 7.2% more than in 2016 (a passenger train fleet

was completely renewed in Estonia from 2013 to 2014). According to the volume of cargo transported among the Baltic States in 2017, the largest volume of cargo was transported via Lithuanian railways – 52.6 million tonnes. At the same time, Estonia transported the least – 27.3 million tonnes.

Volumes of Passengers and Cargo Carried via Baltic States' Railways



Source: AB Lietuvos geležinkeliai Group, Latvian railroads, Latvian Department of Statistics and Estonian Statistics Department

## Maritime Transport

The Lithuanian maritime transport system consists of the Lithuanian Maritime Commercial Fleet, Klaipėda State Seaport, Šventoji State Seaport, ORLEN Lithuania Būtingė Oil Terminal and other companies and agencies servicing vessels. Klaipėda State Seaport and Šventoji State Seaport are managed by **VĮ Klaipėdos valstybinio jūrų uosto direkcija**. The Seaport is able to handle about 65 million tonnes of cargo per year and service ships with 13.8 m draft.

In 2017, the port of Klaipėda handled 43.2 million tonnes of cargo – 7.6% more than in 2016. Growth was fuelled by the 15.8% increase, up to 19.2 million tonnes, in volumes of granular cargo handling. Liquid and general cargo volumes respectively grew by 2.8% (to 11.5 million tonnes) and 0.7% (up to 12.4 million tonnes). Compared to the cargo handling results of the Riga port, it is noted that the handling of Klaipėda port is more diversified, while in the port of Riga 62% of handling was made up of liquid cargo, which decreased by 6.6% during the year. However, the most significant decrease in the handling of the port of Riga was caused by a 29.9% (2.5 million tonnes) decrease in granular cargo handling volumes.

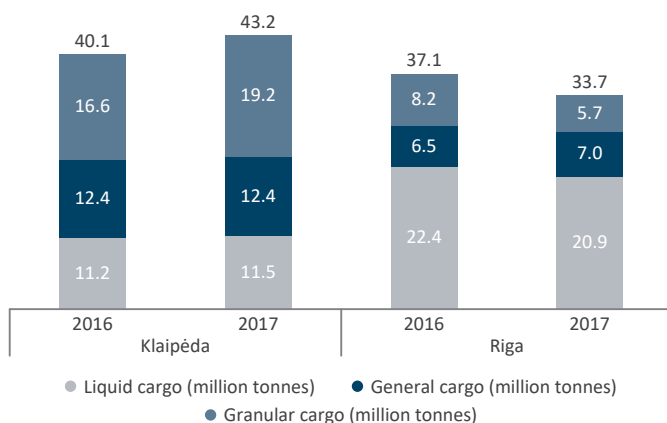
In 2017, 369.7 thousand passengers visited Klaipėda's Port which is 5.4% or 19.1 thousand passengers more than a year ago. In recent years, the number of passengers has risen considerably from cruise ships, reaching 74.7 thousand passengers in 2017, or 16.2% more than in 2016 and 2.3 times more than in 2013. The number of cruise ships at berth has also grown significantly - from 52 to 63 ships per year - 21.2% more than in 2016.

Handling Volumes at Klaipėda Seaport (million tonnes)



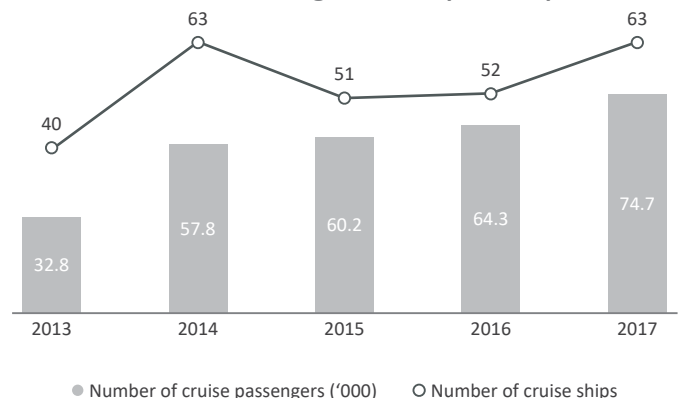
Source: VĮ Klaipėdos valstybinio jūrų uosto direkcija

Klaipėda and Riga Port Cargo Groups



Source: VĮ Klaipėdos valstybinio jūrų uosto direkcija, Riga Port

Number of Cruise Passengers and Ships in Klaipėda Port



Source: VĮ Klaipėdos valstybinio jūrų uosto direkcija

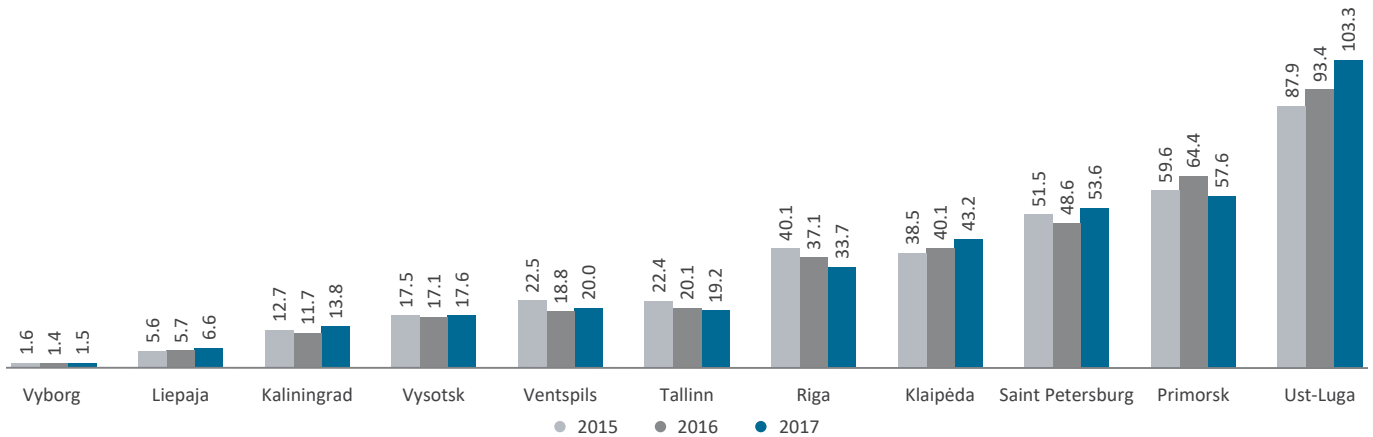


## East Coast Seaports of the Baltic Sea

The total handling of the eastern coast of the Baltic Seaports in 2017 increased by 3.3% to 379.9 million tonnes. Russia's Ust-Luga (103.3 million tonnes), Primorsk (57.6 million tonnes) and St. Petersburg (53.6 million tonnes) ports remained the leaders. The handling of these ports grew by more than 10%, except for the Port of Primorsk, whose turnover decreased by 10.5%. Klaipėda's Seaport has occupied

the fourth place for the second consecutive year according to the volume of handling, which grew by 7.6% (3 million tonnes) during the year. Handling of Riga and Tallinn ports decreased by 9.2% and 4.7% respectively, while Klaipėda Port's market share in the east coast ports of the Baltic Sea increased from 10.9% in 2016 to 11.4% in 2017.

Cargo Handling Volumes in East Coast Seaports of the Baltic Sea (million tonnes)



Source: VĮ Klaipėdos valstybinio jūrų uosto direkcija

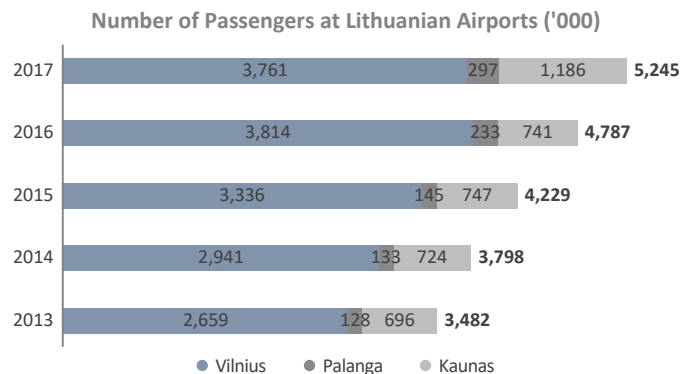
## Airports

In 2017, there were three international passenger airports operating in Lithuania: Vilnius, Kaunas and Palanga (medium and small class aircraft servicing), and the Šiauliai Airport belonging to Šiauliai Municipality which was used mainly for military aviation purposes. The infrastructure of passenger airports has been entrusted to the **VĮ Lietuvos oro uostai** on fiduciary basis since July 1, 2014. Air traffic control, communications and air traffic control services are provided by the **VĮ Oro navigacija**. In 2017, the number of directions to and from Lithuanian airports reached 92: Vilnius airport 63, Kaunas airport 18, and Palanga airport 11. Direct flights were operated to 28 countries.

The implementation of the project for the restructuring of **VĮ Lietuvos oro uostai** into a joint-stock company, which is scheduled to be completed by the end of the first quarter of 2019, has started in 2017, in accordance with the OECD recommendations regarding state-owned enterprises performing commercial activities and to increase the efficiency of Lithuanian airports.

## Performance

In 2017, all three Lithuanian civilian airports serviced 55.5 thousand flights, which was 5% more than in 2016. The flow of people who used the services of these airports in 2017 has increased by 9.6% up to 5.2 million passengers. Growth was mainly driven by the growing number of seats offered by airline companies - increasing the number of flights, directions and larger aircraft used on the route. Compared to 2016, the number of seats offered in Lithuanian airports grew by 9%, while aircraft fill rates remained rather high. This is also influenced by the fact that the Lithuanian aviation market is still developing and demand is not fully met. The growth of passengers and flights serviced at Lithuanian airports during the last five years was mainly determined by the increasing results of Vilnius Airport - the number of passengers serviced at the airport from 2013 increased by 41.5%, flights - 19.7%. Nevertheless, in 2017 the number of passengers in Vilnius branch decreased by 1.4% (to 3.8 million passengers), while at Kaunas airport this figure increased by 60.2% (to 1.2 million passengers). This



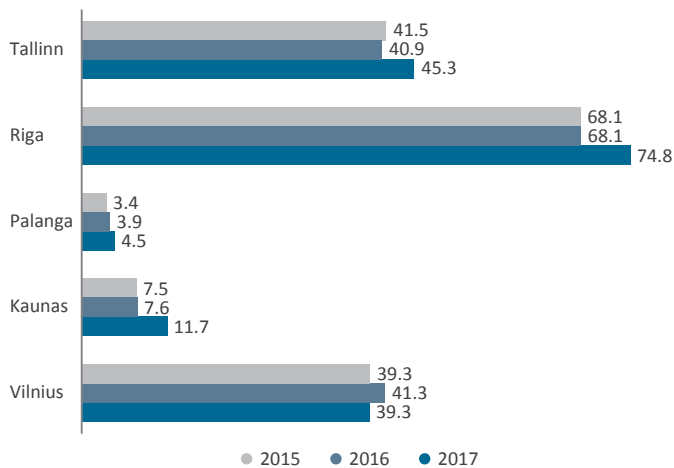
Source: VĮ Lietuvos oro uostai

happened due to the reconstruction of the Vilnius Airport's take-off runway, when most of the flights were redirected to Kaunas Airport. At Palanga Airport, the number of passengers increased by 2.7% (up to 297 thousand passengers).

Comparing Lithuanian airports with other Baltic airports, Riga remains a clear leader in terms of both the number of flights and passengers serviced - 74.8 thousand and 6.1 million respectively. Vilnius airport

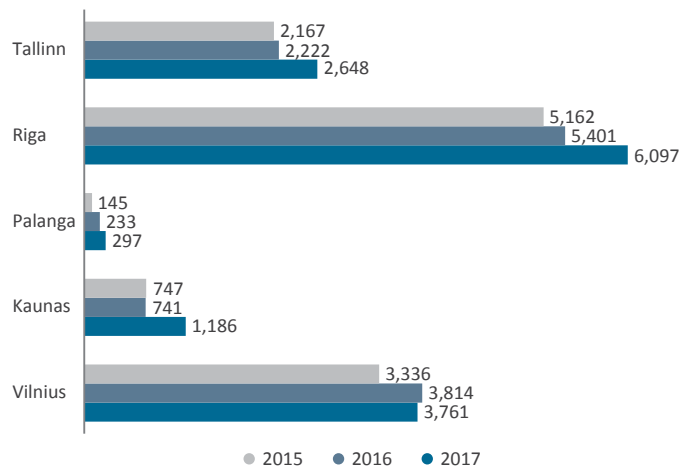
is already significantly ahead of Tallinn Airport (45.3 thousand flights and 2.6 million passengers) in terms of the number of passengers (1.1 million more). After 2016, when the Vilnius branch overtook Tallinn Airport for the first time in the last three years in line with the number of flights serviced, it was lagging behind in 2017 (6 thousand less flights). It is noteworthy that the market share of **VĮ Lietuvos oro uostai** has been increasing over the last three years. The strong position of Lithuanian airports in the region is noticeable, Vilnius annually

Number of Flights at Baltic States' Airports ('000)



Source: VĮ Lietuvos oro uostai, Riga Airport, Tallin Airport

Number of Passengers at Baltic States' Airports ('000)



Source: VĮ Lietuvos oro uostai, Riga Airport, Tallin Airport

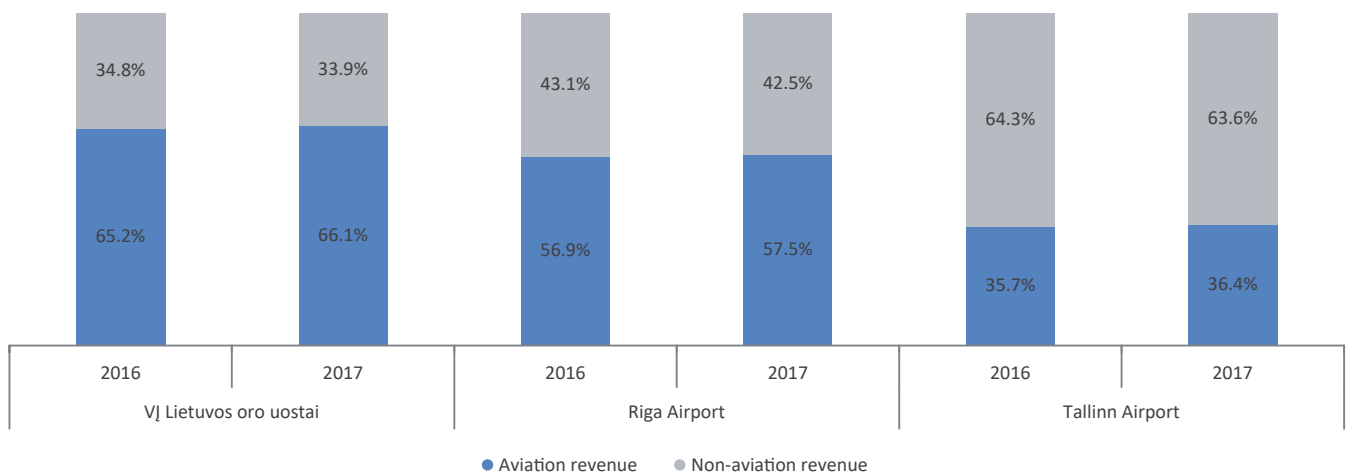
moderately increases the number of destinations, thus approaching the position of a regional leader. According to the Accessibility Index of ACI (International Airport Council), the significant annual growth of Lithuania's reach indicator is captured (2016/2017 availability: direct flights +12%, connecting flights +41%).

The main airlines in 2017 remained low-cost airlines, Ryanair and Wizz Air, which accounted for 30% and 25% of the market in 2017, respectively. In Latvia and Estonia, market leaders were national carriers, airBaltic (50.2% of the market) and Nordica (17%) respectively. The low-cost airlines here accounted for significantly less flights than in Lithuania. The most popular flight destinations at Lithuanian airports remain the same as in the previous years, i.e. London, where

Luton airport accounted for 10% of passengers and Stansted airport – for 4% of passengers, Copenhagen (6% of passengers) and Frankfurt (4% of passengers).

In 2017, the share of non-aviation revenue in **VĮ Lietuvos oro uostai** amounted to 33.9% of total revenue, in 2016 it was 34.8%, and in 2015 it was 37.6 percentage points. The structure of non-aviation income between branches of Lithuanian airports is significantly different due to different pricing and toll rates. Compared to other Baltic airports, the share of non-aviation revenue of **VĮ Lietuvos oro uostai** is significantly lower than the non-aviation revenue of Tallinn Airport and Riga Airport, which accounted for 63.6% and 42.5% respectively in 2017.

Revenue Structure of the Airports in Baltic States



Source: VĮ Lietuvos oro uostai, Riga Airport, Tallin Airport

# Energy

SOEs of the energy sector generate nearly a tenth of the country's electricity demand and own electricity and gas transmission and distribution networks. After liberalisation of electricity and gas markets, activities of generation, transmission and distribution were separated and liberalised market of electricity was established. The implementation of the LNG terminal, which in 2017 met more than half of the total natural gas demand of the Lithuanian population, and cross-border electricity connections with Sweden and Poland ensure international integration of energy systems, promote sector efficiency, transparency, security and energy independence.

State-owned enterprises active in the energy sector produce and supply electricity and heat to consumers and provide various related services. In addition, this sector includes **AB Klaipėdos nafta**, which provides oil and oil products transshipment services, and, also, is responsible for

the exploitation of the liquefied natural gas (LNG) terminal in Lithuania. In 2017, in the entire energy sector there were nine SOEs, indicated in the table below (except **UAB Geoterma**, which due to the lack of data is not included in the results of the portfolio of the SOE).

Enterprise	Field of activity	Turnover in 2017 (EUR '000)	Assets at the end of 2017 (EUR '000)	Number of employees at the end of 2017	State's share
Lietuvos energija, UAB, Group	Lietuvos energija, UAB, Group owns Lietuvos energijos gamyba, AB Group, AB Energijos skirstymo operatorius. The Group's activities include electricity and heat generation, supply, trade and distribution of electricity, trade in natural gas, and their distribution	1,100,831	2,505,068	4,513	100.0 %
UAB EPSO-G Group	The company controls the Lithuanian electricity transmission system operator LITGRID AB and natural gas system operator AB Amber Grid.	225,246	770,456	1,014	100.0 %
AB Klaipėdos nafta	Exports and imports of petroleum products, operation of the LNG terminal	106,484	301,245	389	72.3 %
VĮ Lietuvos naftos produktų agentūra	Petroleum products storage	19,839	93,200	7	100.0 %
VĮ Visagino energija	Heat energy and water supply, wastewater treatment	12,663	49,519	195	100.0 %
VĮ Ignalinos atominė elektrinė	Decommissioning of Ignalina Nuclear Power Plant	201	701,370	1,983	100.0 %
VĮ Radioaktyviųjų atliekų tvarkymo agentūra	Radioactive waste management and disposal	26	338	23	100.0 %
VĮ Energetikos agentūra	Implementation of the national energy strategy and other state programs	6	1,116	18	100.0 %

## Sales revenue (EUR million)

1,209

1,444

1,486

1,465

## Normalised net profit (EUR million)

134.9

160.2

187.6

165.1

2014

2015

2016

2017

# Financial results

## Energy sector revenue fell by 1.4%

In 2017, the sales revenue of energy companies amounted to EUR 1,465.3 million and, compared to the results of 2016, dropped by 1.4%. The decrease was mainly due to the change in revenue of the **VĮ Lietuvos naftos produktų agentūra** which decreased by more than 41% over the reporting period, down to EUR 19.8 million. Also, during 2017, **UAB EPSO-G Group** earnings decreased by more than EUR 9 million. The main reason for the decrease in the group's income was the drop in prices for electricity and gas services by, respectively, 2.8% and 7.8% for Lithuanian consumers in 2017. At the same time, the amount of electricity transmitted increased by 2.7%. The loss of the sector's revenue was also influenced by **Lietuvos energija, UAB, Group** results - its revenue decreased by 0.1% or almost EUR 1 million during the reporting period. Meanwhile, **AB Klaipėdos nafta** revenue in 2017 increased by 2.5% and amounted to EUR 106.5 million. Revenues grew the most in the operating segments of the LNG terminal and the oil terminal - by 1.8% and 4.1%, respectively.

In the energy sector, the net sales of the companies did not change significantly and, as in the previous years, amounted to EUR 941 million. Meanwhile, operating expenses during the reporting period increased by 21.9%, to EUR 416.2 million. The significant impact towards the cost of goods sold of the sector was made by **Lietuvos energija, UAB**, the costs of the group of companies, during the reporting period, increased by EUR 13.2 million or 1.8%. In 2017, particularly significant was a EUR 15.1 million or 6.4% increase in the cost of purchasing gas and related services, resulting from increased gas sales and purchase prices. During the same period, the cost of

the **VĮ Lietuvos naftos produktų agentūra** decreased from EUR 33 million in 2016 to EUR 19.4 million in 2017, and thus compensated **Lietuvos energija, UAB** impact of the Group's cost growth on the results of the energy sector. Cost of goods sold of **UAB EPSO-G, Group, AB Klaipėdos nafta** and **VĮ Visagino energija** did not change significantly during the reporting period and, as in previous years, amounted to EUR 88 million, EUR 83 million and EUR 10 million respectively.

In the reporting period, the operating expenses of the energy sector increased by 21.9% or by EUR 74.8 million, mainly due to the one-time events, such as revaluation of assets. The biggest influence on the increase in operating expenses was the 16% increase in **Lietuvos energija UAB, Group** operating expenses, which reached EUR 263.2 million in 2017. Operating expenses increased due to a decrease in the value of non-current tangible assets, which amounted to EUR 33.4 million, and due to the result of the revaluation of non-current assets which amounted to EUR 7.1 million. In previous years, these costs amounted to EUR 0.6 million and EUR -0.3 million (revenue of EUR 0.3 million) respectively. Operating expenses were also increased by the depreciation and amortization expense of EUR 8.8 million. Other operating expenses of the Group decreased in 2017. Operating expenses of **UAB EPSO-G** in 2017 compared to the previous year increased by EUR 35.7 million. Expenses increased due to the one-time revaluation impact of **AB Amber Grid** assets. The operating costs of other energy sector enterprises did not change significantly in the reporting period and remained at a similar level as in 2016.

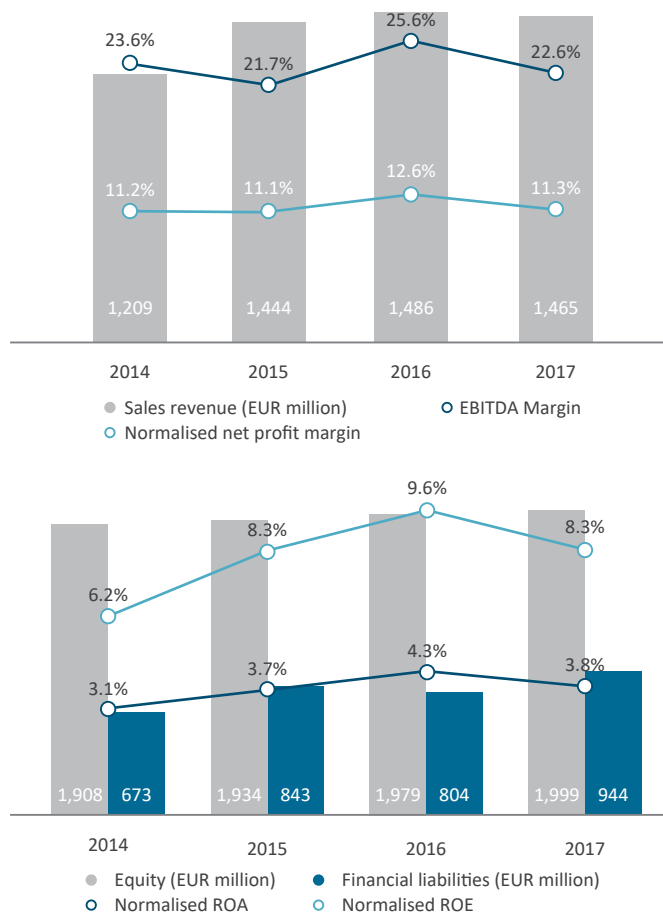
<b>PROFIT (LOSS) STATEMENT (EUR '000)</b>	<b>2016</b>	<b>2017</b>
<b>Sales revenue</b>	<b>1,485,627</b>	<b>1,465,296</b>
Cost of goods sold	941,571	941,224
<b>Gross profit (loss)</b>	<b>544,056</b>	<b>524,072</b>
Operating expenses	341,412	416,229
Other operating profit (loss)	-304	-195
<b>Operating profit (loss)</b>	<b>202,340</b>	<b>107,648</b>
<i>Operating profit margin</i>	<i>13.6%</i>	<i>7.3%</i>
<b>EBITDA</b>	<b>380,060</b>	<b>331,560</b>
<i>EBITDA margin</i>	<i>25.6%</i>	<i>22.6%</i>
Financial and investment activities	-3,137	-9,303
<b>Profit (loss) before taxes</b>	<b>199,203</b>	<b>98,345</b>
Profit tax	32,456	-2,545
<b>Net profit (loss)</b>	<b>166,717</b>	<b>100,890</b>
Minority interest	15,385	9,092
<b>Normalised net profit (loss)</b>	<b>187,575</b>	<b>165,108</b>
<i>Normalised net profit (loss) margin</i>	<i>12.6%</i>	<i>11.3%</i>
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Intangible assets	34,937	41,617
Tangible assets	2,954,497	2,925,689
Financial assets	11,838	5,076
Other non-current assets	262,054	221,448
Biological assets	0	0
<b>Non-current assets</b>	<b>3,263,325</b>	<b>3,193,829</b>
Inventories, prepayments and contracts in progress	267,929	290,028
Amounts receivable within one year	439,129	504,626
Other current assets	35,110	105,591
Cash and cash equivalents	295,781	328,238
<b>Current assets</b>	<b>1,037,948</b>	<b>1,228,483</b>
<b>Total assets</b>	<b>4,301,273</b>	<b>4,422,311</b>
<b>Equity</b>	<b>1,978,770</b>	<b>1,999,188</b>
Minority shareholder equity	118,102	113,499
<b>Grants and subsidies</b>	<b>839,119</b>	<b>814,400</b>
Non-current liabilities	930,944	1,019,677
Current liabilities	552,440	589,046
<b>Liabilities</b>	<b>1,483,384</b>	<b>1,608,723</b>
Financial liabilities	803,724	943,890
<b>Total equity and liabilities</b>	<b>4,301,273</b>	<b>4,422,311</b>
<b>RATIOS</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Normalised ROA	4.3%	3.8%
Normalised ROE	9.6%	8.3%
D/E	40.6%	47.2%
<b>RETURN TO THE STATE (EUR '000)</b>	<b>2016</b>	<b>2017</b>
Assigned dividends (share of the State)	108,197	91,264
Assigned profit contributions	0	0
<b>Dividends and Profit Tax for the State:</b>	<b>108,197</b>	<b>91,264</b>
Property Tax	534	534
<b>Total:</b>	<b>108,731</b>	<b>91,798</b>
<b>EMPLOYEE INFORMATION</b>	<b>2016</b>	<b>2017</b>
Number of Employees	8,554	8,142
Number of Executives	139	138

## Normalised ROE of the sector reached 8.3%

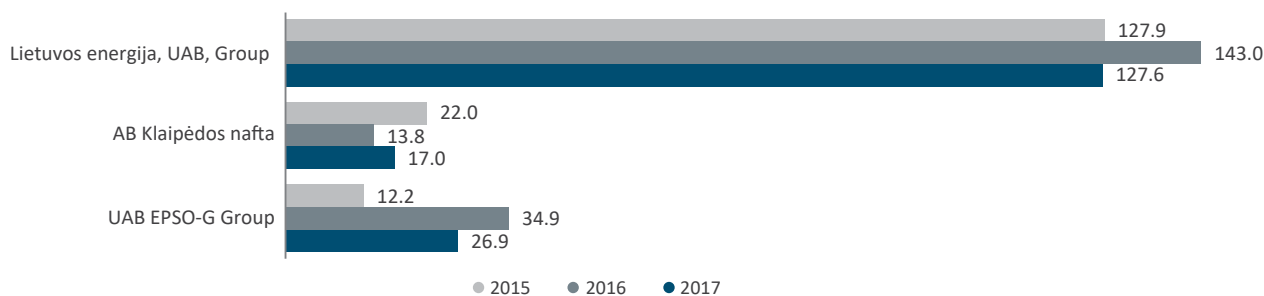
In the energy sector, the normalised returns compared to 2016 have decreased. While the normalised return of the sector in the year 2016 amounted to 4.3%, in 2017 it dropped to 3.8%. Meanwhile, the normalised return on equity fell from 9.6% to 8.3% over the year. Eliminating the influence of one-off factors, **Lietuvos energija, UAB** the normalised return on equity of the group in 2017 decreased from 10.9% to 9.6%, due to decreased net profit and increased equity value, and the return on assets decreased from 6% to 5.2%. During the same period, the normalised return on equity of the **UAB EPSO-G Group** fell from 15.8% to 11.3%. The return on normalised assets, having reached 3.5% in 2016, fell to 3.3% in the reporting year. The main reason for these changes is that the company's normalised net profit is decreasing faster than the company's own equity capital. Meanwhile, the return on **AB Klaipėdos nafta** in 2017 compared to 2016 has increased - equity returns increased by 1.6%, from 7.1% to 8.7%, return on assets - 0.6%, from 7.1% to 8.7%. The growth in returns was largely driven by a net profit increase of more than 23% and a mere EUR 7.4 million or 3.8% increase in equity.

The amount of dividends and profit contributions allocated by the energy sector companies for 2017, which will supplement the state budget, compared to 2016, decreased by 15.7%, from EUR 108 million to EUR 91.3 million. The largest part, EUR 78.3 million, was made up of dividends by **Lietuvos energija, UAB**. The remaining share of dividends was allocated by **AB Klaipėdos nafta** and **UAB EPSO-G**, EUR 12.3 million and EUR 0.7 million respectively. **UAB EPSO-G** has reduced its dividends due to the large corporate debts arising from acquisition of the **LITGRID AB** shareholding from **Lietuvos energija, UAB**. Other sector companies did not contribute to the revenue of the state budget in the form of dividends or profit premiums.

Changes in sales revenue, equity, financial liabilities and profitability of the sector in 2014-2017 are presented in the graphs below.



### Normalised Net Profit of the Largest Energy Sector Enterprises (EUR million)



## Electricity sector

According to the requirements of the EU Third Energy Package, to improve the functioning of the electricity sector, and to ensure a level playing field in the market and to stimulate competition, the restructuring started in 2010 has split the sector into separate elements, performing different functions: electricity production, transmission and distribution.

Electricity production functions are performed by **Lietuvos energija, UAB, Group**, which through its subsidiary **Lietuvos energijos gamyba, AB**, manages three production units: the Elektrenai complex with the reserve power plant and the combined cycle block, Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant. The capacity of these three power plants ensures the country's energy security - their production in 2017 amounted to 1.15 TWh, i.e. about 9.2% of the demand of the country's consumers. The transmission of electricity

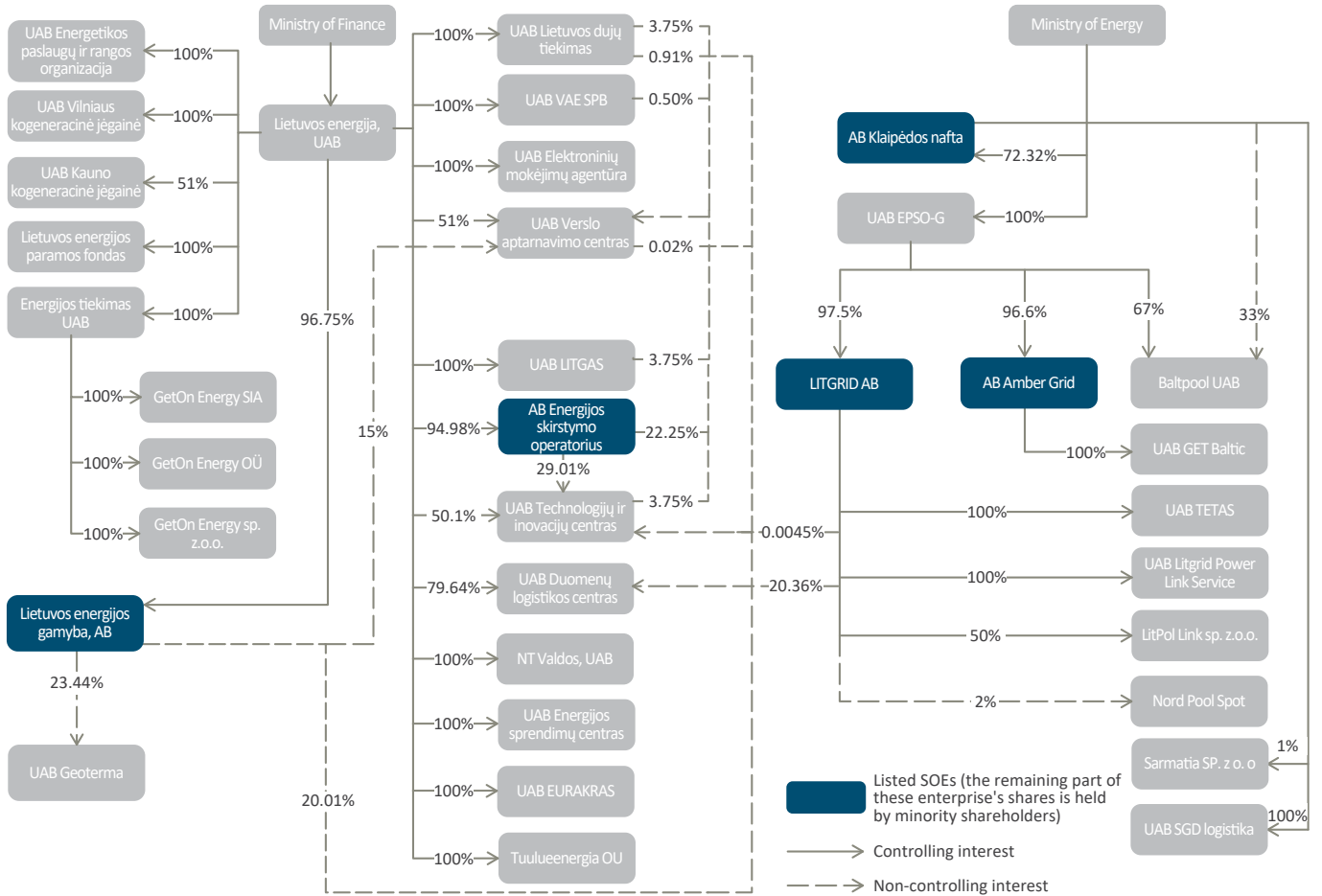
is the responsibility of the state-owned company **UAB EPSO-G Group**, which, through its subsidiary **LITGRID AB**, maintains a stable operation of the country's electricity system, manages electricity flows and creates conditions for competition in the open electricity market. **LITGRID AB** is responsible for the integration of Lithuanian electricity into the European electricity infrastructure and the common electricity market. **AB Energijos skirstymo operatorius**, belonging to the group **Lietuvos energija, UAB**, is responsible for the transmission of electricity to the customers of the country via

distribution networks. The restructuring process described in the EU's Third Energy Package was completed in September 2012.

Another aspect of the restructuring of the electricity industry is a free electricity market, which was established in 2010, where electricity

now can be bought by suppliers, all legal entities and other non-household consumers, and the electricity price is not controlled by the NCC. In June 2012, Lithuania became a part of the Nord Pool Spot (Nordic and Baltic power exchange) trading area, thus accelerating integration into European electricity markets.

### Energy Sector State-Owned Enterprises, Their Subsidiaries and Associated Companies at the End of 2017



## Electricity Generation

The basis of the Lithuanian power generation unit is the production units controlled by **Lietuvos energijos gamyba, AB** - the Elektrėnai complex with the reserve power plant and the combined cycle block, Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant. This strategically important, indirectly state-controlled company carries out the functions of electricity and heat production, import and export, as well as the domestic trading market (trading in the wholesale market under the contract is carried out by Energijos tiekimas, UAB), and has concentrated on large Lithuanian electricity generation capacities.

According to the NCECP, in 2017 electricity production in Lithuania decreased from 4 TWh to 3.9 TWh. The decrease in the amount of electricity produced was determined by the 16.4% decrease in the amount of electricity generated by **Lietuvos energijos gamyba**, especially by Elektrėnai complex, in which the amount of electricity generated in the reporting year was 71.8% lower than in 2016 due to low electricity prices on the stock exchange and an alternative to cheaper energy. Meanwhile, in other power plants managed by the group, the amount of electricity produced increased due to

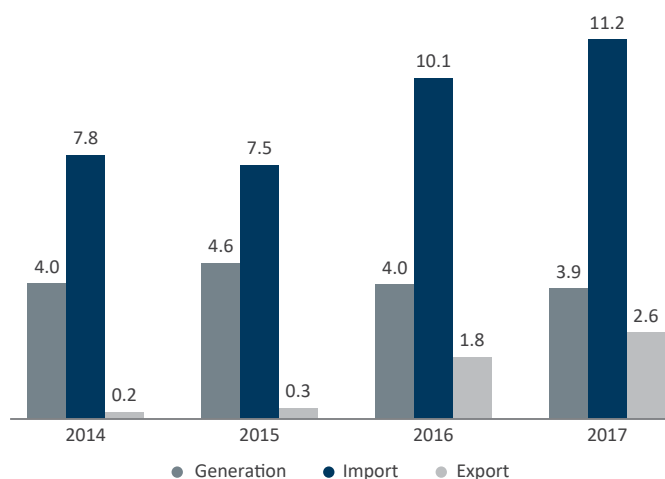
the increase in rainfall. The decrease in the amount of electricity produced in Lithuania was offset by imports of energy, which increased by 10.9%, to 11.2 TWh.

As new connections with Sweden and Poland started operating in 2016, the electricity exports, as in previous years, grew reaching 39.6% in 2017. In the reporting year, electricity was mainly exported to Poland (1.6 TWh), Sweden (0.3 TWh) and Estonia (0.3 TWh). Lithuania, as in previous years, imported the largest amount of

electricity from Latvia (3.8 TWh). However, in 2017, with a significant increase in imports of electricity from Sweden (3.3 TWh), Russia, being the second largest exporter of electricity to Lithuania in 2016, was pushed to a third place. In the reporting period, Lithuania imported 3.2 TWh of electricity from Russia.

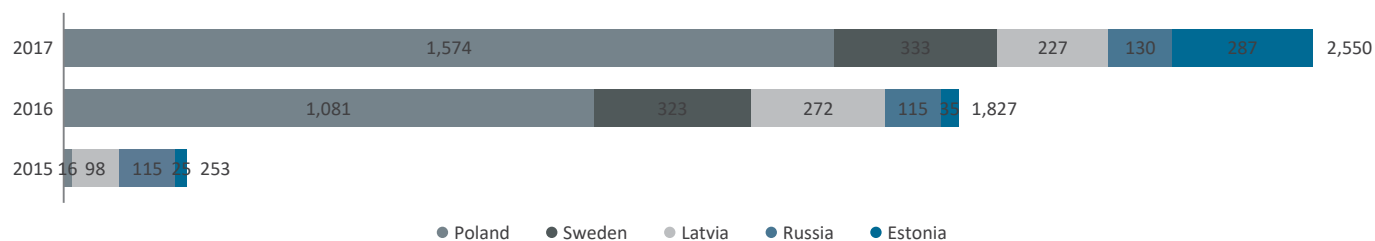
The contribution of **Lietuvos energijos gamyba**, to the total amount of electricity produced in Lithuania in 2017 amounted to 29.4%. Compared to 2016, this share decreased by 5.6%. Of the 1.15 TWh of electricity produced by the company, 0.14 TWh (in 2016 - 0.49 TWh) was produced by the Elektrenai complex, 0.55 TWh (in 2016 - 0.52 TWh) by Kruonis Pumped Storage Power Plant, and 0.46 TWh (in 2016 - 0.36 TWh) by Kaunas Algirdas Brazauskas Hydroelectric Power Plant. In total, 3 TWh of electricity (including electricity produced by Kruonis Pumped Storage Power Plant) in Lithuania in 2017 was produced from renewable energy sources. According to the NCC, most of the electricity in Lithuania is generated using renewable energy sources.

### Electricity Generation, Export and Import in Lithuania (TWh)



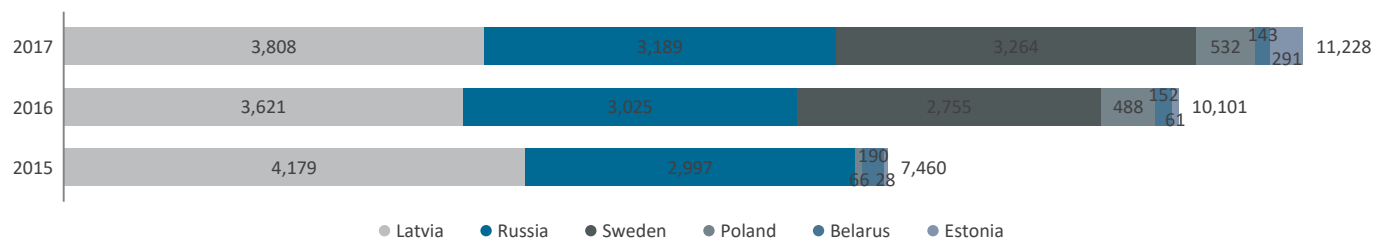
Source: NCC

### Electricity Export Structure by Countries (GWh)



Source: NCC

### Elektros energijos importo struktūra pagal šalis (GWh)



Source: NCC

## Transmission

Transmission and distribution network operators are companies that provide electricity transmission from manufacturer to customer.

### Final electricity consumption increased by 2%

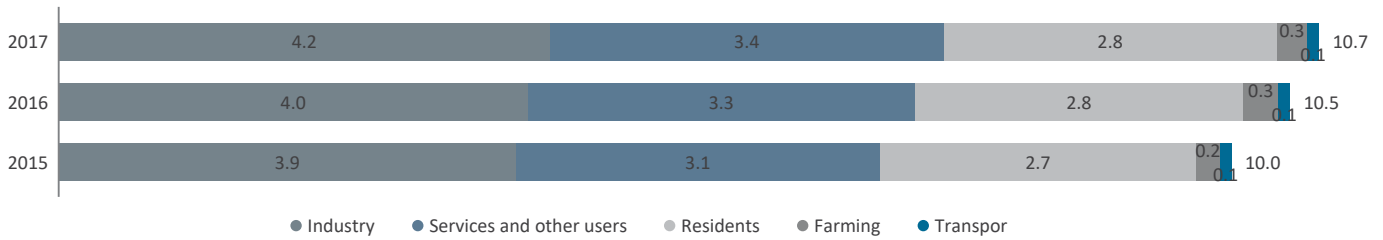
Electricity transmission service, or its transmission by high voltage (330-110 kV) installations from manufacturers to suppliers or consumers, is the responsibility of the Lithuanian transmission operator **LITGRID AB**. The only company operating on this market manages a high-voltage electricity transmission network, ensures high-quality, reliable and efficient transmission of electricity, administers public-interest services (PSO), sells balancing and regulating energy and reserve power, and balances energy system. According to the data of **LITGRID AB**, in 2017 the amount of energy transmitted by high-voltage electricity

transmission networks increased by 2.7%, to 10 TWh. Of these, 9 TWh (in 2016 - 8.8 TWh) of electricity was transferred to consumers of **AB Energijos skirstymo operatorius**, while 1 TWh (in 2016 - 0.9 TWh) was transferred to other users, connected to the transmission network.

Electricity consumption has increased in almost all consumer segments. The largest growth in 2017 was in the agricultural sector - 4.4%, followed by the industrial sector with a growth of 3.9%. Electricity consumption in transport sector remained almost unchanged, decreasing by only 0.1%.



### Final consumption of electricity in Lithuania (TWh)



Source: NCC

Electricity is accessed by most consumers on low and medium voltage networks, that are controlled by companies called distribution network operators (DNOs). In Lithuania, the function of the distribution network operator is performed by indirectly state-owned company **AB Energijos skirstymo operatorius** established on January 1, 2016 (this activity was performed by **AB LESTO** till December 31, 2015). In addition, five other market participants - AB Achema, AB Lifosa, AB Akmenės cementas, UAB E Tinklas and UAB Dirbtinis pluostas - have

electricity distribution licenses and distribute energy in the territories of their enterprises. **AB Energijos skirstymo operatorius** ensures the exploitation, development and maintenance of distribution networks, their safety and reliability, satisfies other customer needs and effectively connects new customers. The company has a well-developed infrastructure covering the entire country and, according to the data of the end of 2017, served 1.6 million customers throughout Lithuania.

## Supply

After the 2010 transformation in Lithuania, as in other EU countries, separation of electricity transmission and supply was started. Thus, in the liberalized supply market, besides the public supplier, many independent suppliers of electricity have emerged. At the end of 2017, the number of market participants with independent power supply licenses was 37, of which 24 were registered as operating and carrying out their function of purchasing electricity from producers and importers and selling them to eligible customers (who have the right to choose an independent supplier). So far, the public supplier, whose function in Lithuania is carried out by **AB Energijos skirstymo operatorius**, must carry out the sale of electricity to regulated customers who have not chosen or who have lost the independent supplier.

### In 2017, electricity suppliers sold 0.3 TWh more than in 2016

At the end of 2017, 380 participants from 20 countries, of which some legal entities are registered in Lithuania, were registered at the Nord Pool Spot market exchange, which became the trading zone of Lithuania in 2012. In 2017, as in previous years, the largest market share of the market in Lithuania was held by INTER RAO Lietuva - 95%.

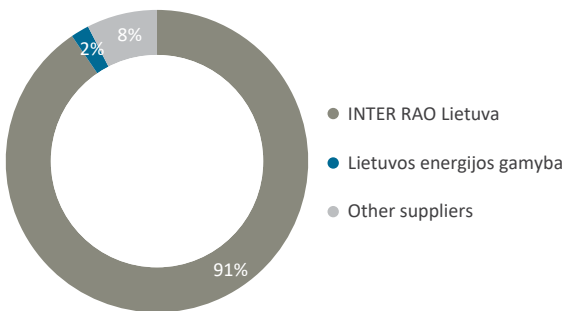
In 2017, electricity suppliers sold 9.6 TWh of electricity in the retail electricity trading market which is 0.3 TWh more than in 2016. In the reporting year, the market share of **AB Energijos skirstymo operatorius** did not change significantly in comparison with the

previous period and amounted to 33%. Among the independent energy suppliers, the market share of the AB INTER RAO Lietuva increased significantly, from 13% in 2016 to

18% in 2017. During the same period, the market shares of UAB Energy, Elektrum Lietuva, UAB and Energijos tiekimas UAB decreased by 3%, 2% and 2% respectively.

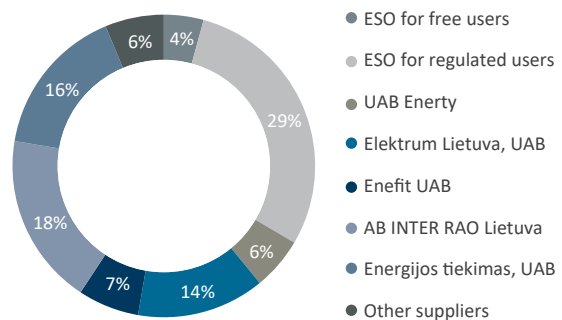
Total electricity demand and final consumption in Lithuania, as compared with 2016, increased to 12.5 TWh and 10.7 TWh, respectively.

Structure of Sales Market on the Exchange in 2017 (%)



Source: NCC

Structure of Retail Electricity Market in 2017 (%)



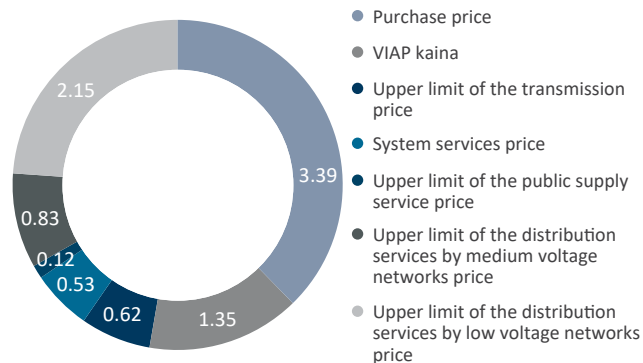
Source: NCC

# The price of electricity

The final electricity tariff for the consumer consists of two parts: one of them estimates the electricity as a commodity and may change due to the possibility of choosing an independent supplier on the free market, while the other prices electricity transmission and distribution. The second part is paid to electricity transmission and distribution operators and is determined by the NCC each year, taking into account the costs of electricity transmission. This part is also divided into the cost of transmission, distribution, delivery prices, system services and PSO. These prices are regulated by the NCC. The average public electricity price, set by the NCC for 2017, was 9.09 ct/kWh without VAT, while in 2018 it shall reach 8.98 ct/kWh without VAT. The average public electricity pricing is shown on the right-hand side of the graph.

While the cost of electricity purchases decreases by 7.9%, the average price of electricity for end users decreases by 1.2% in 2018. In 2018, the price of the PSO decreases by 4 ct/kWh and reaches 1.35 ct/kWh, the total distribution by medium and low voltage networks increases by 0.16 ct/kWh, and the price of system services increases by 0.14 ct/kWh per year. Transmission by high voltage electricity services decreases by 0.05 ct/kWh.

Structure of Average Electricity Price in 2018  
(ct/kWh, excluding VAT)



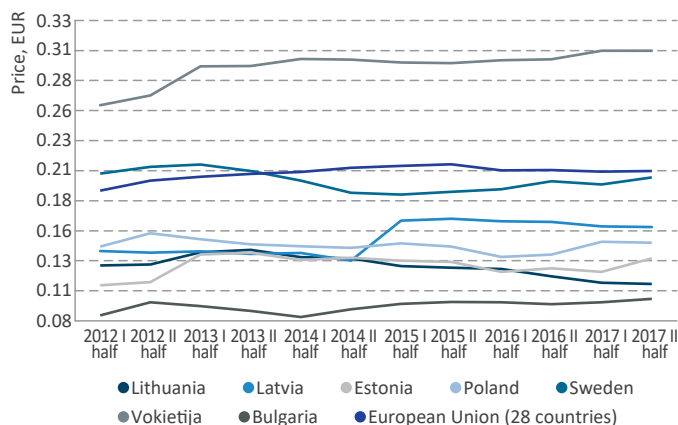
Source: NCC

# Electricity prices for EU citizens

According to the data from the EU statistical office Eurostat, household customers for non-economic and non-commercial purposes in Lithuania in the second half of 2017 paid 30% less than Latvia's and 16.1% less than Estonia's customers. This price, in comparison with the corresponding period in 2016, decreased in Lithuania and Latvia by 5.5% and 2.6% respectively. During the same period, electricity prices

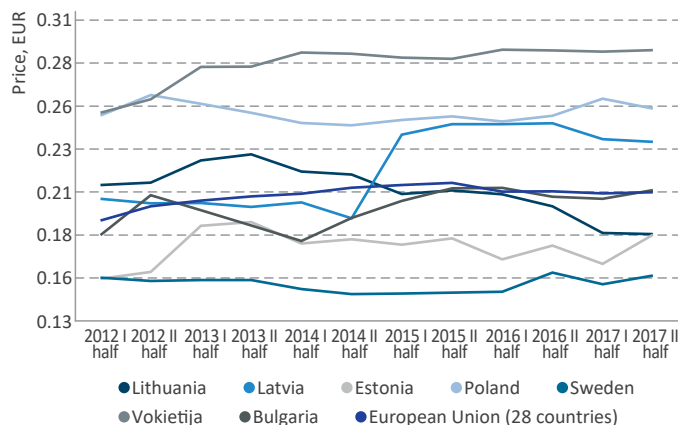
for household customers in Estonia grew by 6.5%. Compared to the EU average (20.5 ct/kWh), the electricity price in the second half of 2017 was 46% lower (11.1 ct/kWh). The most expensive energy in the second half of 2017 was in Germany (30.5 ct/kWh), the cheapest in Bulgaria (9.8 ct/kWh).

Electricity Price for Households in European Union Member States  
(including taxes, EUR/kWh)



Source: Eurostat

Electricity Price for Households in European Union Member States  
Based on Purchasing Power Parity (including taxes, EUR/kWh)



Source: Eurostat

# Natural gas sector

The Lithuanian gas sector, like the electricity sector, is divided into the gas supply, transmission and distribution sectors. In 2014, the European Union's package III requirement for separating natural gas supply and trading and distribution activities has been completed. According to this requirement, the gas transmission system operator **AB Amber Grid** was set up in 2013, and from November 1, 2014, the new gas

supply company **UAB Lietuvos dujų tiekimas**, owned by **Lietuvos energija, UAB**, was separated from the **AB Lietuvos dujos**, which became responsible for gas distribution activities, and from 2016 merged with **AB LESTO** into **AB Energijos skirstymo operatorius. UAB LITGAS**, which is a subsidiary of **Lietuvos energija, UAB**, is the designated LNG supplier, supplying gas to heat producers in cities.

At the end of 2017, five gas companies, that have distribution licenses, performed the functions of the distribution operator in Lithuania: **AB Energijos skirstymo operatorius**, AB Josvainiai, AB Achema, UAB Intergas ir UAB Fortum Heat Lietuva. In total, at the end of 2017, the transfer activity was carried out by one company - **AB Amber Grid**, the number of supplying companies reached 11. Functions of the market operator in Lithuania is performed by **UAB Get Baltic** natural gas exchange.

At the end of 2014, for the first time, natural gas came to the Lithuanian market not from Russia. After the launch of the state-owned **AB Klaipėdos nafta** LNG terminal, **Lietuvos energija**, UAB owned **UAB LITGAS**, which performs designated supplier's mission, has delivered LNG from Norwegian Statoil. Since the beginning of 2015, **UAB LITGAS**, through ensuring the necessary minimum flow of gas through the terminal, has achieved access to the global LNG market and access to the advantages of more flexible and diverse pricing, spot market deals and

other emerging markets for Lithuania and other Baltic states. At the same time, the gas supply and the overall energy security of the Baltic States increased significantly.

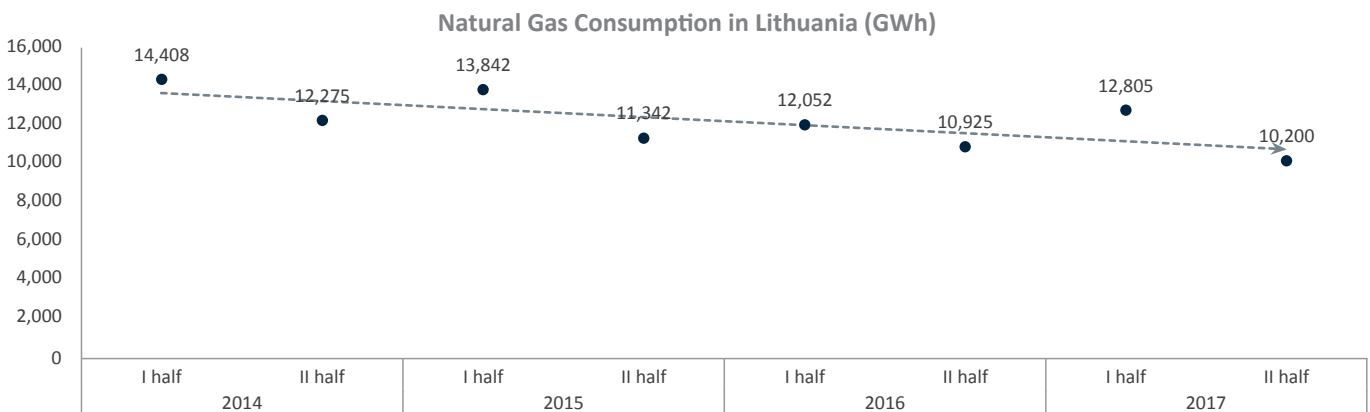
According to the data of **AB Klaipėdos nafta**, in 2017 the LNG terminal received 15 gas carriers, one less than in 2016, and 1.1 billion nm<sup>3</sup> (in 2016 - 1.2 billion nm<sup>3</sup>) of natural gas was delivered to the natural gas system. In 2017, three users - **UAB Lietuvos dujų tiekimas**, **UAB LITGAS** and AB Achema - operated in the terminal, as before. The amount of LNG transferred to the natural gas system in 2017, according to the actual amount of gas consumed in Lithuania, amounted to about 51% of the total Lithuanian natural gas demand.

According to the NCC, natural gas transit in Lithuania in 2017 increased by 9.2%, reached 25.7 TWh, and amounted to 51.4% (in 2016 - 50.2%) of the total gas transported via natural gas system.

# Natural gas consumption trends

## Natural gas consumption did not change significantly

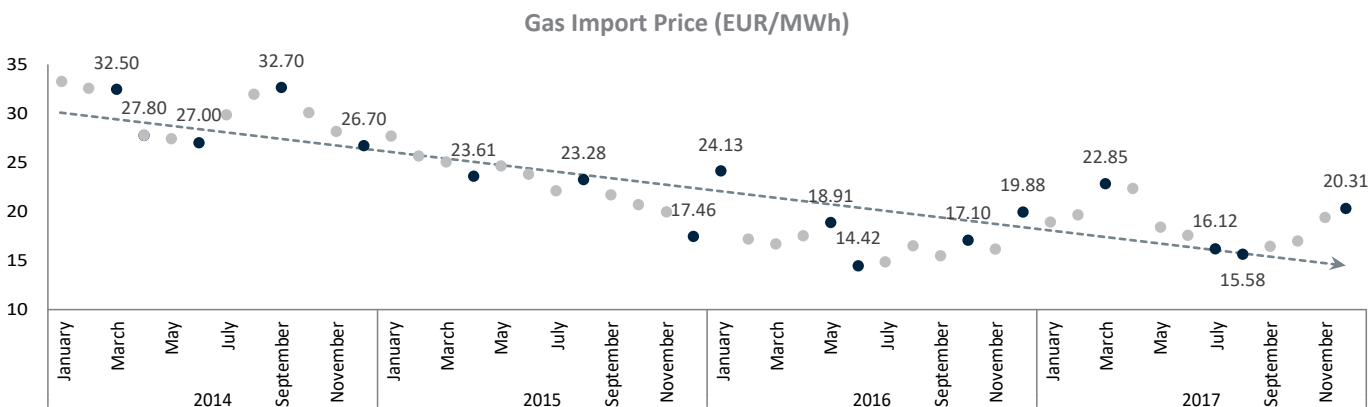
In Lithuania, in 2017, 23 TWh of natural gas was consumed. This means that the country consumed nearly as much gas as in 2016 and 8.7% less than in 2015. In the reporting year, the consumption of natural gas in Lithuania stabilized mainly due to the growth of gas demand in the fertilizer manufacturing sector.



Source: NCC

According to the NCC, in 2017 the volume of imported gas reached 27.4 TWh - 11.4% more than a year ago. Of the five companies that imported gas in 2017, the volume of natural gas imported by **UAB Lietuvos dujų tiekimas**, which grew by almost 43%, had a major impact on the change in imports compared to 2016. Also, the amount of gas imported by AB Achema increased by 15.4%, which at the end

of the year amounted to almost 15 TWh and accounted for more than half of the total imported gas volume. Meanwhile, in 2017, the volume of gas imported by UAB Hauptas decreased by 57%, the volume of **UAB LITGAS** decreased by 21%. In the accounting year of UAB Grata Group, the amount of gas imported compared to the previous year remained almost unchanged at around 100 GWh



Source: NCC

The price of natural gas is directly dependent on the price of alternative fuels, in particular the oil price, which continued to rise in 2017 - from EUR 52.14 to EUR 55.97 per barrel, or by 7.4% (Europe Brent Spot Price FOB price converted from US dollars into euros, according to the exchange rates for the respective days). As the US dollar depreciated against the euro in 2017, falling by 11.6%, oil prices in euro did not grow as fast as in US dollars. The influence of oil price growth on gas prices was partially offset by active competition in the Lithuanian gas market - the operating LNG terminal and the

sufficient number of alternative suppliers on the market. Due to these factors, the import price of gas in Lithuania in 2017 did not change significantly.

An alternative way to acquire or sell gas is the natural gas exchange. Only one natural gas trading company - **UAB Get Baltic** - currently operates in Lithuania. In total, during the year 2017, the stock exchange sold 437.2 GWh of natural gas, or 46.2% more than a year ago, with a turnover of EUR 7.7 million, a 48.1% increase over 2016.

## Natural gas price for the citizens

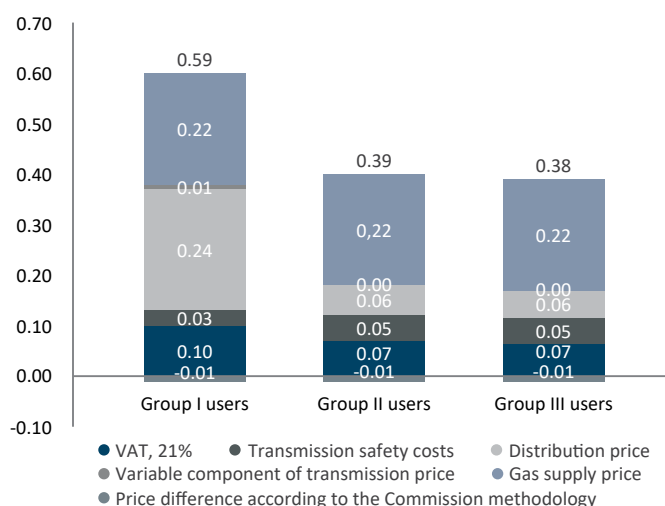
The price of natural gas for household customers is made up of two parts: a constant monthly fee for maintaining the gas system, power and maintenance services, and a variable part based on the amount of gas consumed. The customers of **UAB Lietuvos dujų tiekimas** classified as Group I users (consuming up to 500 cubic meters of gas per year) in the first half of 2018, payed a fixed portion of EUR 0.56 per month. Consumers of Groups II and III, consuming more than 500 and more than 20 thousand cubic meters of gas per year, payed a fixed amount of EUR 3.99 per month.

Comparing the gas prices for Group I users in the first half of 2018 with the corresponding period of 2017, the share of the VAT tax, the gas supply price and price difference decreased by EUR 0.01 according to the Commission methodology. Significantly, the distribution cost fell by as much as EUR 0.07. Meanwhile, the cost of security of supply increased by EUR 0.01, the transmission price did not change significantly. In the first half of 2018, gas pricing was also unaffected by a change in the contract, which reduced its gas price by EUR 0.04 in the first half of 2017.

Natural gas tariffs for household consumers in the European Union countries in the second half of 2017, as compared to the corresponding period in 2016, did not change significantly and amounted to 0.06 EUR/kWh. The highest gas prices for household consumers in the second half of 2017 were in Sweden – 0.11 EUR/kWh, the lowest in Bulgaria - 0.03 EUR/kWh.

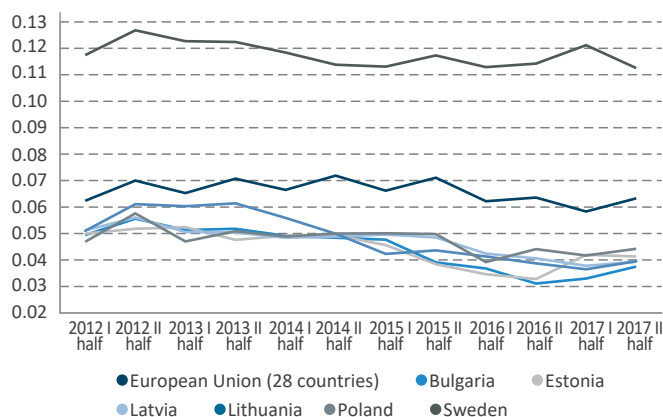
In the second half of 2017, the average natural gas price for residents of the European Union was 38% higher than in Lithuania. However, after assessing the purchasing power of countries (eliminating differences in the price levels of countries), gas prices for Lithuanian residents exceeded the EU average by almost 2%. In this period, according to natural gas prices, adjusted for purchasing power, Lithuania was the fourteenth among the countries of the European Union, whose population pays the most for natural gas.

Structure of the Natural Gas Tariffs (EUR/m<sup>3</sup>) for the first half of 2017



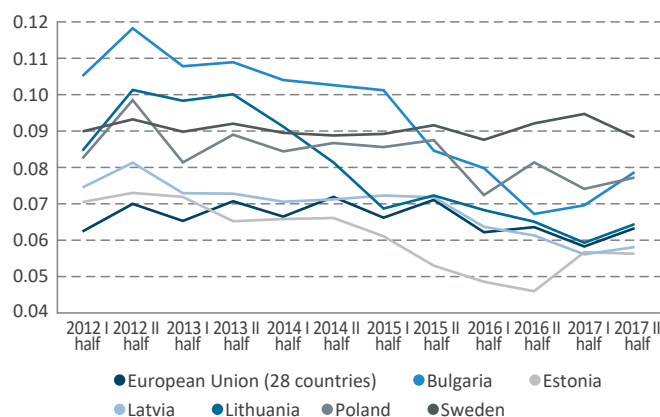
Source: NCC

Natural Gas Price for Households in European Union Member States (including taxes, EUR/kWh)



Source: Eurostat

Natural Gas Price for Households Based on Purchasing Power Parity (including taxes, EUR/kWh)



Source: Eurostat

# Forestry

On January 8th, 2018 VĮ Valstybinis miškotvarkos institutas and 42 forest enterprises were merged into one enterprise – VĮ Valstybinių miškų urėdija.

The forest area covers around one third of Lithuania's territory, out of which almost half are state forests. Enterprises of the forestry sector manage 13.8% of the SOE portfolio assets and its revenues comprise 6.4% of the total turnover of the portfolio.

In 2017, the forestry sector consisted of 43 state-owned enterprises – **42 forest enterprises**, which managed and operated in the entrusted state-owned forests, as well as carried out integrated forestry activities; and **VĮ Valstybinis miškotvarkos institutas**, which performed forest management, preparation and implementation of land reform and

land management projects activities. Assets under the management of the forest enterprises constituted 99.9% of the total assets of the sector, and 98.5% of the revenues. 97.6% of all forestry employees work in **forest enterprises**. The sole owner of the state-owned enterprises in the forestry sector is the State.

Enterprise	Field of activity	Turnover in 2017 (EUR '000)	Assets at the end of 2017 (EUR '000)*	Number of employees at the end of 2017
VĮ Tauragės miškų urėdija		6,661	8,156	144
VĮ Ukmergės miškų urėdija		6,131	5,966	121
VĮ Jurbarko miškų urėdija		6,260	7,234	89
VĮ Švenčionėlių miškų urėdija		5,975	6,163	109
VĮ Kretingos miškų urėdija	Integrated forestry activities	5,680	8,847	140
VĮ Panevėžio miškų urėdija		5,375	8,957	128
VĮ Šakių miškų urėdija		5,260	4,392	119
VĮ Trakų miškų urėdija		5,176	5,881	88
VĮ Nemenčinės miškų urėdija		5,119	4,187	73
VĮ Biržų miškų urėdija		4,676	4,346	87
VĮ Valstybinis miškotvarkos institutas		Forest management projects	2,404	1,219

\*The value of the forests managed by these enterprises are excluded from the Balance Sheet data of the forest enterprises.

## Sales revenue (EUR million)

168

159

159

164

## Normalised net profit (EUR million)

32.3

26.6

27.9

26.4

2014

2015

2016

2017

# Financial results

Forestry sector companies have earned the income of EUR 164.3 million in 2017, and, in comparison with 2016, it has increased by 3.6%. Sales growth was mainly influenced by the round wood price increase, the average price of which has risen from EUR 38.1 per cubic meter in 2016 to EUR 40.5 per cubic meter in 2017. As a result of price growth, the volume of roundwood sold decreased by 2.1%. In total, 3.7 million cubic metres of roundwood were sold in 2017.

The cost of goods sold increased by 2.2% in 2017 – up to EUR 65.8 million, mainly due to the contract services price increase. Operating costs increased by 7.2%, up to EUR 92.3 million. The increase was caused by the costs related to the reorganization of state forest enterprises. The operating tax expenses have also risen from EUR 24.3 million in 2016 to EUR 25.1 million in 2017. Also, the costs incurred due to the ecological and social activities performed in 2017 have increased by 3.4% and amounted to EUR 8 million.

The net profit of companies working in the forestry sector decreased by 28.9% and amounted to EUR 5.4 million, due to the increase of sales costs. EBITDA has declined by 10.4% and amounted to EUR 18.7 million. With the elimination of atypical taxes paid by the forest enterprises and the **VĮ Valstybinis miškotvarkos institutas** to the state, the normalised net profit amounted to EUR 26.4 million and was 5.2% lower in comparison with the result of 2016.

**Forest enterprises**, while carrying accounting according to the business accounting standards, exercise the exception applicable for **forest enterprises** and do not account for forest (biological assets) value. For the purpose of comparability with managers of private forests and managers of foreign state-owned forests who account for the value of biological assets, the GCC annually recalculates the value of biological assets of the **forest enterprises** using the discounted cash flow method. According to the GCC calculations, as of 31 December 2017, the forest enterprises managed biological assets worth EUR 1,118 million, and this is 6.1% more than a year

ago. The increase in value of biological assets was influenced by the increase in the average price of round wood, which is calculated over a period of five years. Also, the value of forests increased due to the qualitative forests improvement.

The forestry sector's assets have increased by 5.5% since the beginning of 2017, and at the end of the year amounted to EUR 1.3 billion. The increase in the value of assets was mainly influenced by the increase in the value of biological assets. The aggregated long-term financial assets of forestry enterprises increased by 6.5% and amounted to EUR 9.3 million.

During 2017, the stock of forestry enterprises has increased by 1%, up to EUR 28 million, the accounts receivable declined significantly, by 36.6%, down to EUR 5.6 million, while cash and cash equivalents increased by 67.8%, up to EUR 37.9 million. Current assets increased by 9.3% and amounted to EUR 76.5 million. Large current assets result in high liquidity ratios of the forestry enterprises, and these ratios remain significantly higher than in the private sector. The critical liquidity, which reflects the company's ability to cover the company's short-term liabilities with quickly realisable assets, is about 1.49 in the Lithuanian forestry and wood processing sector (preliminary 2016 data of the Statistics Lithuania), when the critical liquidity of the **forest enterprises** and the **VĮ Valstybinis miškotvarkos institutas** as of 31 December 2016, was 3.27, and at the end of 2017 – 3.74, thus significantly exceeding the national liquidity ratio in forestry and logging sector. At the same time, the absolute liquidity of the state-owned enterprises in the forestry sector (the ratio of cash and short-term liabilities) as of 31 December 2017, was 2.92. Generally, cash and cash equivalents in excess of short-term liabilities is regarded as an untapped potential to increase the value of the enterprise.

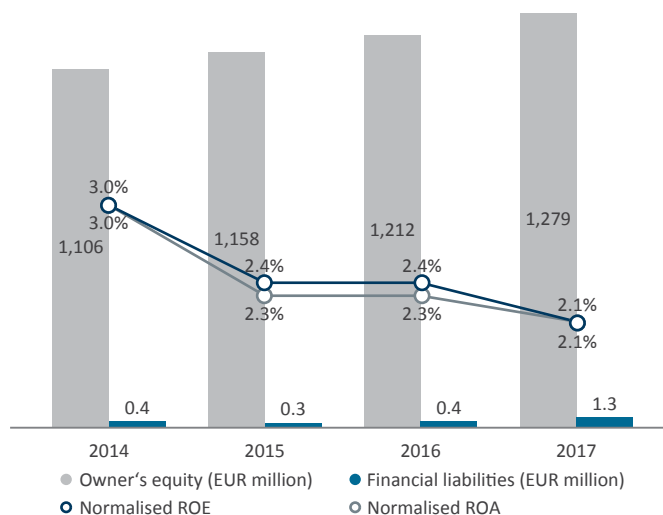
Equity of the forestry enterprises has increased by 5.5%, due to a significant increase in the value of biological assets, and amounted to EUR 1.3 billion. Also, 7.5% more grants and subsidies (EUR 15.3 million) were accounted. Liabilities amounting to 1% of the total assets, or EUR 13.6 million, has grown

<b>INCOME (LOSS) STATEMENT (EUR '000)</b>	<b>2016</b>	<b>2017</b>
<b>Sales revenue</b>	<b>158,603</b>	<b>164,266</b>
Cost of goods sold	64,409	65,814
<b>Gross profit (loss)</b>	<b>94,194</b>	<b>98,452</b>
Operating expenses	86,077	92,285
Prodit (loss) from others activities	690	584
<b>Operating profit (loss)</b>	<b>8,807</b>	<b>6,751</b>
<i>Operating profit margin</i>	<i>5.6%</i>	<i>4.1%</i>
<b>EBITDA</b>	<b>20,895</b>	<b>18,721</b>
<i>EBITDA margin</i>	<i>13.2%</i>	<i>11.4%</i>
Financial and investment activities	224	114
<b>Profit (loss) before taxes</b>	<b>9,031</b>	<b>6,865</b>
Profit tax	1,484	1,499
<b>Net profit (loss)</b>	<b>7,548</b>	<b>5,366</b>
<b>Normalised net profit (loss)</b>	<b>27,901</b>	<b>26,448</b>
<i>Normalised net profit margin</i>	<i>17.6%</i>	<i>16.1%</i>
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Intangible Assets	2,499	2,465
Tangible Assets	104,490	101,193
Financial Assets	8,773	9,346
Other non-current assets	237	223
Biological assets	1,052,996	1,117,647
<b>Non-current assets *</b>	<b>1,168,995</b>	<b>1,230,874</b>
Inventories, prepayments and contracts in progress	27,784	28,050
Amounts receivable within one year	8,850	5,612
Other current assets	10,849	5,003
Cash and cash equivalents	22,569	37,880
<b>Current assets</b>	<b>70,053</b>	<b>76,545</b>
<b>TOTAL ASSETS</b>	<b>1,239,047</b>	<b>1,307,419</b>
<b>Total equity*</b>	<b>1,211,860</b>	<b>1,278,596</b>
Minority shareholder equity	0	0
<b>Grants and subsidies</b>	<b>14,203</b>	<b>15,264</b>
Non-current liabilities	76	608
Current liabilities	12,908	12,951
<b>Liabilities</b>	<b>12,984</b>	<b>13,559</b>
Financial liabilities	415	1,294
<b>Total equity and liabilities</b>	<b>1,239,047</b>	<b>1,307,419</b>
<b>RATIOS</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Normalised ROA	2.3%	2.1%
Normalised ROE	2.4%	2.1%
D/E	0.0%	0.1%
<b>RETURN TO THE STATE (EUR '000)</b>	<b>2016</b>	<b>2017</b>
<b>Assigned profit contributions</b>	<b>3,571</b>	<b>2,987</b>
Property tax	2,281	2,282
Raw material tax	21,665	22,521
<b>Total</b>	<b>27,516</b>	<b>27,790</b>
<b>INFORMATION ABOUT EMPLOYEES</b>	<b>2016</b>	<b>2017</b>
The number of employees	3,594	3,366
The number of executives	50	46

\* The consolidated book values of non-current assets and equity of forest enterprises were increased by forest value (biological assets), calculated using the discounted cash flow method, which, based on the assessment at the end of 2017, was EUR 1,118 million. The ratios were calculated based on the increased values of capital assets and owner's equity.

by 4.4% due to the increase of long-term liabilities by EUR 607.6 thousand. The financial liabilities of the sector in the year 2017 amounted to EUR 1.3 million, and in comparison to the financial liabilities of the year 2016, were 3.1 times higher. Financial liabilities increased in the following **forest enterprises: Panevėžys** (up to EUR 789 thousand) and **Alytus** (up to EUR 53 thousand). **VĮ Druskininkų miškų urėdija** has reduced its financial liabilities from EUR 188 thousand to EUR 101 thousand, in **VĮ Marijampolės miškų urėdija**, these liabilities decreased from EUR 92 thousand to EUR 50 thousand. **VĮ Kuršėnų miškų urėdija**, which had financial liabilities worth EUR 109 thousand at the end of 2016, has fulfilled all the liabilities during the 2017, and no longer accounted them. Other forestry enterprises have no financial liabilities. They finance assets only with their equity and grants and subsidies. The high level of the forestry enterprises creditworthiness (low debt level) enables companies to use cheaper borrowed capital for investment (as compared to the required return on equity).

Lower normalised net profit also affected sector's rates of return. Both the normalised return on assets and the return on equity declined during the period and amounted to 2.1%.



## Contributions of the Forest Enterprises to the State Budget

**Forest enterprises** have allocated EUR 29.3 million to the state budget for the results of 2017, 6.1% or EUR 1.7 million more than for the previous year. The contribution of forest enterprises to the state budget consists of profit contributions and atypical taxes.

The net profit contribution allocated by the forest enterprises for the year 2017 was EUR 4.5 million. This amount had reached EUR 3.6 million in 2016. A significant difference is observed due to the changes in legislation of the profit contributions.

In 2017, forestry sector companies accounted for atypical taxes of EUR 24.8 million (in 2016 – EUR 23.9 million). For the use entrusted State assets, the companies have paid 2%, i.e. EUR 2.3 million, of property tax. Meanwhile, compulsory deductions (15%) from raw wood and non-cut timber sales revenue (raw material tax) amounted to EUR 22.5 million. Atypical taxes are included in the calculation of **forest enterprises'** contribution to the state budget, since such taxes are not applicable to managers of private forests.

## Area of Lithuanian Forests

Key forest indicators as of 1st January	2013	2014	2015	2016	2017
Forest land according to public records of forests (ha '000)	2,128.9	2,130.2	2,220.5	2,198.5	2,179.0
Forest coverage (%)	33.3	33.3	33.4	33.5	33.5
Forest area per capita (ha)	0.7	0.7	0.8	0.8	0.8
Total volume of timber with bark (million cubic metres)	510	521	529	537	543
Annual increment in stands volume per ha (cubic metres)	8.5	8.7	8.9	9.2	9.3

Source: Valstybinė miškų tarnyba

In Lithuania, forests cover area of 2,189 thousand hectares. Since 2003, forest area has increased by 144.3 thousand hectares, and the country's forest coverage has also increased by 2.2 percentage points and currently accounts for 33.5%. The major part (55.6% or 1,145.1 thousand hectares) of the forest area in Lithuania is covered by coniferous stands, which have decreased by 14.9 thousand hectares since 2003.

At the beginning of 2017, 72.3% of Lithuanian forest area is made up of Group IV (commercial) forests, another 14.6% are Group III (preservative) forests. The remaining part of the forests are reserve forests (Group I) and special-purpose forests (Group II), in which commercial forestry activities are prohibited.

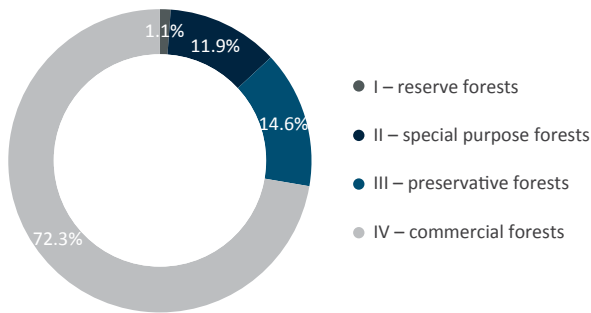
Almost half (49.8%) of Lithuanian forest area is covered by forests of national significance, which cover a total of 1,089 thousand hectares. At the beginning

of 2017 40.3% or 883 thousand hectares of forest was managed by 250.1 thousand private owners, who on average managed 3.4 hectares of forest. 10% of the total forest area was reserved for the restoration of ownership rights. The latter part had decreased by 3.1% since the beginning of the year 2016.

**Forest enterprises** manage 1.05 million hectares of forest area in Lithuania, and about 0.78 million hectares or 73.7% of these forests are commercial forests. On average, one forest enterprise manages 25 thousand hectares of forest area. The largest are **Švenčionėliai** (41.9 thousand hectares), **Kretinga** (41.8 thousand hectares) and **Panevėžys** (37.9 thousand hectares) **forest enterprises**. Less than 15 thousand hectares is managed by the **forest enterprises of Kupiškis** (12.2 thousand hectares), **Dubrava** (13.7 thousand hectares) and Zarasai (14.4 thousand hectares).

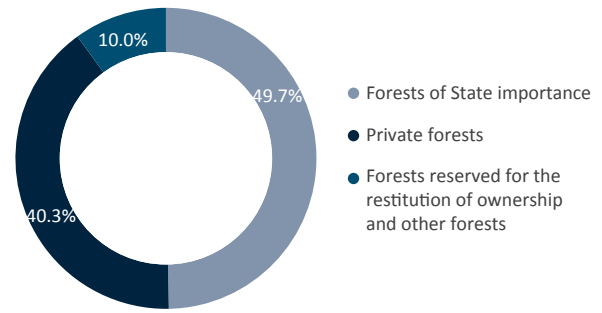


Forest Area Group Distribution



Source: Valstybinė miškų tarnyba

Breakdown of Forest Land by Ownership



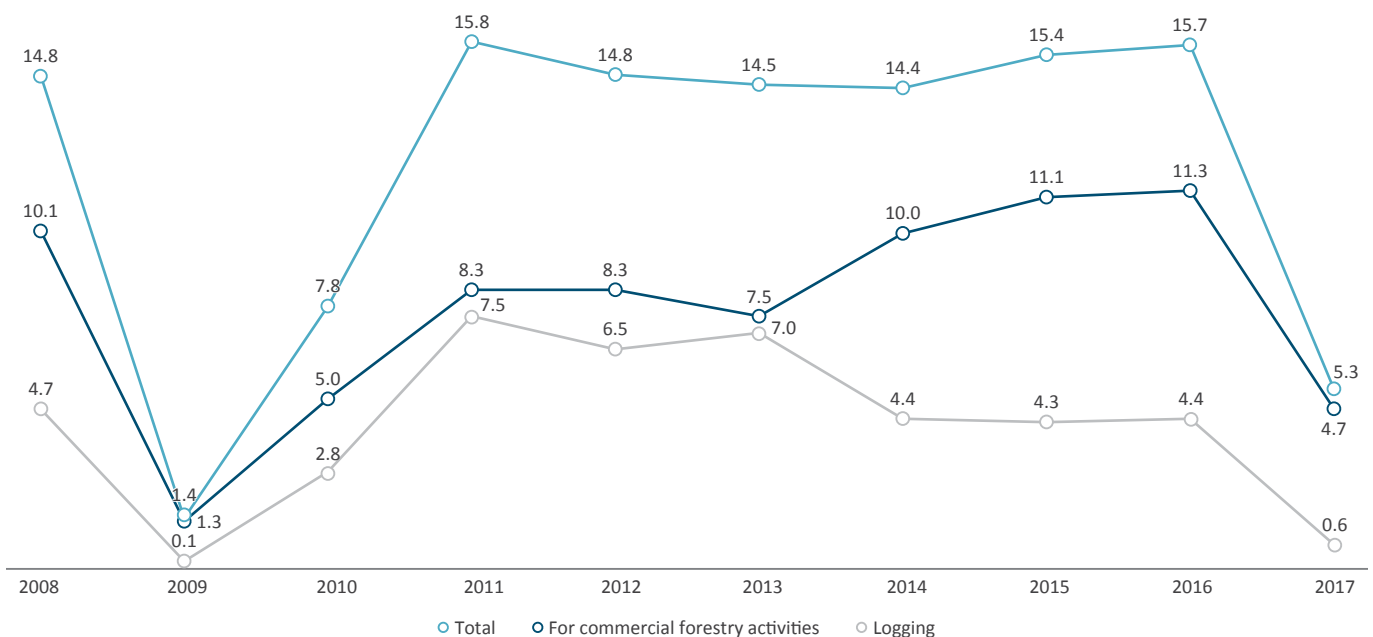
Source: Valstybinė miškų tarnyba

## Investments and Construction of Forest Roads

During the period of 2008-2016, **forest enterprises** annually allocated between EUR 14 million and EUR 16 million for investments in forestry activities, with the exception of 2009 and 2010, when due to the financial crisis investments were significantly reduced. In 2017,

**forestry enterprises'** investments from their own funds amounted to EUR 5.3 million, EUR 0.6 million of which are allocated to logging and 4.7 million – for forestry commercial activities.

Investments of Forest Enterprises (own funds, EUR million)



Source: VĮ Valstybinių miškų urėdija

Investments in commercial forestry activities include construction and reconstruction, repair and maintenance of domestic forest roads of local significance. Forest roads are one of the most important infrastructure factors for efficient development of forestry. They are used for afforestation, forest maintenance, sanitary protection and fire prevention, performance of installation and management works of environmental and recreational objects, as well as for organisation of industrial forestry activities, communication of local population and meeting other needs. According to the data of the **VĮ Valstybinių miškų urėdija**, there are about 24 thousand kilometres of local significance forest roads in the state forests managed by **forest enterprises**.

In 2017, the **forest enterprises** have built and reconstructed 26.3 kilometres of roads, repaired 817 kilometres and maintained 12.9 thousand kilometres of forest roads, using their own funds. In total, EUR 8.7 million were used to take care of forest roads. In comparison, in 2016, the forest enterprises have built and reconstructed 59.4 kilometres of

roads, repaired 1,077.5 km and maintained 11.7 thousand kilometres of forest roads (aligned, shoveled the snow, etc.), using their own funds, with a total of EUR 12.6 million spent on the works related to forest roads. In the forests of state significance, in 2017, 63.2 kilometres of forest roads were constructed (reconstructed), 849.4 kilometres of forest roads were repaired, 12,880 kilometres of forest roads were maintained.

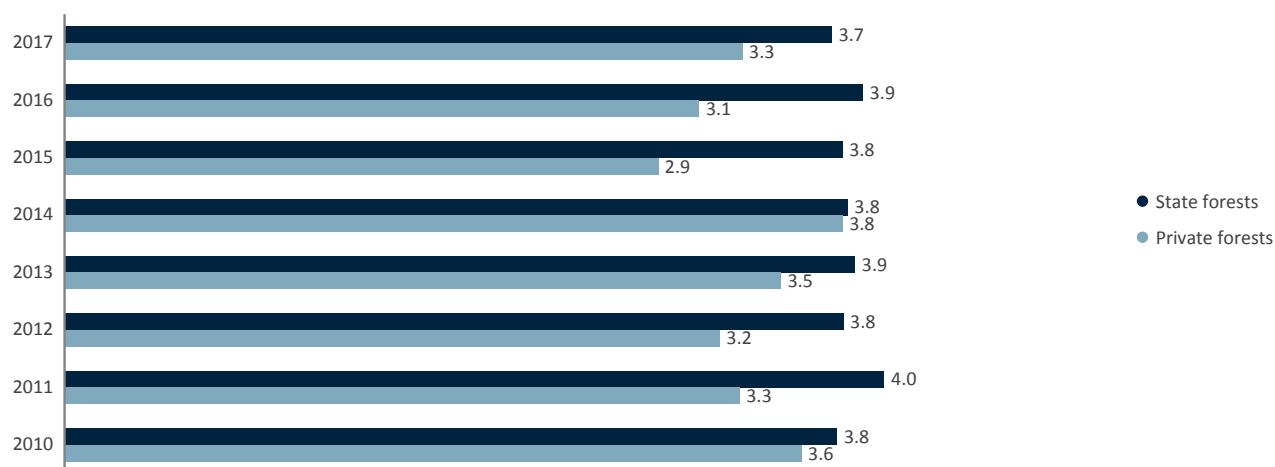
All road construction (reconstruction), repair (capital and current) and maintenance costs in the forests of state significance amounted to EUR 10.37 million, EUR 1.69 million of which were received from the Road Maintenance and Development Program.

In 2017, the **forest enterprises** have repaired 690.3 kilometres of roads in the private and state forests, using the funds of the General Forestry Requirements Funding programme. In total, EUR 3.2 million of the funds of the General Forestry Requirements Funding programme were used to repair forest roads.

# Forest Logging and Sale of Round Wood

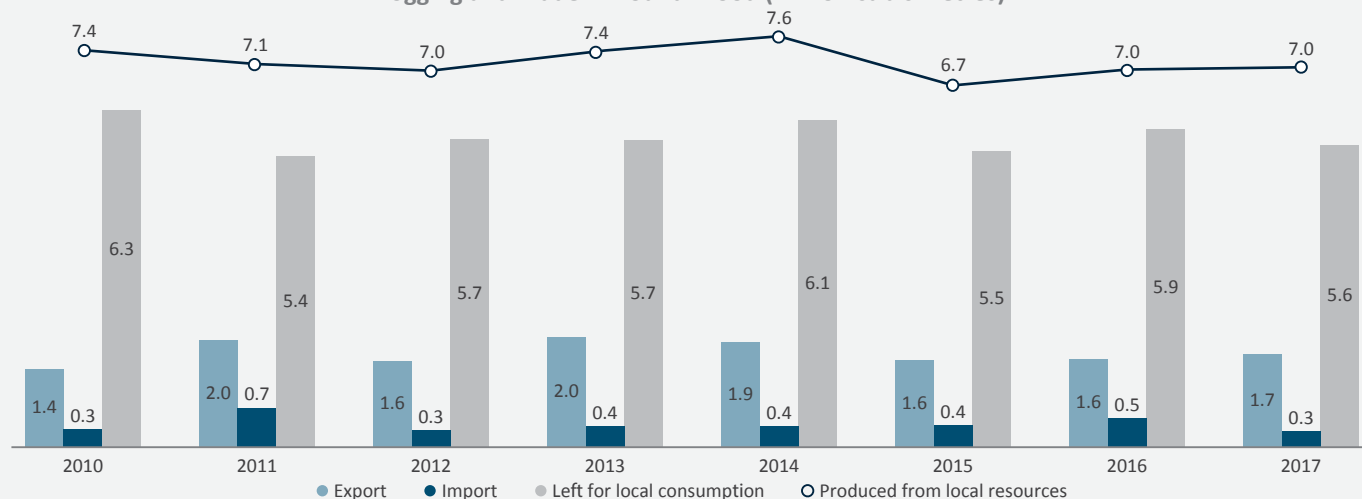
In total, 7 million cubic metres of timber were cut in 2017. Of these, 3.7 million cubic metres of forest have been cut in state forests, and, in comparison with 2016, this amount has decreased by 3.9%. Logging in private forests amounted to 3.3 million cubic metres in 2017, increasing by 6.8%.

Logging in Forests by ownership Structure (million cubic metres)



Source: Valstybinė miškų tarnyba

Logging and Trade in Round Wood (million cubic metres)



Source: Valstybinė miškų tarnyba

In 2017, the amount of round wood left for local consumption has decreased. 5.6 million cubic metres of roundwood have remained for the domestic market, and this is 5.1% less than a year ago. Also, the import of round wood, which amounted to 0.3 million cubic metres, has decreased by 46.2%. Meanwhile, export reached 1.7 million cubic

metres, increasing by 5.7%. The majority of round timber products are exported to neighbouring Latvia – in 2017, 0.86 million cubic metres were exported, it is 10.9% more than in 2016. Of this amount, 0.87 million cubic metres (86.7%) are coniferous trees.

Export of Round Wood (thousand cubic metres)

Country	2017			2016		
	Conifers	Deciduous trees	Total:	Conifers	Deciduous trees	Total:
Latvia	742	114	856	636	136	772
Poland	116	175	292	133	135	268
China	173	23	196	154	17	172
Sweden	15	72	87	23	144	168
Finland	43	11	54	41	21	62
Others	61	14	74	24	9	31
<b>Total:</b>	<b>1,150</b>	<b>409</b>	<b>1,559</b>	<b>1,011</b>	<b>462</b>	<b>1,473</b>

Source: Valstybinė miškų tarnyba

On average, 0.3 - 0.5 million cubic metres of round timber products are imported to Lithuania every year. Looking at the results of the last two years, the largest part of round timber products is imported from Belarus. In 2017, import from Belarus, in comparison with 2016,

has dropped from 323 thousand cubic metres to 96 thousand cubic metres, mainly due to the decrease in the imports of deciduous trees, which amounted to 35 thousand cubic metres, while it reached 215 thousand cubic metres a year ago.

Import of Round Wood (thousand cubic metres)

Country	2017			2016		
	Conifers	Deciduous trees	Total:	Conifers	Deciduous trees	Total:
Belarus	61	35	96	108	215	323
Latvia	3	78	81	16	69	85
Poland	72	0	72	62	0	62
Russia	0	22	22	0	22	22
Others	2	1	3	55	1	1
<b>Total:</b>	<b>139</b>	<b>136</b>	<b>274</b>	<b>186</b>	<b>307</b>	<b>493</b>

Source: Valstybinė miškų tarnyba

In 2017, the **forest enterprises** have sold a total of 3.69 million cubic metres of round wood, 3.4% more than in 2016. Timber products sales amounted to 3.08 million cubic metres, also 0.61 million cubic metres of firewood was sold. In comparison with the year 2016, the timber products sales in the domestic market have decreased by 2.2%, and firewood – by 3.2%.

The largest amount of round wood was bought from the **forest enterprises** by UAB Juodeliai (331.9 thousand cubic metres or 9% of the total sales), UAB IKEA Industry Lietuva (297.7 thousand cubic metres or 8.1% of the total sales) and UAB Targirė (231.5 thousand cubic metres, accounting for 6.3% of the total sales volume). UAB IKEA

Industry Lietuva has mainly bought cheaper timber in 2017, mainly wood panels and firewood. Meanwhile UAB Juodeliai mainly bought logs from **forest enterprises**.

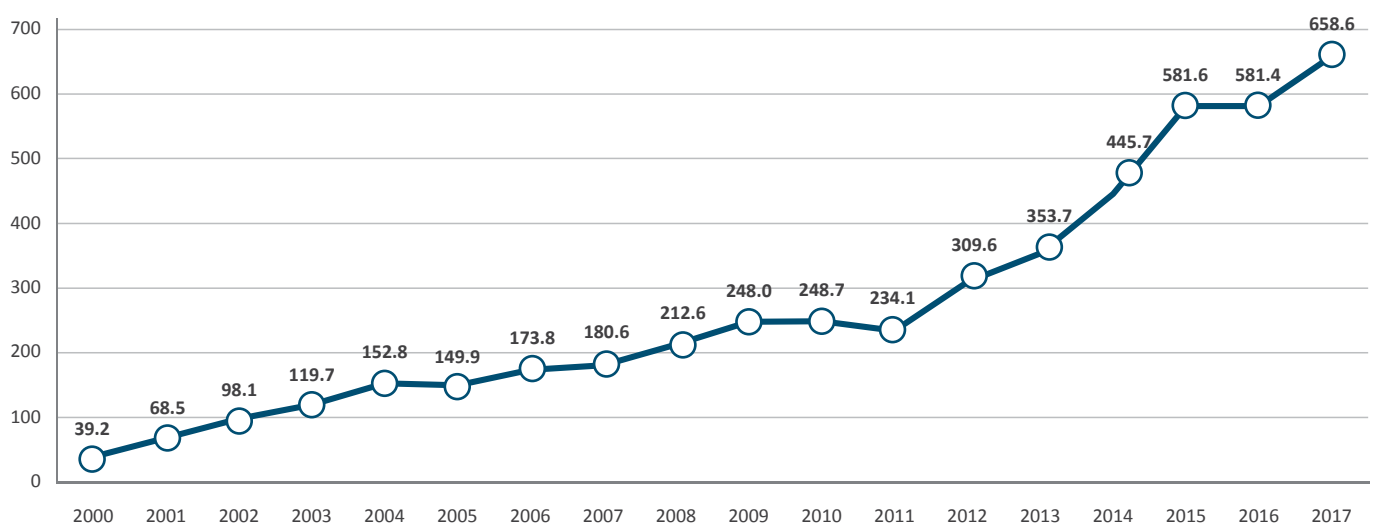
It is noteworthy that there are no large timber purchasers in Lithuania, the largest customers of **forest enterprises** buying 6 – 7% of the total round wood amount. This is likely related to the fact that while there were 42 small **forest enterprises** operating in Lithuania, each forest enterprise traded individually and was unable to handle larger customers due to small sales volumes. Such situation negatively affected the competitiveness of the **forest enterprises**.

## Solid biofuel market

Promoting the use of renewable energy sources (RES) remains one of the key priorities of the EU energy strategy. Solid biofuels (wood and wood waste, straw and energy crops), which are mainly used to produce electricity and heat, have the greatest potential for RES. In 2017, 658.6 thousand tonnes of oil equivalent of solid biofuel were consumed for production of electricity and heat (district heating), a

nearly 13.3% more compared to a year ago, when 581.4 thousand tonnes of oil equivalent had been consumed. In Lithuania, during the period of 18 years consumption of solid biofuels for heating increased almost 15 times. With the growth of biofuels use in the district heating sector, the demand for solid biofuels is projected to grow further.

Solid Biofuel Consumption for Generation of Electricity and District Heating (thousand TOE)



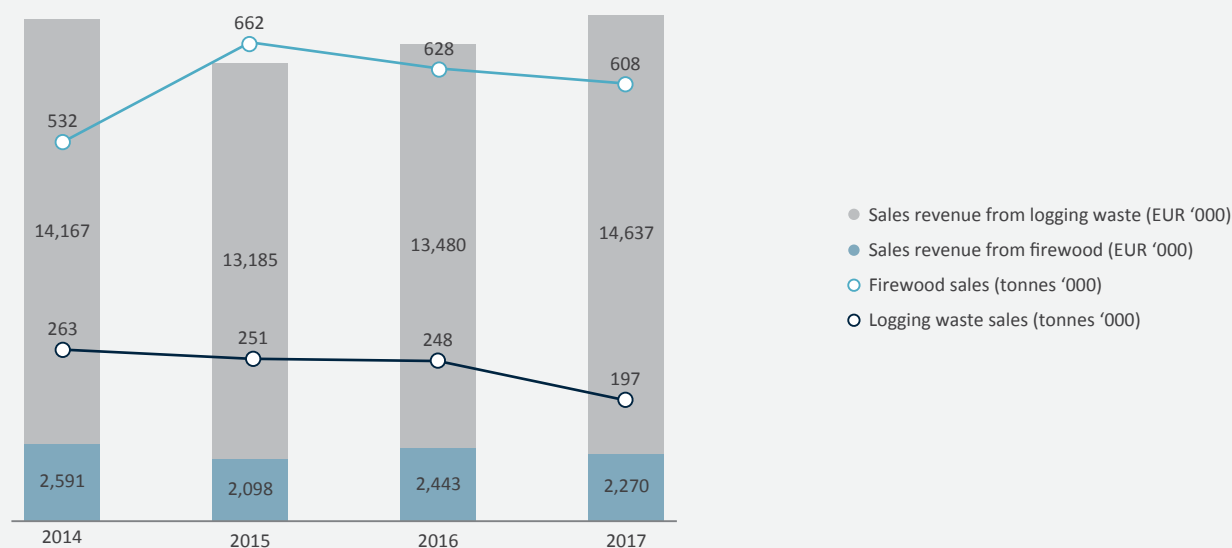
Source: Statistics Lithuania

Since 2010, one of the priorities of the General forest enterprise has been to increase the production of raw material for biofuel in state forests. From 2010, when only 75 thousand cubic metres of logging waste were sold, the waste supply and sales have increased. In 2017, 196.8 thousand cubic metres of logging waste were sold, it was 20.6% less than a year ago. The largest amount of logging waste in 2017 was sold by **Kretinga, Telšiai** and **Šakiai forest enterprises** – 10.1 thousand, 7.9 thousand and 7.8 thousand cubic metres, respectively. Meanwhile, **Valkininkai, Zarasai** and **Raseiniai forest enterprises** have sold, respectively, only 0.7 thousand, 1.2 thousand and 1.9 thousand cubic metres of forest logging waste.

Forest enterprises have sold 3.2% less firewood in 2017 than a year ago (608.4 thousand cubic metres for EUR 14.6 million). The largest amount of firewood products was sold by **Radviliškis, Šakiai** and **Raseiniai forest enterprises** – 35.8 thousand, 29.8 thousand and 28.5 thousand cubic metres, respectively, the smallest amount was sold by **Švenčionėliai, Veisiejai** and **Druskininkai forest enterprises** – 1.3 thousand, 2 thousand and 2.1 thousand cubic metres.

Significant differences in the sales of raw materials for biofuel between the forest enterprises are partly related to the rates of forest logging and logging waste production, established by the Ministry of Environment. The type of cut trees prevailing in the respective forest enterprise and the demand for biofuel also makes an influence.

Sales of Biofuel by Forest Enterprises

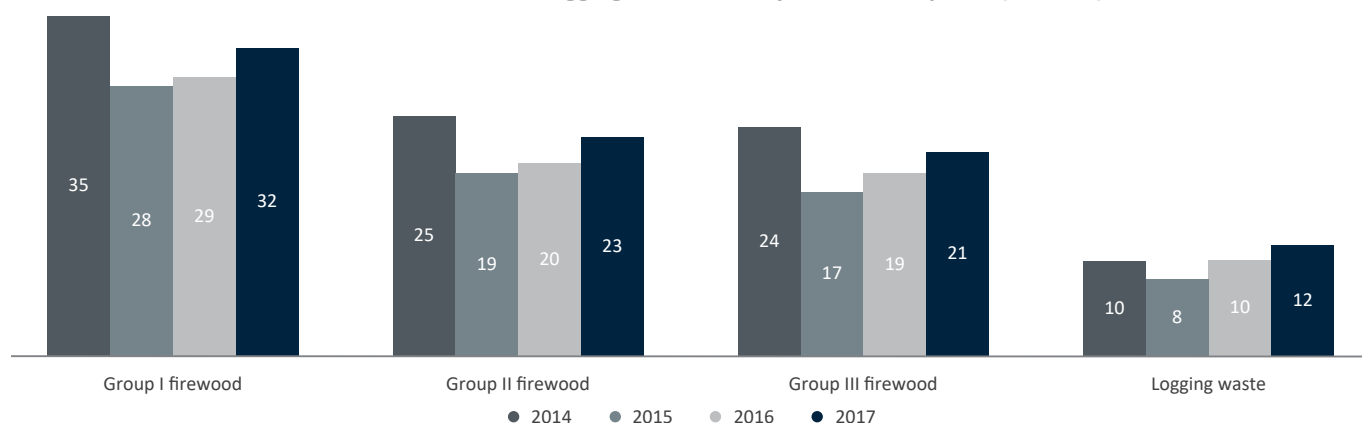


Source: VĮ Valstybinių miškų urėdija

In 2017, the amount of solid biofuels sold was 8% smaller, yet the income has increased by 6% and reached EUR 16.9 million, due to the firewood and logging waste prices increase. The average price

of firewood has increased by almost 3 EUR/m<sup>3</sup>, compared to 2016. In 2017, the average cost of logging waste reached 12 EUR/m<sup>3</sup>, increasing by 2 EUR/m<sup>3</sup> from the year before.

Prices of Firewood and Logging Waste Sold by Forest Enterprises (EUR/m<sup>3</sup>)



Source: VĮ Valstybinių miškų urėdija

One of the operational priorities of the Directorate General of State Forests since 2014 was the production of wood chips and their supply to the biofuel exchange at competitive prices. Since the beginning of 2014, forest enterprises have participated in the raw biofuel material exchange Baltpool. In 2017, contracts to sell 10,668 tonnes of oil equivalent were finalised. The total value of these contracts was EUR 1.5 million. In 2016, contracts were finalised for 9,924 tonnes of oil equivalent. The total value of these contracts was EUR 1.37 million. The biggest amounts of energy resources was sold by **Švenčionėliai** (4,026 tonnes of oil equivalent), **Valkininkai** (3,408 tonnes of oil equivalent) and **Tauragė** (2,886 tonnes of oil equivalent) forest

**enterprises**. According to the **VĮ Valstybinių miškų urėdija**, the amount of biofuel sold by the aforementioned forest enterprises comprised nearly 97% of the total amount of biofuels sold by all forest enterprises. Such outcomes were achieved as **Švenčionėliai, Tauragė** and **Valkininkai forest enterprises** have purchased machinery for biofuel production and for transportation of produced biofuel; as well as the employees have gained experience in making the contracts for biofuel sales on the Baltpool exchange. Considering the results of the biofuels trade in 2017 and 2016, it is projected that the amount of biofuel sold in 2018 will slightly increase.



# Other Enterprises

State-owned enterprises not attributed to the sectors discussed separately are engaged in various activities from the insurance services to agriculture. The SOE portfolio includes as many as 47 such enterprises, which numbers diminish every year, and the revenues amount to 6.6% of the total revenues of the SOE portfolio.

State-owned enterprises (SOEs), which do not belong to the three previously described sectors, carry out various functions important to the State: they mint coins, provide hallmark and calibration services, evaluate construction projects, take care of cultural objects, etc. A large number of companies in this sector are the only ones engaged in such activities

in Lithuania and do not have competitors in the private sector. Five companies - **AB Detonas**, **VĮ Infostruktūra**, **VĮ Registrų centras**, **AB Jonavos grūdai** and **AB Giraitės ginkluotės gamykla** - are assigned by law to the category of companies which are strategically significant for national security or important for national security insurance.

## In 2017, two companies in the sector were liquidated

Enterprise	Field of activity	Turnover in 2017 (EUR '000)	Assets at the end of 2017 (EUR '000)	The number of employees at the end of 2017	State's share
VĮ Registrų centras	Administration of the Real Estate Register, the Register of Legal Entities and other registers	39,122	29,989	1,611	100.0%
VĮ Regitra	Management of the Register of road vehicles and their drivers	26,495	22,754	566	100.0%
UAB Lietuvos monetų kalykla	The production of circulating and collector coins of the Republic of Lithuania and foreign countries	7,836	7,503	59	100.0%
AB Problematika	Laboratory testing and analysis of road building materials, products and articles, technical quality control and maintenance of car roads and their structures, etc.	6,938	9,567	107	100.0%
VĮ Mūsų amatai	The production of furniture, shelving, metalware	6,908	6,636	122	100.0%
AB Giraitės ginkluotės gamykla	The production of ammunition	6,899	19,671	72	100.0%
VĮ Lietuvos paminklai	Cultural heritage objects and sites management	6,555	676	45	100.0%
UAB Lietuvos parodų ir kongresų centras LITEXPO	Organization of meetings and business events, halls and conference halls rent	6,068	20,386	113	98.8%
VĮ Infostruktūra	Provision of secure state data transfer network services and Internet services	6,065	6,336	56	100.0%
AB Jonavos grūdai	Wholesale grain and oil seed rape trade	5,700	6,918	53	70.1%

## Sales revenue (EUR million)

156

163

158

168

## Normalised net profit (EUR million)

10.7

7.3

6.3

10.6

2014

2015

2016

2017

47 SOE were included in the Other Enterprises sector. The financial results of the following companies were not included in the evaluation of the sector enterprises: **UAB Klaipėdos žuvininkystės produktų aukcionas** and **VĮ Mašinų bandymo stotis**. On April 10th, 2017, the **VĮ Seimo leidykla Valstybės žinios** was liquidated, and on February 24th, 2017, **UAB Mokslas ir technika** was liquidated as well.

Of the other companies belonging to the sector, 8 are joint-stock companies, 24 are private limited liability companies and 15 are state enterprises. The largest enterprise in the sector according to turnover and number of employees is the **VĮ Registrų centras**, which has provided the amount of services worth EUR 39.1 million in 2017. The ten largest enterprises in this sector are listed in the table on the previous page.

# Financial results

## Sales revenue of the sector had grown by 6.2%

Revenue of Other Enterprises sector has grown by 6.2% in 2017 and amounted to EUR 168.3 million. **VĮ Registrų centras** has earned the highest revenue – EUR 39.1 million (6% more than a year ago). Sales revenue of this company has increased due to non-commercial services income growth of 7.8%, 69.2% of which was real estate register income, which increased by 2.3%. Sector's sales revenue growth was significantly influenced by the revenue generated by the **VĮ Regitra**, which grew by 4% and accounted

for 15.7% of the total sales revenue of the sector. The income of **UAB Lietuvos monetų kalykla** had increased most of all, by 88.3%, and in 2017 this income amounted to 4.7% of the sector's turnover. The largest drop in sales revenue in 2017 was made by **UAB Aerogeodezijos institutas**, which amounted to 91.4% (from EUR 464 thousand to EUR 40 thousand). This decrease was influenced by the 91.9% decrease in income of services rendered, which accounted for 94.4% of the company's income structure.

## The normalised net profit of the Other Enterprises sector has grown by 68.7%

The net profit of the **VĮ Regitra** was the most significant influence on the net profit of the sector, which made up a noteworthy part (28%) of the sector's profits. The normalised net profit of the **VĮ Regitra** has grown by 2%. The net profit of the **AB Problematika**, making up to

14.9% of the sector's net result, has grown by 59.4%, due to 32.8% higher earned income of the road quality control and laboratory research. The change in the net profit of the sector was also influenced by a significant change in the net profit of the **AB Informacinio**

<b>PROFIT (LOSS) STATEMENT (EUR '000)</b>	<b>2016</b>	<b>2017</b>
<b>Sales revenue</b>	<b>158,465</b>	<b>168,325</b>
Cost of goods sold	118,360	122,907
<b>Gross profit (loss)</b>	<b>40,105</b>	<b>45,418</b>
Operating expenses	34,886	35,965
Other operating profit (loss)	694	2,144
<b>Operating profit (loss)</b>	<b>5,913</b>	<b>11,597</b>
<i>Operating profit margin</i>	<i>3.7%</i>	<i>6.9%</i>
<b>EBITDA</b>	<b>17,222</b>	<b>23,166</b>
<i>EBITDA margin</i>	<i>10.9%</i>	<i>13.8%</i>
Financial and investment activities	1,276	199
<b>Profit (loss) before the taxes</b>	<b>7,189</b>	<b>11,795</b>
Profit tax	1,528	1,925
<b>Net profit (loss)</b>	<b>5,660</b>	<b>9,870</b>
Minority share in profit (loss)	307	795
<b>Normalised net profit (loss)</b>	<b>6,253</b>	<b>10,550</b>
<i>Normalised net profit margin</i>	<i>3.9%</i>	<i>6.3%</i>
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Intangible assets	5,656	5,183
Tangible assets	176,409	208,205
Financial assets	84,468	50,692
Other non-current assets	1,448	1,882
Biological assets	1,190	1,306
<b>Non-current assets</b>	<b>269,172</b>	<b>267,267</b>
Inventories, prepayments and contracts in progress	138,518	160,789
Amounts receivable within one year	19,497	41,366
Other current assets	21,580	19,828
Cash and cash equivalents	67,719	79,339
<b>Current assets</b>	<b>247,314</b>	<b>301,322</b>
<b>Total assets</b>	<b>516,485</b>	<b>568,589</b>
<b>Equity</b>	<b>214,194</b>	<b>246,614</b>
Minority interest	3,512	3,892
<b>Grants and subsidies</b>	<b>35,880</b>	<b>33,626</b>
Non-current liabilities	96,189	92,795
Current liabilities	170,222	195,554
<b>Liabilities</b>	<b>266,411</b>	<b>288,348</b>
Financial liabilities	119,509	113,770
<b>Total equity and liabilities</b>	<b>516,485</b>	<b>568,589</b>
<b>RATIOS</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Normalised ROA	1.3%	1.9%
Normalised ROE	3.0%	4.6%
D/E	55.8%	46.1%
<b>RETURN TO THE STATE (EUR '000)</b>	<b>2016</b>	<b>2017</b>
Assigned dividends (share for the State)	4,608	4,556
Assigned profit contributions	1,814	6,925
<b>Dividends and profit contributions to the State:</b>	<b>6,423</b>	<b>11,482</b>
Property tax	694	797
<b>Total</b>	<b>7,117</b>	<b>12,279</b>
<b>INFORMATION ABOUT THE EMPLOYEES</b>	<b>2016</b>	<b>2017</b>
The number of employees	5,211	4,891
The number of executives	105	92

**verslo paslaugų įmonė.** In 2017, the company has earned EUR 987 thousand, meanwhile in 2016 the net profit amounted to EUR 103 thousand. The net profit of the sector was significantly reduced due to the losses incurred by the **VĮ Valstybės žemės fondas**, which

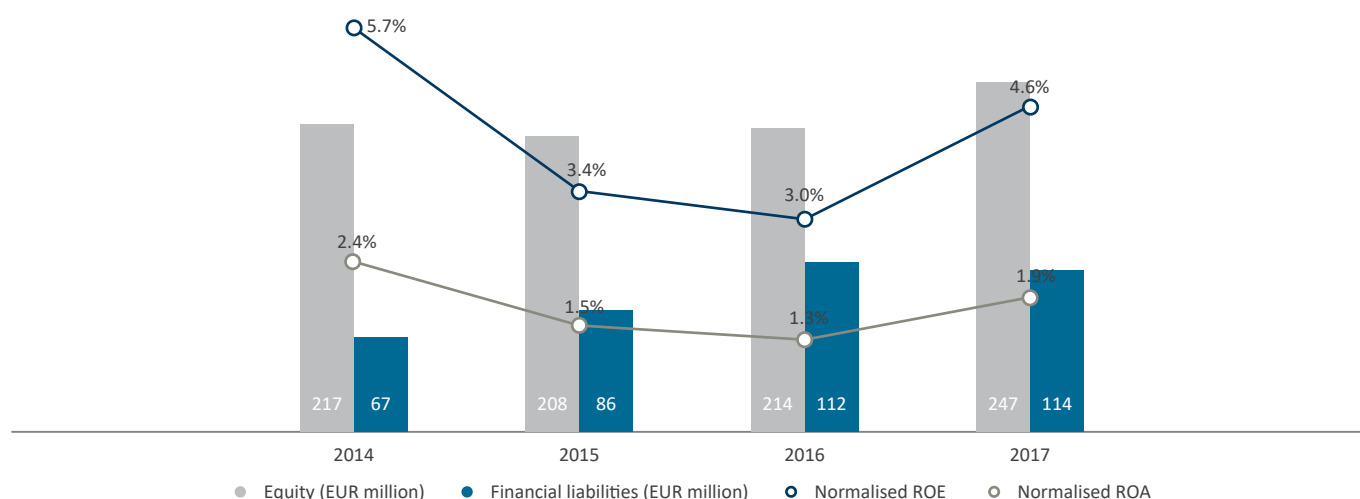
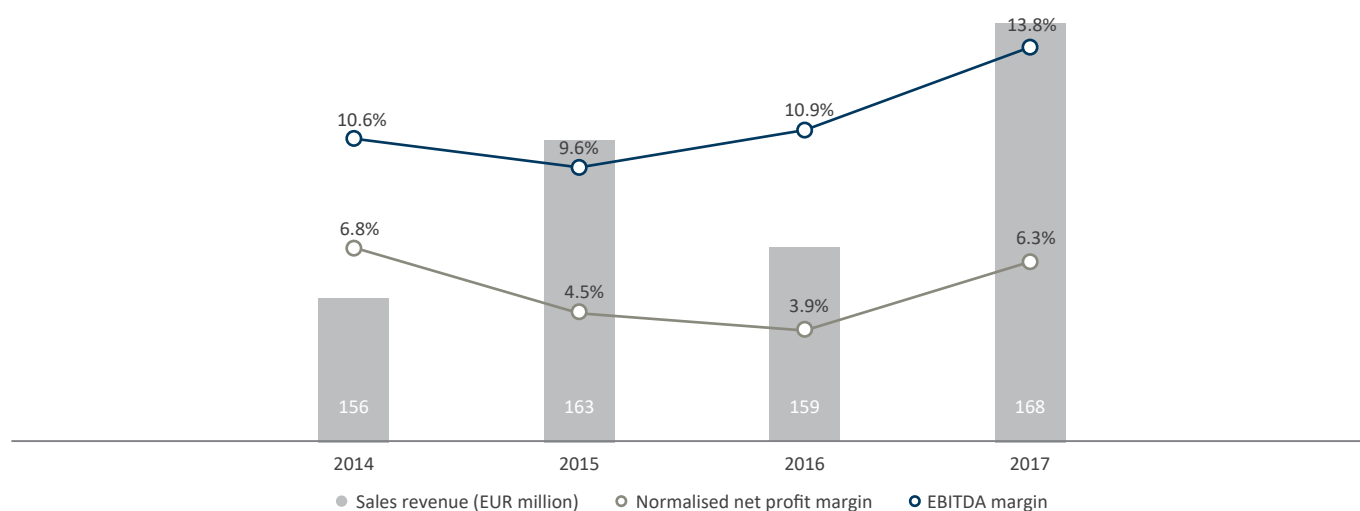
amounted to EUR 403 thousand. The net profit of the sector was also reduced due to losses incurred by other companies: **UAB poilsio namai Baltija** (loss of EUR 393 thousand), **UAB Aerogeodezijos institutas** (loss of EUR 338 thousand).

## The sector's assets and equity grew by 10.1% and 15.1%, respectively

The change in the value of Other Enterprises sector assets and equity was significantly influenced by the **VĮ Turto bankas**. The latter company's assets has increased by 22.2%, from EUR 159.5 million up to EUR 194.8 million due to an increase in tangible assets' value of 70.5%, (the value of investment property has increased by 74.8%, the value of land has increased by 183.2% and the value of buildings has increased by 44.4%) and the value of current assets increase of 34.2% (the accounts receivable has increased 12.6 times per one year). **VĮ Turto bankas** equity capital has grown by 63.1%, from EUR 40.7 million to EUR 66.3 million. This was mostly influenced by the capital corresponding to centrally managed state asset increase of 73.9%. Furthermore, the change in the value of equity capital and the assets of the sector were significantly influenced by the **VĮ Regitra** assets increase of 11.1%, from EUR 20.5 million to EUR 22.8 million, and equity capital increase

of 13.3%, from EUR 19.5 million to EUR 22.1 million. Equity capital and assets have increased due to the land plot assigned to the enterprise for management, usage and disposal under the resolution of the Republic of Lithuania on December the 31st, 2017, in order to perform state functions. The value of this land amounted to EUR 1,155.3 thousand. Equity capital growth was influenced by a 15.5% increase in reserves.

The return of the Other Enterprises sector to the State amounted to EUR 12.3 million in 2017, 56.4% of these were received as profit contributions, and 37.1% – in the form of dividends. The largest part of this return for 2017 was the profit contribution of **VĮ Regitra** (EUR 4.8 million) as well as **AB Problematika** and **VĮ Registrų centras** dividends and profit contributions, which amounted to EUR 1.2 million and EUR 1.1 million, respectively.



## The key events in this sector will be briefly highlighted in the further overview of this sector.

- On May 25th, 2016, the Government has decided to terminate the activity of the state enterprise **Seimo leidykla Valstybės žinios**, on the basis of Part 2 of Article 24 of the Law on State and Municipal Enterprises of the Republic of Lithuania. Since 2014, the legislations of the Seimas and other State authorities are being published in the Seimas electronic register of legal acts, therefore the main activity of the enterprise, which was the printing of official state legislation, had become unnecessary. **On April 10th, 2017, the state enterprise Seimo leidykla Valstybės žinios** was liquidated.
- On February 24th, 2017, UAB Mokslas ir technika** was liquidated.



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# AB Lietuvos geležinkeliai Group

www.litrail.lt



Freight and passenger transportation by railways, rail network administration, public railway infrastructure management, maintenance and development

AB Lietuvos geležinkeliai owns 100% shares of Geležinkelio tiesimo centras, Vilniaus lokomotyvų remonto depas, Gelsauga, UAB Geležinkelių aplinkosaugos centras and Rail Baltica statyba, 56.66% shares of BAB Lietuvos jūrų laivininkystė, 79.61% of the capital of UAB Geležinkelių logistikos parkas and 34% shares of Lithuania's and Austria's UAB voestalpine VAE Legetecha.

- Cargo transported increased by 10.5%
- The number of passengers transported increased by 5.2%
- In 2017, the Group earned net profit of EUR 27 million

In 2017, AB Lietuvos geležinkeliai Group transported 52.6 million tons of cargo – 10.5% more than in the corresponding period last year. Compared to 2016, international freight, which in 2017 made up 70.5% of all shipments, increased by 13.8%. The change was mainly conditioned by an increase in the volume of transit cargo, in particular a 29% increase in cargo volumes to Kaliningrad due to an increase in the volume of coal and oil transportation. Transportation via Klaipėda port in 2017 grew by 8%, mainly due to the transport of fertilizers from Belarus. 15.5 million tons of cargo were transported by local routes which was 3.3% more than in 2016. Chemical and mineral fertilizers dominated railway transportation in 2017 and made up 29.7% of all shipments.

The number of passengers transported increased by 5.2%, to 4,658 thousand. 7.7% more passengers were transported via local routes comparing with 2016. The growth of the number of passengers was influenced by the renewed fleet of passenger rolling stock, the increase in the frequency of passenger trains on individual routes, the improvement of the timetable, the emergence of joint Vilnius-Palanga, Vilnius-Nida, and the marketing tools applied. Transportation via international routes in 2017 decreased by 5.3% and amounted to 803 thousand passengers.

The Group's sales revenue increased by 10.9%, to EUR 448.1 million. Income growth was mainly influenced by the growth of revenue from freight transportation activities. During the year, freight transportation revenue increased by 10.9%, to EUR 381.5 million and, in 2017, accounted for 85.2% total sales revenue of the Group. Changes were caused by the growth of freight transport and the volume of services related to this activity.

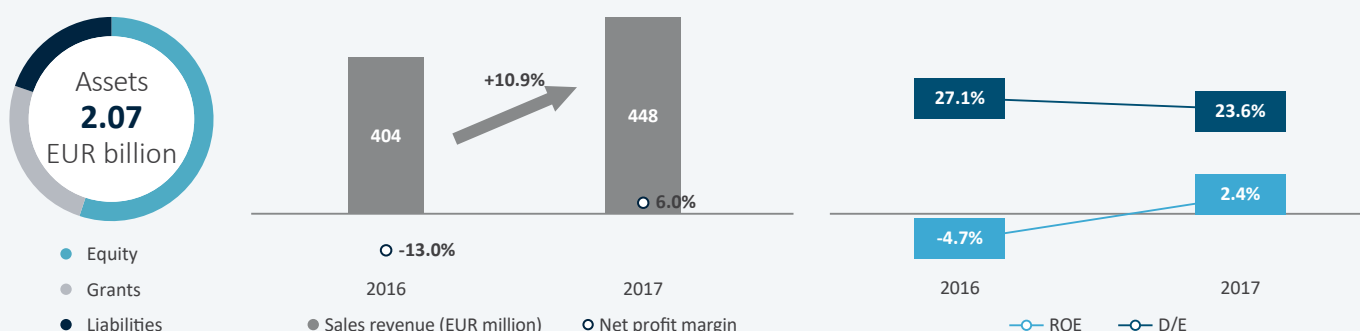
In 2017, the Group earned net profit of EUR 27 million, while, in 2016, net loss of EUR 52.5 million was incurred. This was influenced by the growth in sales revenue due to the increased volumes of freight transport and the cost of a halving of operating costs. In 2016, the expenses of AB Lietuvos geležinkeliai increased due to the fine imposed by the European Commission by the amount of EUR 27,873 thousand in the competition case concerning the railway track separation in Mažeikiai-Rengė railway line, which caused a significant change in provisions and an increase in operating costs.

In 2017, the Group's liabilities decreased by EUR 42.9 million. Decrease in liabilities was determined by EUR 32.9 million reduction in the Group's financial debt.

In 2017, the Group's investments amounted to EUR 85.4 million which was 38.9% less than in 2016. The largest share (55%) of these investments was made using Group's own funds, EUR 31.5 million - European Union funds. More than a half of the invested funds were allocated for renewal and development of railway infrastructure, while 21.5% of the funds were allocated for the renewal of passenger transport infrastructure.

PROFIT (LOSS) STATEMENT (EUR '000)		
	2016	2017
Sales revenue	404,120	448,100
Cost of goods sold	334,750	355,058
<b>Gross profit (loss)</b>	<b>69,370</b>	<b>93,042</b>
Operating expenses	114,405	55,624
Other operating profit (loss)	32	-128
<b>Operating profit (loss)</b>	<b>-45,003</b>	<b>37,290</b>
<b>EBITDA</b>	<b>62,983</b>	<b>156,458</b>
<b>Net profit (loss)</b>	<b>-52,453</b>	<b>26,987</b>
Net profit margin	-13.0%	6.0%
BALANCE SHEET (EUR '000)		
	31 DEC 2016	31 DEC 2017
<b>Non-current assets</b>	<b>1,958,937</b>	<b>1,909,825</b>
<b>Current assets</b>	<b>118,780</b>	<b>157,748</b>
Cash and cash equivalents	20,666	83,536
<b>Total assets</b>	<b>2,077,717</b>	<b>2,067,572</b>
<b>Equity</b>	<b>1,111,683</b>	<b>1,138,694</b>
<b>Grants and subsidies</b>	<b>515,251</b>	<b>520,962</b>
<b>Liabilities</b>	<b>450,783</b>	<b>407,916</b>
Financial liabilities	301,469	268,533
<b>Total equity and liabilities</b>	<b>2,077,717</b>	<b>2,067,572</b>
RATIOS		
	31 DEC 2016	31 DEC 2017
ROA	-2.5%	1.3%
ROE	-4.7%	2.4%
D/E	27.1%	23.6%
RETURN TO THE SHAREHOLDERS (EUR '000)		
	2016	2017
Allocated dividends (total)	0	34,000
INFORMATION ABOUT EMPLOYEES		
	2016	2017
Number of employees	11,532	9,968
Number of employees holding managerial positions	6	9
Average monthly salary of employees holding managerial positions (gross, EUR)	6,102	5,661
SHAREHOLDERS		
<b>State-owned share</b>		<b>100%</b>
MANAGEMENT (31 MAR 2018)		
<b>Director General</b>	Mantas Bartuška	
<b>Chairman of the Board of Directors</b>	Romas Švedas (VU TSPMI)*	
<b>Members of the Board of Directors</b>	Rolandas Zukas (UAB EPSO-G Director General)* Monika Rimkūnaitė-Bložė (UAB Mobilieji mokėjimai Director General)* Alditas Saulius (V) Valstybinė miškų urėdija, UAB Investicijų ir verslo garantijos board member)* Mantas Bartuška (AB Lietuvos geležinkeliai Director General) Christian Kuhn (CK Rail and Logistics Beratungs- und Beteiligungsgesellschaft mbH Director)* Vladislav Kondratovič (Ministry of Transport and Communications)	

\*Independent member



# AB Lietuvos paštas Group

www.post.lt



## Provision of universal and other postage, courier, financial and other services

Lietuvos paštas Group includes the following subsidiaries: UAB Lietuvos pašto finansinės paslaugos, UAB LP mokėjimų sprendimai and UAB Baltic Post (100%).

- Sales revenue of the Group grew by 7%
- In 2017, the net normalised profit amounted to EUR 1,573 thousand, when in 2016 it stood at EUR 19 thousand
- EBITDA of the Group amounted to EUR 4.4 million, i.e. EUR 2.1 million more than a year ago

**Sales revenue of the Group in 2017 amounted to EUR 76.9 million and compared to the results of 2016, increased by 7%. Revenues of postal services amounted to 62.5% of the total revenue and increased by 11.3%.** The main reason for this change is 17.9% (up to EUR 14.5 million) increased revenues received from private persons by providing universal postal services. The revenues from courier services increased by 8% (up to EUR 7 million), revenues from financial services grew by 3.7% (EUR 12.1 million). In 2017, revenues from other services consisting of retail and commission trade, printing services, ancillary services, etc., accounted for 7.7% less than a year ago, because in 2017 there was no revenue from additional postal services under a cooperation agreement with the international logistics and transport company CLEVY.

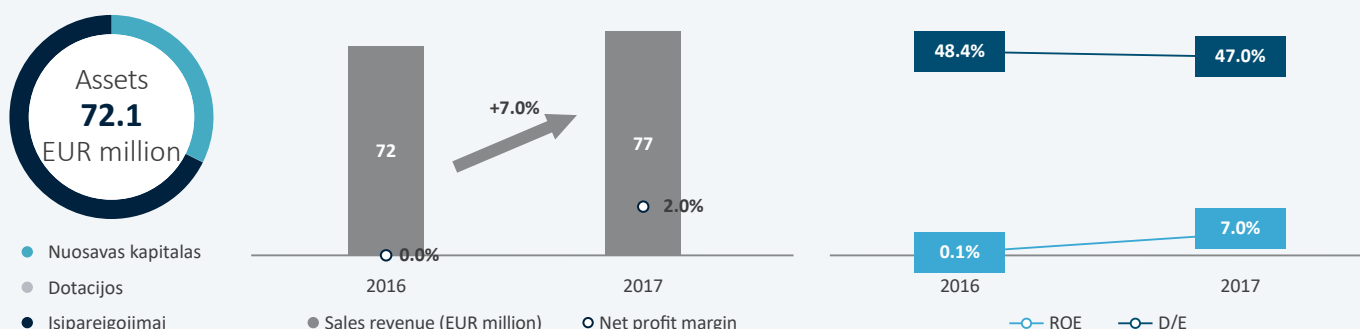
**In 2017, the Group, without unaddressed advertising, provided 107.1 million units of services - 0.1% less than in 2016.** Unaddressed advertisement in 2017 amounted 25.5% of total services and 1.3% of total revenues. It can be noted that during the analysed period, the provision of these services decreased by 44.3%. The main reason for that – the changed demand of market participants for this service. In 2017, almost 57 million postal consignments were received and sent via Lietuvos paštas. Compared to 2016, the flow of postal consignments from abroad to Lithuania has increased by 19.8%. For several years now, due to the rapidly-growing e-commerce, most of the consignments to Lithuania came from China. Thus, in 2017, the flow from this country amounted to 49% of all international consignments. Other major directions, from which the packages were sent to Lithuania are Poland, Singapore, and the Netherlands. From Lithuania, the largest number of consignments, during the analysed period, were sent to the United States of America, the United Kingdom, Germany, France and Latvia.

**In 2017, the Group made a net profit of EUR 1,573 thousand,** while in 2016 the net profit of the Group amounted to EUR 19 thousand. At the end of the year of 2017, the Group's EBITDA reached EUR 4.4 million, when the year before EBITDA amounted to EUR 2.3 million.

In 2017, the Group's investments in tangible and intangible assets amounted to EUR 3,564 thousand, i.e. 13.3% less than in 2016. In order to buy long-term tangible assets EUR 2,727 thousand were used, 69.6% more than in the previous year. Investments were made for the renewal of the Company's post offices, improvement of customer service and workplaces, acquisition of information technology equipment. In 2017, EUR 837 thousand were invested in the long-term intangible assets. These investments decreased by 66.6% compared with 2016.

PROFIT (LOSS) STATEMENT (EUR '000)		
	2016	2017
Sales revenue	71,909	76,940
Operating expenses	72,384	75,840
Profit (loss) from other activities	731	727
<b>Operating profit (loss)</b>	<b>256</b>	<b>1,827</b>
<b>EBITDA</b>	<b>2,316</b>	<b>4,351</b>
<b>Net profit (loss)</b>	<b>19</b>	<b>1,573</b>
Net profit margin	0.0%	2.0%
<b>Normalised net profit (loss)</b>	<b>19</b>	<b>1,573</b>
BALANCE SHEET (EUR '000)		
	31 DEC 2016	31 DEC 2017
<b>Non-current assets</b>	<b>36,299</b>	<b>37,850</b>
<b>Current assets</b>	<b>34,916</b>	<b>34,209</b>
Cash and cash equivalents	4,843	5,860
<b>Total assets</b>	<b>71,215</b>	<b>72,059</b>
<b>Equity</b>	<b>21,698</b>	<b>23,271</b>
<b>Grants and subsidies</b>	<b>12</b>	<b>33</b>
<b>Liabilities</b>	<b>49,506</b>	<b>48,755</b>
Financial liabilities	10,497	10,939
<b>Total equity and liabilities</b>	<b>71,215</b>	<b>72,059</b>
RATIOS		
	31 DEC 2016	31 DEC 2017
Normalised ROA	0.0%	2.2%
Normalised ROE	0.1%	7.0%
D/E	48.4%	47.0%
RETURN TO THE SHAREHOLDERS (EUR '000)		
	2016	2017
Allocated dividends (total)	0	0
EMPLOYEE INFORMATION		
	2016	2017
Number of employees	5,741	5,415
Number of employees holding managerial positions	10	9
Average monthly salary of employees holding managerial positions (gross, EUR)	3,092	4,393
SHAREHOLDERS		
<b>State-owned share</b>	<b>100%</b>	
MANAGEMENT (31 MAR 2018)		
<b>Director General</b>	Asta Sungailienė	
<b>Chairman of the Board of Directors</b>	Nerijus Datkūnas (Chairman of the Board of UAB Investicijų ir verslo garantijos, member of the Board of AB Amber Grid, President of the Association of Financial Analysts)*	
<b>Members of Board of Directors</b>	Gražvydas Jukna (CEO and commerce director of UAB Vilniaus duona)* Danielius Merkinas (Founder and director of NNL LT)* Žaneta Kovaliova (CEO of UP Consulting Group)* Darius Kuliešius (Ministry of Transport and Communications)	

\*Independent member



# VĮ Klaipėdos valstybinio jūrų uosto direkcija

www.portofklaipeda.lt



**Klaipėda's Port infrastructure management: collection of fees for using infrastructure, port captain function, land lease in the port territory, execution of maintenance, development and reconstruction works of port infrastructure**

- In 2017, a record of volumes handled annually was reached - 43.2 million tons of sea cargo were handled in the port
- Financial ratios of the company have increased: sales revenue increased by 5.8%, EBITDA - by 9.4%, normalised net profit - by 40.9%

The company's strategic objectives are oriented towards increasing the competitiveness of Klaipėda State Seaport, creating conditions for development of port enterprises' activities that create added value for the port, the city and the state; the aim to ensure high quality services and navigation security for port users, compliance with environmental requirements and the financial efficiency of the Port Authority.

In 2017, the Port Authority rented the port land and collected port taxes in accordance with the procedures approved by the Minister of Transport and Communications and the rates of fees, and executing the functions assigned by the law. The revenue from these main activities amounted to EUR 59.8 million (i.e., 11% more than planned) and increased by 5.8% compared to the result for 2016. This also led to a rise in net profit.

The normalized net profit of Klaipėda Port Authority amounted to EUR 38.9 million (i.e., 65% more than planned) in 2017. Compared to 2016, profit increased by 40.9%. This growth was also influenced by reduced operating costs by 9.5%. During the reporting period, positive changes in financial indicators were recorded: EBITDA amounted to EUR 46.6 million - 9.4% more than in 2016; the normalised net profit margin increased by 33.1%, and the return on equity reached 7.8%.

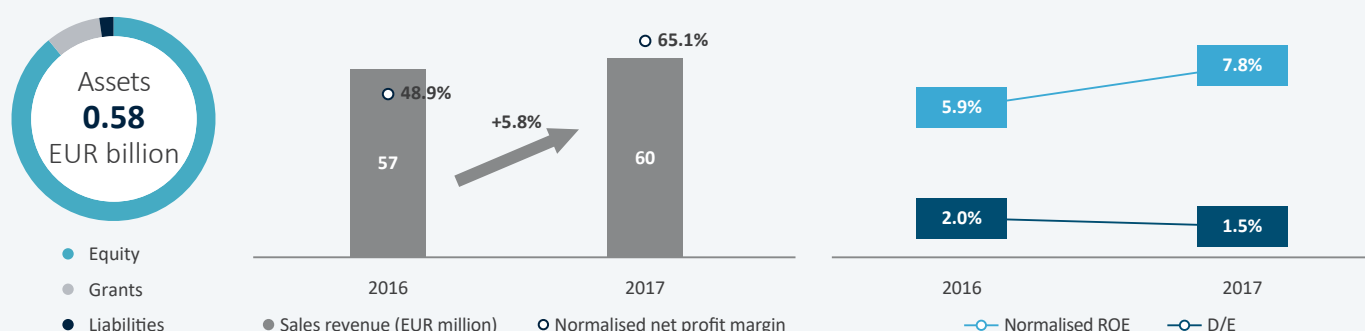
In 2017, the Klaipėda port achieved an annual record of handling volumes - 43.2 million of tons of sea cargo were handled in the port, i.e., by 7.6% more than in 2016. This was the result of the increased handling of bulk cargo by 15.8% and liquid cargo - by 2.8%.

In order to increase the competitiveness of the port, to create preconditions for the development of the activities of port enterprises creating added value, the Port Authority has implemented investment projects, the value of which amounted to EUR 28.6 million in 2017. During the analysed period, the most investment funds were allocated to quay reconstruction projects (EUR 14.2 million or 49.7%), aquaculture dredging works (EUR 8.5 million or 29.7%), railways construction and reconstruction (EUR 1.9 million or 6.6%) and for vehicles, including a vessel for collection of oil products (EUR 2.4 million or 8.4%).

In 2017, 369,743 passengers arrived at Klaipėda Seaport and compared to 2016, the number of passengers increased by 5.4% or 19,073 passengers, although 6,568 ships entered the port, i.e., by 4.8% or 330 ships less than in 2016. The growing flow of cargo and the decreasing number of vessels indicate a trend of increase in average ship capacity and an increase in the efficiency of the port's operations.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	56,514	59,795
Operating expenses	30,868	27,934
Profit (loss) from other activities	1,679	10
Operating profit (loss)	27,325	31,871
EBITDA	42,581	46,601
Net profit (loss)	27,149	38,442
Normalised net profit (loss)	27,631	38,924
Normalised net profit margin	48.9%	65.1%
BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	504,158	508,683
Current assets	44,838	73,845
Cash and cash equivalents	37,397	54,489
Total assets	548,996	582,528
Equity	479,908	518,614
Grants and subsidies	52,885	50,921
Liabilities	16,203	12,993
Financial liabilities	9,644	7,692
Total equity and liabilities	548,996	582,528
RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	5.1%	6.9%
Normalised ROE	5.9%	7.8%
D/E	2.0%	1.5%
RETURN TO THE STATE (EUR '000)	2016	2017
Assigned profit contributions	0	22,332
Property tax	482	482
Total contributions and non-standard taxes to the State	482	22,814
INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	242	242
Number of employees holding managerial positions	5	5
Average monthly salary of employees holding managerial positions (gross, EUR)	5,564	6,953
MANAGEMENT (31 MAR 2018)		
Director General	Arvydas Vaitkus	
Chairman of the Board of Directors	Nerijus Udrėnas (Energy and Infrastructure Baltic Fund)*	
Members of the Board of Directors	Saulius Kerza (Ministry of Transport and Communications) Kastytis Macijauskas (Klaipėda city municipality administration) Vaidotas Rūkas (INVL Asset Management)*	

\* Independent member



# VĮ Lietuvos oro uostai

www.ltou.lt

LIETUVOS ORO UOSTAI

VNO KUN PLQ

## Operation of airports, rental of premises and car parks, advertising

- Reconstruction of Vilnius Airport Aircraft Runway carried out for EUR 19.5 million
- Sales revenue increased by 10.8%
- The return to the owner increased by 81.8%

In 2017, VĮ Lietuvos oro uostai together with the Ministry of Transport and Communications of the Republic of Lithuania **has started the reorganization into a public limited liability company**, which is planned to be completed by the end of the first quarter of 2019. In addition to this project and the general expectations, the Ministry of Transport and Communications emphasizes in the letter of intent the development and promotion of aircraft repair and maintenance (MRO) activities.

During 2017, VĮ Lietuvos oro uostai serviced 5.2 million passengers –9.6% more than in 2016. This was the result of an increase in the number of seats offered (increased number of flights, number of directions, larger aircrafts), which led to the outstanding absorption of new supply on the market. In 2017, 17 regularly scheduled airlines operated at Lithuanian airports. Ryanair (30% of total traffic) and Wizz Air (25% of total traffic) remained the largest carriers, while London was the most popular destination.

**Sales revenue of VĮ Lietuvos oro uostai amounted to EUR 33.1 million during the reporting period. In comparison with the results of 2016, the growth amounted to 10.8%:** aviation revenue increased by 12.4%, up to EUR 21.9 million; non-aviation income increased by 8%, up to EUR 11.2 million.

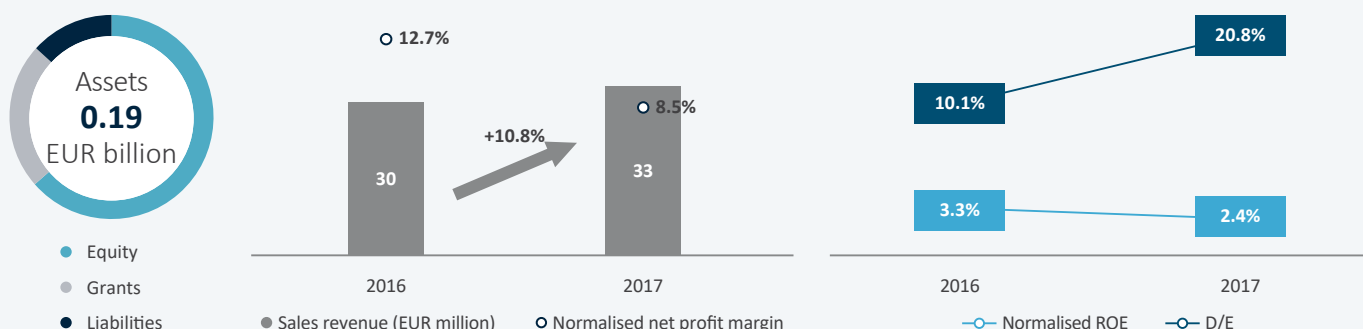
**The EBITDA of the company decreased by 11.9% and amounted to EUR 8.9 million at the end of 2017.** Compared to 2016, the normalised net profit of VĮ Lietuvos oro uostai decreased by 25.4% up to EUR 2.8 million while the normalised net profit margin reached 8.5% and was 4.2 percentage points lower than in 2016.

**In 2017, the Company made investments for EUR 29,074 thousand (in 2016, investments amounted to EUR 2,426 thousand),** 33% of which was fulfilled by the Company's funds, 35% consisted of loans, 32% was the EU support. **In 2017, reconstruction of the Vilnius Airport's aircraft runway was completed.** Contractor of reconstruction works - a consortium of companies led by the Latvian company "ACB", has carried out works for EUR 19.5 million. Also, a significant amount was allocated for renovation of surface of the existing aircraft parking ramp at Kaunas Airport and modernisation of the runway (A) and the rear safety zone (EUR 5.1 million).

**The return to the owner increased by 81.8% and amounted to EUR 3.8 million,** 89.5% (EUR 3.4 million) of which consisted of a assigned profit contribution, which grew by 97.9% in 2017 compared with 2016.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	29,908	33,130
Expenses of core activities	25,747	30,179
Profit (loss) from other activities	0	0
<b>Operating profit (loss)</b>	<b>4,162</b>	<b>2,951</b>
<b>EBITDA</b>	<b>10,111</b>	<b>8,908</b>
<b>Net profit (loss)</b>	<b>3,467</b>	<b>2,482</b>
<b>Normalised net profit (loss)</b>	<b>3,785</b>	<b>2,823</b>
Normalised net profit margin	12.7%	8.5%
BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
<b>Non-current assets</b>	<b>144,511</b>	<b>164,362</b>
<b>Current assets</b>	<b>22,779</b>	<b>22,846</b>
Cash and cash equivalents	16,198	14,828
<b>Total assets</b>	<b>167,289</b>	<b>187,208</b>
<b>Equity</b>	<b>117,040</b>	<b>118,936</b>
<b>Grants and subsidies</b>	<b>37,769</b>	<b>43,489</b>
<b>Liabilities</b>	<b>12,481</b>	<b>24,782</b>
Financial liabilities	11,804	24,714
<b>Total equity and liabilities</b>	<b>167,289</b>	<b>187,208</b>
RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	2.3%	1.6%
Normalised ROE	3.3%	2.4%
D/E	10.1%	20.8%
RETURN TO THE STATE (EUR '000)	2016	2017
Assigned profit contributions	1,733	3,429
Property tax	374	402
<b>Total contributions and non-standard taxes to the State</b>	<b>2,107</b>	<b>3,831</b>
INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	581	608
Number of employees holding managerial positions	1	1
Average monthly salary of employees holding managerial positions (gross, EUR)	4,275	7,607
MANAGEMENT (31 MAR 2018)		
<b>Director General</b>	Marius Gelžinis	
<b>Chairman of the Board of Directors</b>	Tomas Krakauskas (Investment Management Director of UAB ME Investicija)*	
<b>Members of the Board of Directors</b>	Gediminas Almantas (ACI Europe member of the Board) Andrius Šniuolis (Ministry of Transport and Communications) Ramūnas Bagdonas (HR head of AB Telia Lietuva)*	

\*Independent member



# VĮ Oro navigacija

www.ans.lt



## Air navigation services for aircraft flying in the airspace of the Republic of Lithuania

- In 2017, the number of flights increased by 5.2%, up to 243 million
- During the reporting period, revenue growth amounted to 1.8%
- The company's normalised net profit increased by 43.1% during the reporting period and amounted to EUR 3,134 thousand

**In 2017, the Government of the Republic of Lithuania approved a state enterprise restructuring plan, according to which the legal form of the company will be changed from the state enterprise into a private limited liability company.** In accordance with clause 4 of section 5 and clauses 1 and 2 of Section 7 of Article 15 of Law on State and Municipal Enterprises of the Republic of Lithuania, the company does not pay profit contribution to the State budget as the structure of the company's income and expenses as well as profit distribution is directly regulated by European Union legislation. Nevertheless, the company will pay EUR 500 thousand to the State budget of the profit earned in 2017, and from 2018 the company will be subject to corporate tax.

**Compared to 2016, the total number of flights that were granted air navigation services in the airspace of the Republic of Lithuania, increased by 5.2% in 2017 and amounted to 243,033 thousand.** 185,167 aircraft of these (76.2% of all flights) were flown in transit, i.e., 5.25% more than during the same period in 2016, the number of terminal flights has reached 57,866, i.e., by 5.2% more than in 2016. In 2017, the number of airline companies, to which the navigation services were provided, registered in the Russian Federation significantly increased as airline companies registered in this country did not fly through Ukraine's airspace by relocating routes to the westerly direction. The company also conducts research and innovation development projects for the Single European Sky ATM Research (SESAR) programme and contributes to the development of a European Air Traffic Management system.

In 2017, as in previous years, compared to 2016, the unit tariffs of the company's routes and terminal services decreased by 1.1% and 3.5%, respectively. The unit tariffs for the services provided by the company are set in accordance with the provisions of the Commission Implementing Regulation (EU) No 391/2013 of 3 May 2013 establishing a common charging scheme for air navigation services. The basic principle of the common system of charging is to provide airspace users' representatives and competent authorities with timely and comprehensive information on the cost base. Taking into account the recommendations of external experts, in 2017, the company paid a great deal of attention to ensuring the transparency of operations and increasing the efficiency of operations.

**During the reporting period, sales revenue of the company grew by 1.8% compared to 2016 and amounted to EUR 28.8 million.** Earnings of the main activities in the provision of air navigation services amounted to EUR 29.4 million, EUR 0.6 million of which was returned to the airspace users (turnover plan executed by 102%). Operating income amounted to 98.2% in total sales revenue structure. In 2017, the company's largest customers were the following airlines: Ryanair, Aeroflot and Air Baltic.

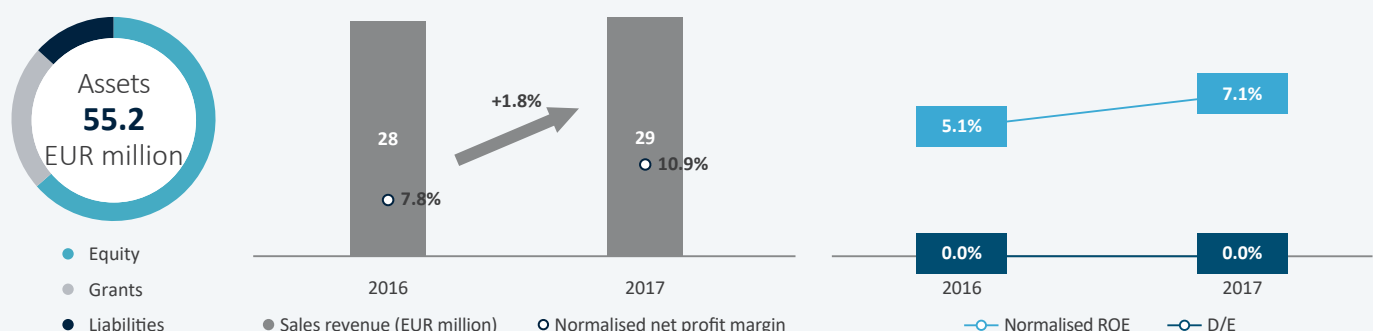
Although the Company does not pay the corporate income tax to the State budget of the Republic of Lithuania, other direct and indirect taxes paid by the Company to the State budget of the Republic of Lithuania are increasing each year, which, in relation to the Company's total costs, amounts to almost 30%. **The profit margin and atypical taxes paid to the State budget in 2017 were 2.7 times higher than in 2016.**

The main goal of the company is not to seek profit, but to satisfy public interests and fulfill special obligations. In 2017, the Company earned profit of EUR 1,552 thousand (it was planned to earn EUR 339 thousand). **Compared to 2016, the company's normalised net profit increased by 43.1% over the reporting period and amounted to EUR 3,134 thousand.** The increase in the number of flights had the greatest impact on the increase in profits, as well as the revised public procurement contracts after the changed management of the company and the conclusion of new contracts under better conditions and the delay in part of the purchases for the next year, which led to a decrease in costs.

**In 2017, the company invested EUR 10.6 million.** The largest investments were made for the construction of a new air traffic control center building, the acquisition of equipment for the provision of air navigation services, and the extension of the improved ground traffic handling and control system of the Vilnius Airport.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	28,246	28,757
Cost of goods sold	19,549	19,780
Gross profit (loss)	8,697	8,977
Operating expenses	6,359	7,908
Operating profit (loss)	1,860	1,521
EBITDA	4,997	4,467
Net profit (loss)	1,890	1,552
Net profit margin	6.7%	5.4%
Normalised net profit (loss)	2,190	3,134
BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	32,813	37,956
Current assets	18,240	17,214
Cash and cash equivalents	3,800	6,639
Total assets	51,053	55,170
Equity	42,565	46,017
Grants and subsidies	2,677	2,786
Liabilities	5,811	6,367
Financial liabilities	0	0
Total equity and liabilities	51,053	55,170
RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	4.5%	5.9%
Normalised ROE	5.1%	7.1%
D/E	0.0%	0.0%
RETURN TO THE STATE (EUR '000)	2016	2017
Assigned profit contributions	0	500
Property tax	300	299
Total contributions and non-standard taxes to the State	300	799
INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	306	309
Number of employees holding managerial positions	4	3
Average monthly salary of employees, holding managerial positions (gross, EUR)	4,713	4,690
MANAGEMENT (31 MAR 2018)		
Director General	Mindaugas Gustys	
Chairman of the Board of Directors	Dangirutis Janušas (Director, partner at UAB Verslo konsultacijų spektras)*	
Members of the Board of Directors	Andrius Šniuolis (Ministry of Transport and Communications)	
	Vytautas Vaižmužis (Head of Aeronautical Rescue Coordination Center VĮ Oro navigacija)	
	Gediminas Almantas (ACI Europe member of the Board)*	
	Mikas Jovaiša (Head of Strategy and Development department of AB Lietuvos paštas, Chairman of the Board of UAB Baltic Post (LPEXPRESS))*	

\*Independent member



# AB Lietuvos radijo ir televizijos centras

www.telecentras.lt



Transmission of radio and television programs, hosting of broadcasters' and telecommunications operators' equipment on Company's sites, provision of telephony, mobile internet, data transmission and smart TV services

- Sales revenue increased by 3.8%
- Dividends distributed for the results of 2017 were 2.3 times higher

In 2017, pursuant to the decree of the Minister of Transport and Communications of the Republic of Lithuania, **the authorised capital of the Company was increased by an additional contribution of EUR 224.4 thousand**, by issuing 773,656 of ordinary registered shares.

Following the approved strategy to develop data transmission services for Mezon, in 2017, the Company continued to invest in the next-generation LTE technology network. **In 2017, EUR 7.2 million was allocated for investments. Although the investment was lower by 18.3% than in 2016**, this has led to a dynamic business growth. Mezon customer base grew by 8.4% and revenue from Internet services grew by 6.9%. Also, the capital repair works of Vilnius TV Tower were performed.

**In 2017, sales revenue of the company grew by 3.8% compared with the results of 2016 and amounted to EUR 19.9 million.** The most significant part of the structure of sales revenue - 58.7% - was revenue from data transmission, which increased by 2%. Television, radio and accessibility services, which increased by 6.9%, accounted for 33% of all sales revenue. Income from the non-telecommunication services division - the Vilnius TV Tower and cafe Pauksciu takas located in the Tower also grew. During 2017, the trips to the TV Tower and guest catering services generated 9.1% higher profit than in 2016.

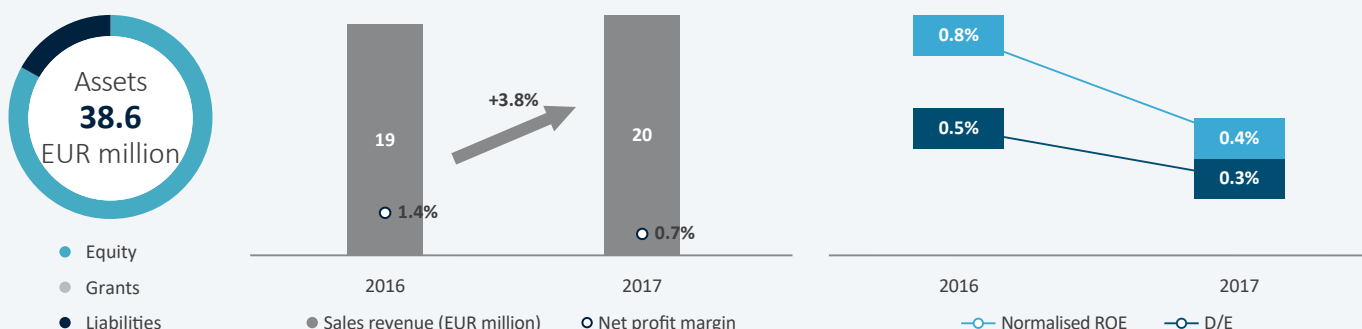
**In 2017, net profit amounted to EUR 141 thousand and was 47.6% lower than in 2016**, when the company earned net profit of EUR 269 thousand. This difference was caused by the fact that in 2017 the Company received almost 8 times lower profits from the sale of fixed assets. The company's allocated dividends for the results achieved in 2017, compared to the dividends allocated in 2016, were 2.3 times higher and amounted to EUR 331 thousand.

**At the end of 2017, the Company's EBITDA amounted to EUR 5.7 million** and was 3.1% lower than during the same period of 2016 due to lower income from sales of long-term assets. EBITDA margin decreased by 2 percentage points in the reporting period, down to 28.6%. Correspondingly, the return on equity decreased to 0.4%. (In 2016 - 0.8%).

**The company's customers' debt on the last day of the reporting period amounted to EUR 2.5 million.** Compared to the same period of 2016, receivables from the company's customers decreased by 12% during the year or by EUR 349.4 thousand.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	19,120	19,854
Cost of goods sold	14,947	13,595
Gross profit (loss)	4,174	6,259
Operating expenses	5,906	6,520
Profit (loss) from other activities	2,227	395
Operating profit (loss)	495	134
EBITDA	5,860	5,679
Net profit (loss)	269	141
Net profit margin	1.4%	0.7%
BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	31,493	31,738
Current assets	8,986	6,832
Cash and cash equivalents	3,620	2,582
Total assets	40,480	38,569
Equity	31,828	32,051
Grants and subsidies	0	0
Liabilities	8,652	6,519
Financial liabilities	145	102
Total equity and liabilities	40,480	38,569
RATIOS	31 DEC 2016	31 DEC 2017
ROA	0.7%	0.4%
ROE	0.8%	0.4%
D/E	0.5%	0.3%
RETURN TO THE SHAREHOLDERS (EUR '000)	2016	2017
Allocated dividends (in total)	143	331
INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	343	321
Number of employees holding managerial positions	6	6
Average monthly salary of employees holding managerial positions (gross, EUR)	3,527	3,184
SHAREHOLDERS		
State-owned share		100%
MANAGEMENT (31 MAR 2018)		
Director General		Remigijus Šeris
Chairman of the Board of Directors		Egidijus Vaišvilas (UAB Executive advisors partner)*
Members of the Board of Directors		Viktorija Trimbel (Quantum Capital managing partner, chairman of the boards of directors)* Janina Laskauskienė (Ministry of Transport and Communications) Eglė Radvilė (AB Lietuvos geležinkeliai, head of IT centre)* Rimgaudas Kalvaitis (Director of AB Technology Competence Centre)*

\* Independent member



# VĮ Kelių priežiūra

www.keliuprieziura.lt



Maintenance of state roads, construction and repair of various roads, streets, squares, management of environment, contractual activity

- Company's revenue from commercial functions decreased by 31.2%, costs dropped by 44.2%
- The net profit increased by 18.1%
- Assigned profit contribution increased by 581.3%

**By resolution of the Government of the Republic of Lithuania of November 1, 2017, 10 regional road maintenance companies and the VĮ Automagistralė were reorganised, creating the VĮ Kelių priežiūra.**

The sales revenue earned in 2017 was 1.9% lower than in 2016. It was caused by the decline in commercial revenue of the enterprise (from EUR 16.2 million in 2016 to EUR 11.1 million in 2017). Cost of goods sold of commercial activities shrank markedly by 44.2% - from EUR 11.3 million to 6.3 million. Meanwhile, the growth of special obligations revenue from EUR 65.4 million to EUR 68.9 million (5.3%) has allowed to increase the planned deflection rate from 64% up to 65.8%.

It should be noted that the merging of companies had an impact on the increased operating expenses (3.3%) due to the costs of the merging process (where the company's efficiency and synergy effects could not yet manifest), as well as a decrease in the number of employees (by 72 employees), the payments of redundancy payments and compensations for unused vacations with taxes (over EUR 500 thousand, of which approximately EUR 300 thousand are included in operating expenses).

Due to a decrease in cost of goods sold price (3.2%) and a minimal increase in equity (0.5%), **the Company's normalised ROE grew by 0.5 percentage points to 3.2%**. Non-current assets base decreased (7.3% or EUR 7.3 million) and amount of cash and cash equivalents significantly grew up (the Company's cash and cash equivalents increased by almost EUR 9.5 million). Do not carrying out significant investments, this allows Company to assign higher profits contributions, thus, to reduce the amount of equity and to improve ROE. The profit contribution for 2017 was 581.3% (EUR 3.9 million) higher than in previous year, which is due to a change in dividend policy of state enterprises. Taking into consideration the structure of assets and capital, the profit contributions assigned to the State are likely grow further.

In 2018, **the Ministry of Transport and Communications is planning to change the legal form of the company into a joint-stock company**. This objective is named by the Ministry of Transport and Communications in the letter of expectations, as well as by the Government of the Republic of Lithuania in the meeting decision of January 10, 2018. This would give the Board the right to approve strategy, to appoint, motivate and dismiss Director General, etc., which would increase the company's depolitisation and comply with the OECD recommendations.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	81,639	80,055
Cost of goods sold	72,915	70,576
Gross profit (loss)	8,725	9,479
Operating expenses	7,798	8,052
Profit (loss) from other activities	609	832
Operating profit (loss)	1,536	2,259
EBITDA	11,579	12,203
Net profit (loss)	1,336	1,926
Normalised net profit (loss)	3,249	3,836
Normalised net profit margin	4.0%	4.8%

BALANCE SHEET <sup>1</sup> (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	99,678	92,373
Current assets	29,068	36,153
Cash and cash equivalents	17,531	27,018
Total assets	128,746	128,526
Equity	120,580	121,211
Grants and subsidies	0	0
Liabilities	8,167	7,315
Financial Liabilities	0	0
Total Equity and liabilities	128,746	128,526

RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	2.5%	3.0%
Normalised ROE	2.7%	3.2%
D/E	0.0%	0.0%

RETURN TO THE STATE (EUR '000)	2016	2017
Assigned profit contribution	667	4,544
Property tax	2,251	2,247
Total contributions and non-standard taxes to the State	2,918	6,791

EMPLOYEE INFORMATION	2016	2017
Number of employees	2,672	2,600
Number of employees holding managerial positions	36	1
Average monthly salary of employees holding managerial positions (gross, EUR)	n.d.	5,550

#### MANAGEMENT (31 MAR 2018)

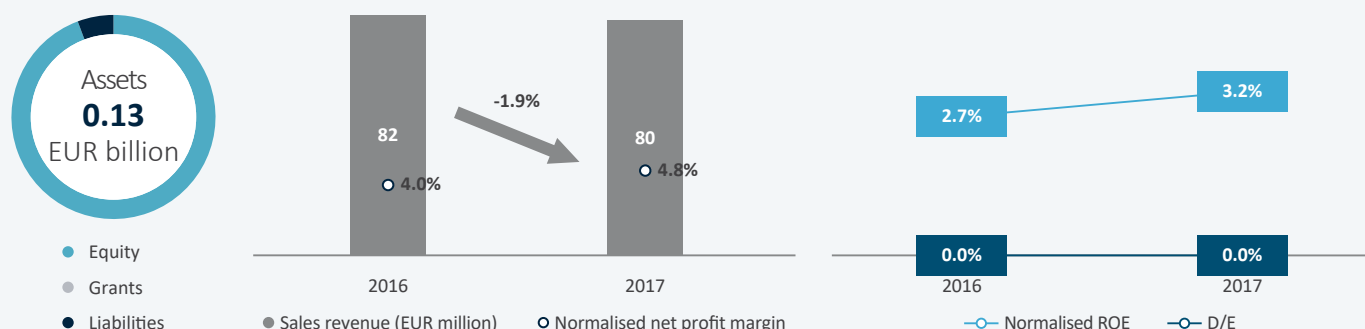
**Director General** Darius Aleknavičius

**Chairman of the Board of Directors** Vygantas Sliesoraitis (CEO of UAB Enerstena)\*

**Members of Board of Directors** Darius Kuliešius (Ministry of Transport and Communications)  
Saulė Balčiūnienė (Consultant of Human Resources and Organizational Culture Development)\*  
Egidijus Vaišvilas (Associate (partner) of UAB Executive advisors)\*  
Natalija Vainikevičiūtė (Head of Finance of UAB Aljansas AIBĖ)\*

\* Independent member

<sup>1</sup> – After eliminating the book value of the roads. After merging the companies, the roads were transferred to Lithuanian Road Administration and are no more reflected in the Company's balance sheet





## Lietuvos energija, UAB, Group

www.le.lt



## Electricity and thermal energy production, supply, import and export of electricity, trade and distribution of electricity and natural gas, as well as electricity energetics industry maintenance and development

The Group consists of the following companies: Lietuvos energijos gamyba, AB (part of the shares held – 96,75%), AB Energijos skirstymo operatorius (94,98%), UAB EURAKRAS (100%), UAB Lietuvos dujų tiekimas (100%), NTValdos, UAB (100%), UAB Technologijų ir inovacijų centras (97,8%), UAB Energetikos paslaugų ir rangos organizacija (100%), Tuuleenerglia OU (100%), Energijos tiekimas UAB (100%), UAB LITGAS (100%), VŠJ Energetikų mokymo centras (100% until 2017-08-11), UAB Elektroninių mokėjimų agentūra (100%), UAB Verslo aptarnavimo centras (100%), UAB VAE SPB (100%), UAB Vilniaus kogeneracinė jėgainė (100%), UAB Duomenų logistikos centras (79,64%), UAB Energijos sprendimų centras (100%), Lietuvos energijos paramos fondas (100%), UAB Kauno kogeneracinė jėgainė (51%), UAB Transporto valdymas (100% until 2018-02-15), via Energijos tiekimas UAB - Geton Energy OU (100%), Geton Energy SIA (100%), Geton Energy sp. z. o. o. (100%).

- In 2017, the amount of distributed electricity has increased by 2.7%
- The volume of electricity produced from renewable energy sources, increased by 21.2%
- Normalised net profit of EUR 127.6 million was earned - 10.8% less than a year ago

In comparison with last year, **the amount of electric power distributed to independent customers has grown by 2.7% or 0.24 TWh**. The total amount of energy produced decreased by 14.1%. **The part of electricity produced from renewable energy sources increased by 21.2%** and in 2017 it was 46% of the entire Group's electricity production (in 2016 - 33%). This was mostly influenced by increased amount of water in the Nemunas river. **In 2017, the distributed amount of natural gas was 7.37 TWh - 0.3% less than a year ago, but the volume of gas sold by the Group's companies, had increased by 1.4%**. This was influenced by the increase of gas sales to Latvia due to the geographical diversification of the gas sales portfolio, from 0.04 TWh to 1.25 TWh (from 0.4% to 10.9% in the structure of the total amount transferred).

**Group revenue in 2017 amounted to EUR 1,100.8 mln.**, and the main source of it (51% of the Group's total income) was electricity supply and distribution as well as gas distribution. Income from electricity and gas sales amounted to 36%. **In comparison with the same period in 2016, sales revenue in 2017 was 0.1% lower**. Such changes were influenced by reduction of electricity transmission and public supply income, which was reduced by EUR 32.8 million due to lower electricity and natural gas prices for consumers. The electricity production income had decreased by EUR 13.3 million due to lower volumes of electricity production. The negative influence of these factors was offset by an increase of income of EUR 42.1 million from electricity and gas trade.

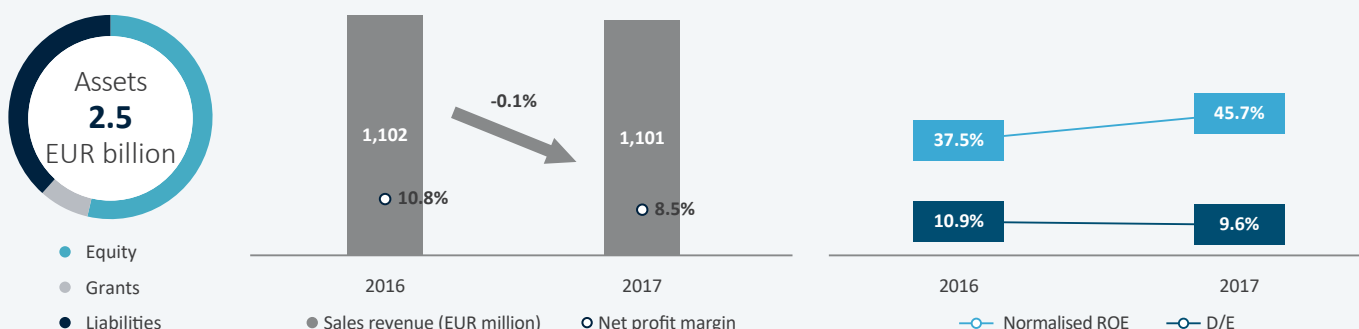
**The EBITDA of ordinary activities had decreased by 10.9% in 2017, compared with the same period last year**. When calculating the EBITDA of the Group's ordinary activities, the negative influence of Gazprom's gas price discounts for the domestic and non-domestic customers has been eliminated (the volume of this influence was EUR 8.7 million in 2017 and EUR 28.9 million in 2016).

In 2017 the Group had earned the net profit of EUR 93.5 million, 21.0% less than last year. **The Group's normalised net profit for the accounting period, excluding one-off factors, amounted to EUR 127.6 million – 10.8% less than in 2016**.

**The Group's investments in 2017 amounted to EUR 253.4 million (5.4% more than in the same period last year)**. The largest investments were made into support of the electricity distribution network (51%) and its development (21%). Investments in the construction and reconstruction of gas systems amounted to 14% of the total investment in 2017.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	1,101,630	1,100,831
Cost of goods sold	727,427	740,491
Gross profit (loss)	374,203	360,340
Operating expenses	226,852	263,207
Operating profit (loss)	147,351	97,133
EBITDA	264,469	235,767
Net profit (loss)	118,438	93,525
Net profit margin	10.8%	8.5%
Minority share in profit (loss)	10,333	4,422
Normalised net profit (loss)	143,023	127,605
BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	2,061,183	2,015,468
Current assets	370,969	489,600
Cash and cash equivalents	178,565	171,756
Total assets	2,432,152	2,505,068
Equity	1,319,547	1,343,626
Minority interest	51,172	45,796
Grants and subsidies	284,929	200,311
Liabilities	827,676	961,131
Financial liabilities	494,234	613,936
Total equity and liabilities	2,432,152	2,505,068
RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	6.0%	5.2%
Normalised ROE	10.9%	9.6%
D/E	37.5%	45.7%
RETURN TO THE SHAREHOLDERS (EUR '000)	2016	2017
Allocated dividends (total)	100,706	78,265
INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	4,859	4,513
Number of employees holding managerial positions	66	63
Average monthly salary of employees holding managerial positions (gross, EUR)	4,069	4,433
SHAREHOLDERS		
State-owned share		100%
MANAGEMENT (31 MAR 2018)		
Director General	Darius Maikštėnas	
Chairman of the Board of Directors	Darius Maikštėnas (Director General)	
Members of the Board of Directors	Živilė Skibarkienė (Organizational development department manager)	
	Darius Kašauskas (Finance and treasury department manager)	
	Dominykas Tučkus (Infrastructure and development department manager)	
	Vidmantas Saliotis (Lietuvos energija, UAB member of the board, commerce and services department manager)	
Members of the Supervisory Board	Darius Daubaras (Senior advisor at Saudi Aramco)*	
	Aušra Vičkačienė (General manager of State property management department of the Ministry of Finance)	
	Daiva Lubinskaitė-Trainauskienė (UAB Thermo Fisher Scientific Baltics, personnel manager and member of the board of the Personnel management professional association)*	
	Andrius Pranckevičius (AB Linas Agro Group, deputy general manager and member of the board, general manager and chairman of the board of PF Kekava)*	
	Ramūnas Dilba (Director of the European Union investment department at the Ministry of Finance)	

\*Independent member



# Lietuvos energijos gamyba, AB

www.gamyba.le.lt

## Production of electric and heat energy, and trade in electric energy

The Company operates the reserve power plant and a combined cycle unit at the Elektrėnai Complex, the Kruonis Pump Storage Hydroelectric Plant and the Kaunas Algirdas Brazauskas' Hydroelectric Power Plant.

- In 2017, the Company produced and sold 16.4% less electric power
- The increase of Company's EBITDA amounted to 21.5%; net profit dropped by 48.7%; normalised net profit grew by 18.1%

The amount of electricity produced and sold in 2017 amounted to 1.15 TWh, which is 16.1% less than in 2016, when the Company produced and sold 1.37 TWh of electricity. This result was due to lower electricity production in Elektrėnai complex (71.8%) due to lower electricity prices on the stock exchange, which was influenced by cheaper imports of electricity. Meanwhile, the volume of sales of Kruonis HPP increased (6.2%) - although daily and night electricity price differences on the stock exchange were lower than in 2016, a more active trading in day-to-day exchange led to a slight increase in the volume of Kruonis HPP in year 2017. Also, due to abundant rainfall and higher water quantity in the Nemunas River, Kaunas A. Brazauskas Hydroelectric Plant in 2017 produced 26.4% more electric power than in 2016.

### In 2017, the Company's revenue decreased by 13.4% compared with 2016.

Decrease was mainly influenced by the decreased electric power production in the Elektrėnai complex due to lower electric power sales prices compared to 2016 and the sales effect of the business that had a positive impact on revenue in 2016 (EUR 15.4 million). For comparison, the Company's sales revenue (operating revenue) decreased by 3% from EUR 151.8 million to EUR 147.2 million. During the reference period the revenue from regulated activities (electricity and heat generation in the Elektrėnai complex and reserve power services provided by Elektrėnai complex and Kruonis PSP) amounted to 65% of all sales revenue of the Company, while in the corresponding period of 2016 it reached 60%.

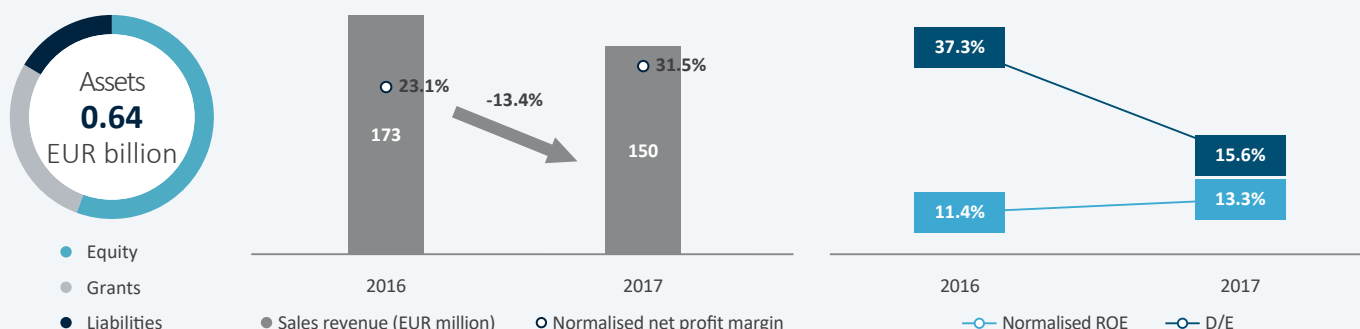
### The Company's EBITDA in 2017 amounted to EUR 70.5 million and was 21.5% higher than in 2016.

The decisions of NCC (National Commission for Energy Control and Prices) regarding the verification of the amount of the Company's PSO (public service obligations) for 2010-2015, as well as the principles for determining the funds allocated to the PSO in 2017 and the corresponding legal regulations, had a significant impact on the change in EBITDA. Due to these decisions, Company accounted EUR 11.4 million of PSO revenue.

In 2017, the Company's net profit amounted to EUR 20.5 million and decreased by 48.7% compared with the corresponding period of the previous year due to the decrease of the value of the assets accounted for the assets of 7 and 8 blocks of the Elektrėnai complex. The normalised net profit (after eliminating impairment of assets value) grew by 18.1%.

PROFIT (LOSS) STATEMENT (EUR '000)		
	2016	2017
Sales revenue	172,922	149,815
Expenses of core activities	123,892	133,579
<b>Operating profit (loss)</b>	<b>49,030</b>	<b>16,236</b>
<b>EBITDA</b>	<b>58,054</b>	<b>70,538</b>
<b>Net profit (loss)</b>	<b>39,975</b>	<b>20,521</b>
Net profit margin	23.1%	13.7%
<b>Normalised net profit (loss)</b>	<b>39,975</b>	<b>47,196</b>
BALANCE SHEET (EUR '000)		
	31 DEC 2016	31 DEC 2017
<b>Non-current assets</b>	<b>668,520</b>	<b>518,626</b>
<b>Current assets</b>	<b>150,910</b>	<b>117,662</b>
Cash and cash equivalents	99,045	60,700
<b>Total assets</b>	<b>819,430</b>	<b>636,288</b>
<b>Equity</b>	<b>355,566</b>	<b>353,874</b>
<b>Grants and subsidies</b>	<b>269,758</b>	<b>177,875</b>
<b>Liabilities</b>	<b>194,106</b>	<b>104,539</b>
Financial liabilities	132,459	55,247
<b>Total Equity and liabilities</b>	<b>819,430</b>	<b>636,288</b>
RATIOS		
	31 DEC 2016	31 DEC 2017
Normalised ROA	4.8%	6.5%
Normalised ROE	11.4%	13.3%
D/E	37.3%	15.6%
RETURN TO THE SHAREHOLDERS (EUR '000)		
	2016	2017
Allocated dividends (total)	40,010	19,688
EMPLOYEE INFORMATION		
	2016	2017
Number of employees	399	392
Number of employees holding managerial positions	4	4
Average monthly salary of employees holding managerial positions (gross, EUR)	4,046	4,455
SHAREHOLDERS		
<b>Lietuvos energija, UAB (indirectly state-owned share)</b>		<b>96.75%</b>
Other shareholders		3.25%
MANAGEMENT (31 MAR 2018)		
<b>Director-General</b>		Eglė Čiužaitė
<b>Chairman of the Board of Directors</b>		Eglė Čiužaitė (Director General)
<b>Members of the Board of Directors</b>		Darius Kucinas (Head of Production) Mindaugas Kvekšas (Head of Administration and Finance) Nerijus Rasburskis (Project manager of Business Development Office)
<b>Members of the Supervisory Board</b>		Mindaugas Keizeris (Strategy and Development Director of Lietuvos energija, UAB) Živilė Skibarkienė (Organisational Development Director of Lietuvos energija, UAB) Dominykas Tučkus (Network Development Director of Lietuvos energija, UAB) Rimgaudas Kalvaitis*

\*Independent member



# AB Energijos skirstymo operatorius

www.eso.lt



Key functions of ESO include supply and distribution of electric energy and natural gas, guaranteed supply of electricity and gas, introduction of electricity and gas, operation of electricity and gas distribution networks, maintenance, operation and development of such networks and ensuring their security and reliability

- In 2017, the amount of distributed electric energy increased (2.72%), the amount of distributed natural gas slightly decreased (-0.34%)
- The company's revenue decreased by 5.8%, EBITDA fell by 14.2%, net profit decreased by 16.2%

**ESO - the largest company in the NASDAQ Baltic stock exchange in terms of market capitalization (capitalization at December 29, 2017 was EUR 769.38 million).** The price of ESO shares was stable, profitability of dividend was high: the dividend paid for 2017 per share was EUR 0.0714, for the 2016 year – EUR 0.0719. The weighted average price of ESO share in year 2017 was EUR 0.869, so the annual dividend yield of ESO shares was more than 8%.

In 2017, the Company connected 29.6 thousand new customers to the electricity distribution network (1% more than in 2016), and connected 12.5 thousand new customers to the gas pipelines (137% more than in 2016).

During 2017 the Company transitted 9.22 TWh of electric power to customers, of which 35% consisted of electricity sales, it grew up by 2.3% during the year. The rest of electric power was only used for the transfer services, the volume of which increased by 2.7%. The majority of the electric power was consumed by residents (population) (30.8%), industry entities (29%) and service companies (11.3%). During the analyzed period, the Company distributed 7.37 TWh of natural gas (0.3% less) due to warmer weather than 2016, which led to a lower gas demand.

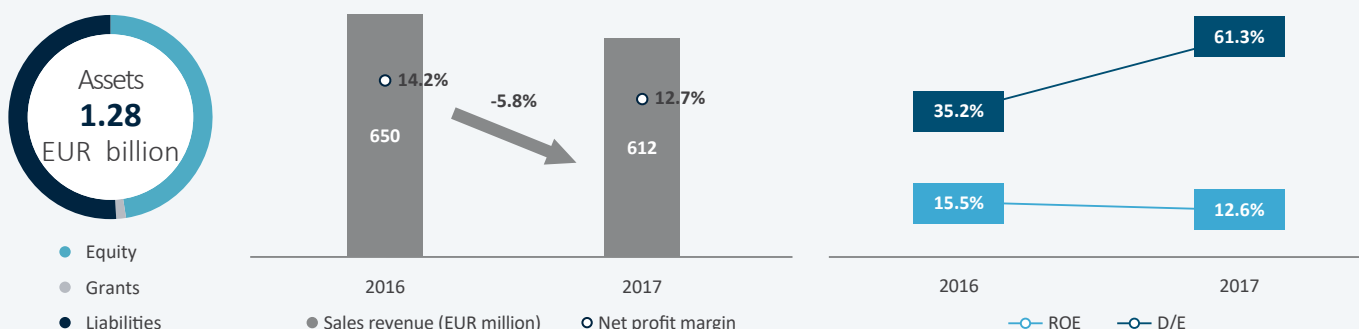
**In 2017, the Company's revenue, compared to the results of 2016, decreased by EUR 37.8 million or by 5.8%.** Revenue decreased due to lower electricity and gas prices for the Company's customers. The biggest part of the revenue of the company (66%) consisted of revenue, received by providing electricity transmission services. Revenue from public electricity supply activities accounted for 18%, gas distribution revenue amounted to 8% of all Company's revenue.

**In 2017, the net profit of AB ESO decreased by 16.2% and at the end of the reporting year amounted to EUR 77.6 million.** EBITDA decreased by 14.2% and amounted to EUR 140.1 million. Correspondingly, the decrease in the return on equity by 2.9 percentage points to 12.6% was recorded.

**In 2017, the Company's investments increased by 51.6% and amounted to EUR 226.2 million (in 2016 – EUR 149.2 million).** The increase was determined by investments in the renewal of the electricity distribution network, which grew by 51.4% and accounted for 56.7% of all company's investments. In the reference period, almost twice as much, investments in the construction and reconstruction of gas systems increased to EUR 34.9 million (EUR 16.5 million in year 2016).

PROFIT (LOSS) STATEMENT (EUR '000)		
	2016	2017
Revenue	650,063	612,309
Expenses of core activities	542,077	526,953
<b>Operating profit (loss)</b>	<b>107,986</b>	<b>85,356</b>
<b>EBITDA</b>	<b>163,314</b>	<b>140,080</b>
<b>Net profit (loss)</b>	<b>92,502</b>	<b>77,552</b>
Net profit margin	14.2%	12.7%
BALANCE SHEET (EUR '000)		
	31 DEC 2016	31 DEC 2017
<b>Non-current assets</b>	<b>1,032,300</b>	<b>1,197,433</b>
<b>Current assets</b>	<b>79,796</b>	<b>80,368</b>
Cash and cash equivalents	10,662	6,449
<b>Total assets</b>	<b>1,112,096</b>	<b>1,277,801</b>
<b>Equity</b>	<b>623,195</b>	<b>607,644</b>
<b>Grants and subsidies</b>	<b>20,477</b>	<b>19,758</b>
<b>Liabilities</b>	<b>468,424</b>	<b>650,399</b>
Financial liabilities	219,081	372,688
<b>Total Equity and liabilities</b>	<b>1,112,096</b>	<b>1,277,801</b>
RATIOS		
	31 DEC 2016	31 DEC 2017
ROA	8.4%	6.5%
ROE	15.5%	12.6%
D/E	35.2%	61.3%
RETURN TO THE SHAREHOLDERS (EUR '000)		
	2016	2017
Allocated dividends (total)	64,289	63,832
EMPLOYEE INFORMATION		
	2016	2017
Number of employees	2,677	2,503
Number of employees holding managerial positions	7	7
Average monthly salary of employees holding managerial positions (gross, EUR)	4,969	4,857
SHAREHOLDERS		
Lietuvos energija, UAB (indirectly state-owned share)		94.98%
Other shareholders		5.02%
MANAGEMENT (31 MAR 2018)		
<b>Director General</b>	Dalia Andrulionienė	
<b>Chairman of the Board of Directors</b>	Dalia Andrulionienė (Director General)	
<b>Members of Board of Directors</b>	Ignas Pranskevičius (Head of Service Office) Augustinas Dragūnas (Head of Finance and Administration Office) Saulius Vaičekauskas (Head of Network Exploitation Office) Ovidijus Martinonis (Head of Network Development Office)	
<b>Members of the Supervisory Board</b>	Darius Maikštėnas (Director General of Lietuvos energija, UAB) Darius Kašauskas (The member of Board of Lietuvos energija, UAB, The Head of Finance and Treasury) Kęstutis Betingis*	

\*Independent member



# UAB EPSO-G Group

www.epsog.lt



The main activities of the Group are to ensure uninterrupted and stable transmission of electricity on high voltage networks, transportation of natural gas through high pressure pipelines, and to ensure the operation, maintenance and development of these transmission systems; trade organisation on exchanges of natural gas and biofuel

The Group consists of direct subsidiaries LITGRID AB (97.5% of owned shares), AB Amber Grid (96.6%), BALTPPOOL UAB (67%).

- Transferred 2.7% more electricity, natural gas transmission increased by 4.1%
- Due to reduced tariffs for transmission services revenue decreased by 4%
- The normalised net profit dropped by 22.9%, to EUR 26.9 million

With the increase in energy demand in Lithuania, in the year 2017, 9,992 million kWh of electricity, or 2.7% more compared to 2016, was transferred through high-voltage transmission networks for the needs of the country's population and business. This is the largest amount of energy transferred since 1992. After several years of decline, gas consumption has stabilised. In Lithuania, 24,290 GWh of natural gas, i.e., 4.1 %, more than in 2016, were transported to gas distribution or directly connected user systems, the growth of which was driven by increased demand for natural gas in the fertilizer production sector. 25,664 GWh of natural gas (9.2 % more than in 2016) was transported to Kaliningrad region of the Russian Federation, and 2,598 GWh of natural gas were transferred to the Republic of Latvia through Kiemėnai DAS system (474 GWh during the same period in 2016).

In 2017, income of the Group decreased by 4% compared to the results of 2016 and amounted to EUR 225.2 million. Revenues from electricity transmission, which accounted for 30.3% of the Group's total revenues, increased by 0.4% and amounted to EUR 68.3 million. Natural gas transmission revenues, which in 2017 amounted to EUR 56.2 million, decreased by 5.9% and accounted for 24% of all of the Group's income. Due to higher system service tariff of 23%, set by the National Commission for Energy Control and Prices from 1 January 2017, revenue for systematic electricity services increased by 25.4% up to EUR 42.5 million. Balancing (adjustment) electricity sales revenue decreased by 19.4% down to EUR 17.8 million. This was mainly due to the reduced demand for energy balancing and more reliable cross-system connections.

In 2017, the Group's profit before taxes, interest, depreciation and amortisation (EBITDA) decreased to EUR 77.2 million. Compared to 2016, EBITDA decreased by 13.7% or EUR 12.3 million. In 2017, the Group earned EUR 26.9 million of the normalised net profit, when the normalised net profit amounted to EUR 34.9 million at the end of 2016. The decrease was almost 22.9 %.

The normalised return on equity decreased by 4.5 percentage points to 11.3%. At the end of 2017, the Group's financial liabilities to credit institutions amounted to EUR 422.9 million (including EUR 169.9 million commitment to Lietuvos Energija, UAB for acquiring LITGRID AB shares, which has been reduced by EUR 35.4 million since the beginning of the year).

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	234,522	225,246
Operating expenses	189,639	225,607
Operating profit (loss)	44,883	-361
EBITDA	89,509	77,213
Net profit (loss)	39,074	-2,796
Net profit margin	16.7%	-1.2%
Minority share in profit (loss)	1,233	-45
Normalised net profit (loss)	34,893	26,888
<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Non-current assets	689,321	629,559
Current assets	146,442	140,897
Cash and cash equivalents	16,718	8,075
Total assets	835,763	770,456
Equity	240,413	236,247
Minority shareholders' equity	13,509	12,241
Grants and subsidies	38	22
Liabilities	595,312	534,187
Financial liabilities <sup>1</sup>	484,956	422,940
Total equity and liabilities	835,763	770,456

RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	3.5%	3.3%
Normalised ROE	15.8%	11.3%
D/E	201.7%	179.0%

RETURN TO THE SHAREHOLDERS (EUR '000)	2016	2017
Allocated dividends (in total)	508	682

INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	1,071	1,014
Number of employees holding managerial positions	24	27
Average monthly salary of employees holding managerial positions (gross, EUR)	5,283	5,946

SHAREHOLDERS	
State-owned share	100%

#### MANAGEMENT (31 MAR 2018)

Director General Rolandas Zukas

Chairman of the Board of Directors Rytis Ambrazevičius (President of Association Baltic Institute of Corporate Governance)\*

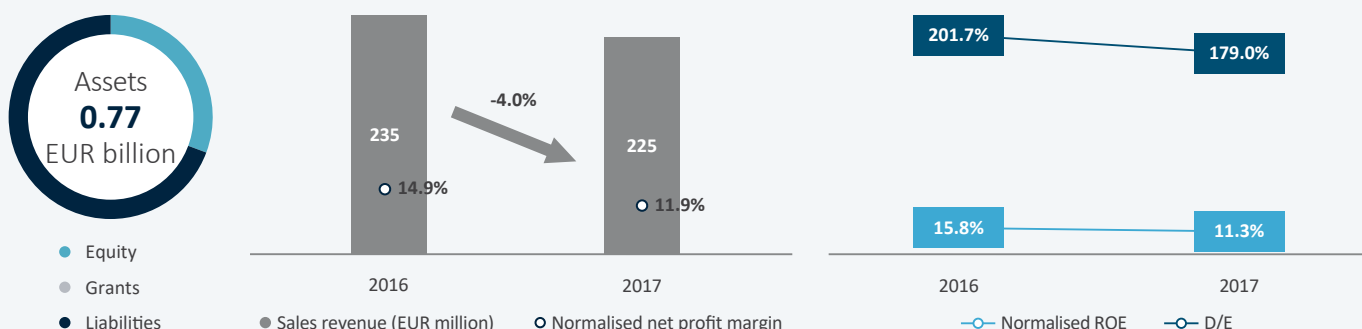
Members of the Board of Directors  
 Gediminas Almantas (Director general of VĮ Lietuvos oro uostai)\*  
 Valdas Vitkauskas (Chief bank officer of European Bank for Reconstruction and Development)\*  
 Rolandas Zukas (Director General)  
 Algirdas Juozaponis (Director of Finance)

Chairman of the Supervisory Board Viktorija Trimbel (Independent member of the Board of AB Lietuvos radijo ir televizijos centras, Managing Partner of Quantum Capital, UAB)\*

Members of the Supervisory Board  
 Raimondas Rapkevičius (Deputy Director General of UAB General Financing, director of finance of the company)\*  
 Inga Černiuk (Ministry of Transport and Communications)  
 Agnė Amelija Kairyte (Ministry of Energy)

<sup>1</sup> - To include EUR 205,794 thousand into financial liabilities for the year 2016 and – EUR 169,856 thousand into liabilities to Lietuvos energija, UAB for the acquisition of shares of LITGRID AB – into the year 2017.

\* Independent member



## LITGRID AB Group

www.litgrid.eu



**LITGRID** - a subsidiary company of EPSO-G Group - is a Lithuanian electricity transmission system operator, maintains stable operation of the country's electricity system, manages electricity flows and creates conditions for competition in the open electricity market. The company is responsible for the integration of the Lithuanian electricity system into the European electricity infrastructure and the common electricity market

LITGRID Group consists of LITGRID AB, UAB Tetas and Litgrid Power Link Service UAB. LITGRID also manages shares and their votes of LitPol Link Sp.z.o.o. (50%), Data Logistics Centre, UAB (20.36%) and Nord Pool AS (2%).

- The amount of electricity transferred increased by 2.7%
- The revenue drop was 4.1%
- The Group's net profit decreased by 46.3% due to a decline in profitability of the transmission business segment

As a power transmission system operator, **in the year 2017, LITGRID transferred 9,992 million kWh of electricity on high-voltage transmission networks for the country's needs** –2.7 % more than in 2016. Among other services, LITGRID also provides services of public interest, one of which is the preparation and implementation of strategic projects related to increasing energy security (international electricity connections Lithuania-Sweden and Lithuania-Poland, integration of the Lithuanian electricity system into continental European networks).

**In 2017, the revenue of the Group decreased by 4.1% down to EUR 160.2 million.** Electricity transmission revenues, which accounted for 43% of the total revenue structure, increased by 0.4% up to EUR 68.3 million. Revenue from systemic services grew by 25.4% (up to EUR 42.5 million), which constituted 26.5% of all Group income. The main reason of this was the system service tariff set by the National Commission of Energy Control and Prices since 1 January 2017, which was 23% higher than in 2016. Compared to the results of 2016, the revenue from balancing energy decreased by 19.4% due to decrease in the sales volume of balancing electricity by 21.5%, which was caused by the lower demand for balancing energy suppliers and the lower need for the distribution capacity of electricity connections with Sweden and Poland (i.e., the amount of electricity sold on the exchange). Revenue from repairs, investment projects and other revenue decreased by 29%, while other electricity-related income decreased by 23.8%.

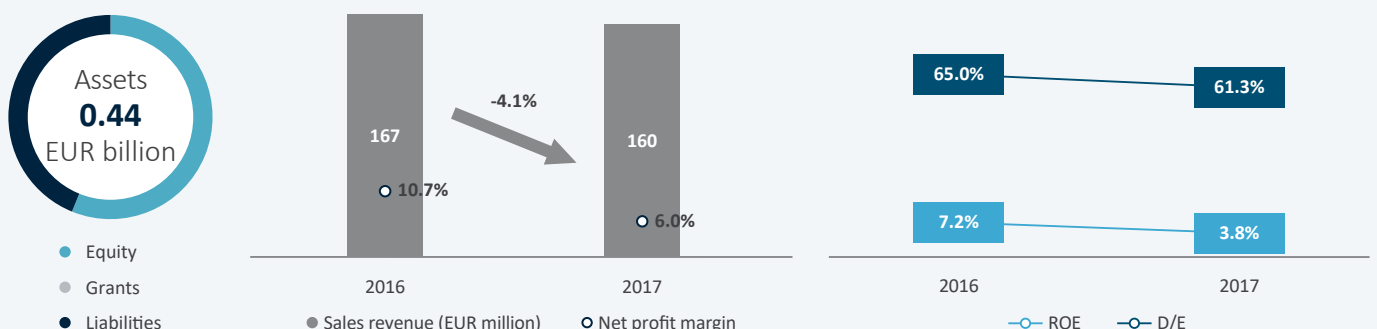
**The Group's net profit for the year 2017 amounted to EUR 9.6 million,** while at the end of 2016 it amounted to EUR 17.9 million. The Group's profit before taxes, interest, depreciation and amortisation (EBITDA) decreased by 17.7%, i.e., by EUR 8.7 million and was EUR 40.5 million. The decline in profit in the segment of transmission business was caused by EUR 6.5 million lower interest and default income, EUR 2.2 million worse result in the participation in the compensation mechanism of the European Transmission System Operator (ITC) and EUR 2 million lower income from connecting new customers.

Due to reasons beyond the control of the Group, the decrease in profit resulted in negative changes in return indicators: **return on equity dropped by 3.4 percentage points down to 3.8%**, return on assets was 2.1%.

**In 2017, the main investments of LITGRID amounted to EUR 26.7 million (EUR 36.7 million in 2016),** 56% of which was for the implementation of strategic and electricity projects with importance to national security, while 44% - for the reconstruction and development of the transmission network.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
<b>Sales revenue</b>	<b>167,055</b>	<b>160,188</b>
Expenses of core activities	145,874	147,240
<b>Operating profit (loss)</b>	<b>21,181</b>	<b>12,948</b>
<b>EBITDA</b>	<b>49,302</b>	<b>40,525</b>
<b>Net profit (loss)</b>	<b>17,857</b>	<b>9,585</b>
Net profit margin	10.7%	6.0%
Minority share in the profit (loss)	10	0
BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
<b>Non-current assets</b>	<b>403,410</b>	<b>384,779</b>
<b>Current assets</b>	<b>58,954</b>	<b>54,431</b>
Cash and cash equivalents	798	696
<b>Total assets</b>	<b>462,364</b>	<b>439,210</b>
<b>Equity</b>	<b>254,805</b>	<b>246,598</b>
Minority shareholder's equity	0	0
<b>Grants and subsidies</b>	<b>38</b>	<b>22</b>
<b>Liabilities</b>	<b>207,521</b>	<b>192,590</b>
Financial liabilities	165,503	151,091
<b>Total equity and liabilities</b>	<b>462,364</b>	<b>439,210</b>
RATIOS	31 DEC 2016	31 DEC 2017
ROA	3.5%	2.1%
ROE	7.2%	3.8%
D/E	65.0%	61.3%
RETURN TO THE SHAREHOLDERS (EUR '000)	2016	2017
Allocated dividends (total)	18,176	7,716
INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	685	633
Number of employees holding managerial positions	13	12
Average monthly salary of employees holding managerial positions (gross, EUR)	5,330	5,132
SHAREHOLDERS		
<b>UAB EPSO-G (indirectly state-owned share)</b>		<b>97.5%</b>
Other shareholders		2.5%
MANAGEMENT(31 MAR 2018)		
<b>Director General</b>	Dainis Virbickas	
<b>Chairman of the Board of Directors</b>	Rimvydas Štilinis (Director of Infrastructure, UAB EPSO-G)	
<b>Members of the Board of Directors</b>	Dainis Virbickas (Director General) Vidmantas Grušas (Director of Transmission Grid Management) Nemunas Biknius (Director for Strategy and Development, UAB EPSO-G) Domas Sidaravičius (Director of the company ERGO Invest SIA)*	

\*Independent member



# AB Amber Grid

www.ambergrid.lt



AB Amber Grid is the Lithuanian natural gas transmission system operator responsible for natural gas transmission (transportation via high-pressure pipelines) to users of the system, operation, maintenance and development of natural gas infrastructure

- The volume of transported gas increased by 4.1%
- With 7.8% lower service prices, revenue for gas transportation services for Lithuanian consumers decreased by 7.2%
- A de facto regional gas exchange was created

In 2017, the Company carried out strategic gas transmission infrastructure projects included in the second list of EU projects of common interest:

- Gas pipeline connection between Poland and Lithuania (GIPL);
- Increase of capacity of gas pipeline connection between Latvia and Lithuania.

In 2017, 14,659 GWh of natural gas was imported for customers of Lithuania and other Baltic States from Belarus into the transmission system operated by the Company, and 12,360 GWh from Klaipėda LNG terminal, which allowed to satisfy 45.3% of the demand. Compared to the amount of natural gas transmitted in 2016, which amounted to 23,336 GWh, **in 2017 Lithuanian consumers were provided with 4.1% more natural gas – 24,290 GWh – to the internal exit point.**

During the reporting period, the Company earned EUR 64.3 million of revenues - 3.6% less than in 2016 due to a significant reduction in the prices of services for users of the system and a decrease in the number of ordered long-term capacity. Revenues from natural gas transmission services for Lithuanian consumers decreased by 7.2%.

In 2017, the Company's costs amounted to EUR 76 million and compared to 2016, were 81.1% higher. 46.7% of these costs consisted of the cost of value impairment of non-current assets, and after their elimination, the operating expenses fell by 3.4% due to deterioration or reduction of other costs.

In 2017, the evaluation of the Company's non-current assets was carried out, taking into account the uniform accounting principles applied in the EPSO-G Group and ensuring that, as required by International Financial Reporting Standards, the Group's non-current assets are accounted at fair value.

After the revaluation of non-current assets, a reduction amounting to EUR 35.5 million was accounted. **The company has incurred a net loss of EUR 9.9 million, while in 2016, net profit amounted to EUR 20.9 million.** The normalised return on equity amounted to 10.8% in 2017, EBITDA decreased by 8.4% and amounted to EUR 38.3 million.

According to the approved network development plan of the Company for 2017-2026, the estimated value of investments into gas transmission system development projects will amount to EUR 192.8 million in the next decade. **In 2017, the amount of EUR 12.4 million was allocated for investments, i.e., 5.6% less than in 2016.** 97.9% (EUR 12.1 million) of these investments consisted of investment in reconstruction and modernisation, which doubled as a result of the reconstruction projects of gas pipelines and gas distribution stations.

The company also controls UAB GET Baltic, an enterprise that organises trade in the Lithuanian natural gas market. UAB GET Baltic has the status of a registered data supply entity (RRM) and administers an electronic trading system. In 2017, the company's result was positive - net profit amounted to EUR 87 thousand. In 2016, a loss of EUR 212 thousand was suffered. The letter of expectations of the Ministry of Energy for UAB EPSO-G states that the company is expected to "play an important role in creating a united Baltic gas market".

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Revenue	66,742	64,322
Costs	41,978	76,038
Operating profit (loss)	24,764	-11,716
EBITDA	41,765	38,252
Net profit (loss)	20,928	-9,861
Net profit margin	31.4%	-15.3%
Normalised net profit (loss)	20,928	20,320

BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	285,799	244,654
Current assets	42,583	35,544
Cash and cash equivalents	13,966	6,726
Total assets	328,382	280,198
Equity	202,810	172,021
Grants and subsidies	0	0
Liabilities	125,572	108,177
Financial liabilities	93,666	77,222
Total equity and liabilities	328,382	280,198

RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	5.8%	6.7%
Normalised ROE	10.5%	10.8%
D/E	46.2%	44.9%

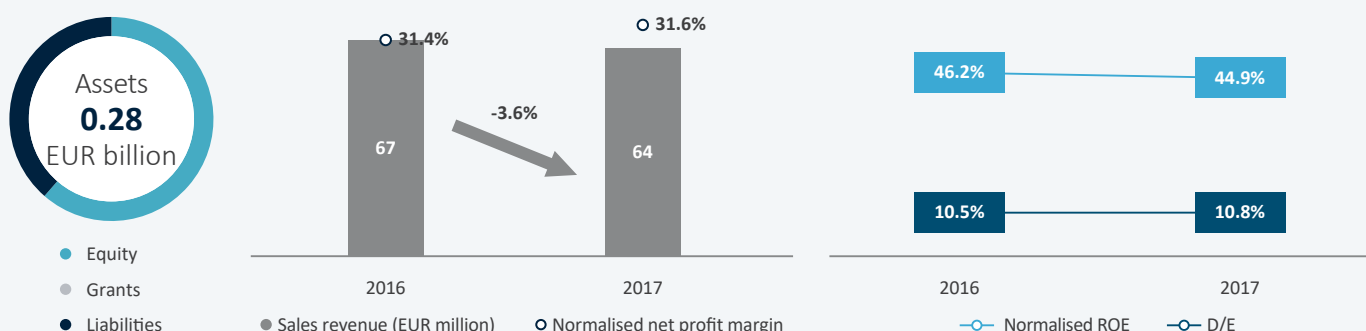
RETURN TO THE SHAREHOLDERS (EUR '000)	2016	2017
Allocated dividends (in total)	20,928	20,300

INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	357	346
Number of employees holding managerial positions	5	5
Average monthly salary of employees holding managerial positions (gross, EUR)	6,065	6,340

SHAREHOLDERS	
UAB EPSO-G (indirectly state -owned share)	96.6%
Other shareholders	3.4%

MANAGEMENT (31 MAR 2018)	
Director General	Saulius Bilys
Chairman of the Board of Directors	Nemunas Biknius (Director for Strategy and Development, UAB EPSO-G)
Members of the Board of Directors	Saulius Bilys (Director General) Vytautas Ruolia (Director of Commerce) Rimvydas Štilinis (Director of Infrastructure, UAB EPSO G) Nerijus Datkūnas (President of the Financial Analysts Association, chairman of the Board of UAB Investicijų ir verslo garantijos)*

\*Independent member



# AB Klaipėdos nafta

www.kn.lt



AB Klaipėdos nafta is a listed company in the Lithuanian energy sector that manages oil and LNG cargo handling terminals in Klaipėda, develops small-scale LNG activities and provides long-term storage of oil products in the oil terminal located in Subačius (Kupiškis District)

- Oil handling volumes decreased by 2.2%
- Net profit increased by 23.5%, up to EUR 17 million
- EUR 17 million allocated for dividends in 2017

**In 2017, Klaipėdos nafta became the first state-owned enterprise with a foreign national elected as an independent member to its board.**

**Oil product handling volume in 2017 decreased by 2.2% and amounted to 7,177 thousands of tons.** This was affected by the decrease in the volume of cargo handling of the main customer, AB ORLEN Lietuva. **In 2017, around 18% of the total amount of fuel consumed in Lithuania** (gasoline and diesel) **was reloaded in Klaipėda oil car park.** Despite the unfavourable geopolitical circumstances, **transit flows remained similar compared to the previous year, while transit of dark oil products grew by 5%.** The main transit cargo customer in 2017 was BNK (UK) Limited, owned by the largest exporters of Belarusian oil products - ZAT Belaruskaja neftenaya kompanija (Belarusian oil company - BNK).

The LNG terminal, which started its regasification activities on November 27, 2014, regasified 12.6 thousand MWh of Liquefied Natural Gas in 2017. Compared with the results of 2016, the volume of the regasification fell by 13.4%. In 2017, 4 suppliers (Statoil, Cheniere, Koch and Gas Natural Fenosa) supplied Liquefied Natural Gas to the LNG terminal, while in 2016 – only Statoil.

**Increase in sales revenue from Klaipėda oil terminal by 4.1% and from the LNG terminal – by 1.8% (which, due to regulated pricing, does not depend on the volume of regasification activities) resulted in the Company's sales revenue growth of 2.5% in 2017 due to one-off realisation sales of oil products.** In total, in 2017, the Company earned EUR 106.5 million of sales revenue, the operating income of the LNG terminal amounted to EUR 35.5 million (33.3%) of which EUR 68.2 million (64%) were revenues from oil reloading services, EUR 2.4 million (2.3%) - sales revenue from Subačius Oil Terminal.

**In 2017, the company earned EUR 17 million of net profit,** i.e., 23.5% more than in 2016. At the end of 2017, EBITDA amounted to EUR 31.3 million, that is 10.2% more than in 2016. **The return on equity in 2017, compared to 2016, increased from 7.1% to 8.7%.**

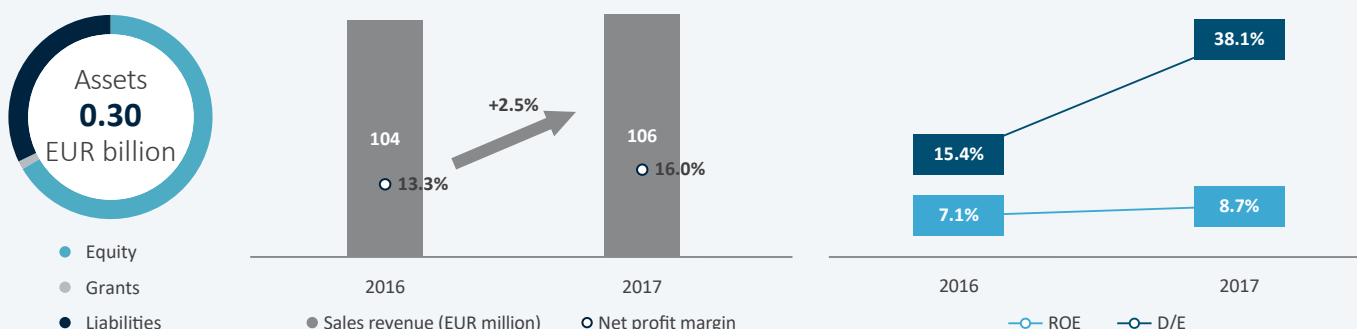
In 2017, the Company received EUR 1.2 million of grants for the acquisition of non-current assets (for the construction of the LNG distribution station); in 2016 – EUR 2.6 million.

**The company's investments in 2017 amounted to EUR 32.9 million.** The majority of them were aimed at the construction of a small-scale LNG terminal and the development of the Klaipėda oil terminal - the construction of new tanks.

**For 2017, the Company's shareholders have allocated EUR 17 million as dividends, i.e., 76.4% more than it was allocated for the year 2016.**

PROFIT (LOSS) STATEMENT (EUR '000)		
	2016	2017
Sales revenue	103,839	106,484
Cost of goods sold	83,042	82,739
<b>Gross profit (loss)</b>	<b>20,797</b>	<b>23,745</b>
Operating expenses	5,905	6,217
Profit (loss) from other activities	-8	79
<b>Operating profit (loss)</b>	<b>14,884</b>	<b>17,607</b>
<b>EBITDA</b>	<b>28,446</b>	<b>31,339</b>
<b>Net profit (loss)</b>	<b>13,794</b>	<b>17,031</b>
Net profit margin	13.3%	16.0%
BALANCE SHEET (EUR '000)		
	31 DEC 2016	31 DEC 2017
<b>Non-current assets</b>	<b>186,895</b>	<b>204,977</b>
<b>Current assets</b>	<b>55,536</b>	<b>96,268</b>
Cash and cash equivalents	42,056	81,747
<b>Total assets</b>	<b>242,431</b>	<b>301,245</b>
<b>Equity</b>	<b>192,969</b>	<b>200,344</b>
<b>Grants and subsidies</b>	<b>2,781</b>	<b>4,006</b>
<b>Liabilities</b>	<b>46,681</b>	<b>96,895</b>
Financial liabilities	29,724	76,379
<b>Total equity and liabilities</b>	<b>242,431</b>	<b>301,245</b>
RATIOS		
	31 DEC 2016	31 DEC 2017
ROA	5.7%	6.3%
ROE	7.1%	8.7%
D/E	15.4%	38.1%
RETURN TO THE SHAREHOLDERS (EUR '000)		
	2016	2017
Allocated dividends (total)	9,656	17,031
INFORMATION ABOUT EMPLOYEES		
	2016	2017
Number of employees	374	389
Number of employees holding managerial positions	38	38
Average monthly salary of employees holding managerial positions (gross, EUR)	3,918	4,051
SHAREHOLDERS		
<b>State-owned share</b>		<b>72.3%</b>
UAB koncarnas Achemos Group		10.3%
Other shareholders		17.4%
MANAGEMENT (31 MAR 2018)		
<b>Director General</b>		Mindaugas Jusius
<b>Chairman of the Board of Directors</b>		Not appointed
<b>Members of the Board of Directors</b>		Dainius Bražiūnas (Ministry of Energy) Bjarke Pålsson (Nykredit Managing Director of Financial Strategy and Organisation)* Giedrius Dusevičius (member of the Board of UAB ACC Distribution)* Mantas Bartuška (Director General of AB Lietuvos geležinkeliai)

\*Independent member



# Forest enterprises

www.gmu.lt



## Forest supervision and restoration, logging and selling of timber

- The volume of roundwood sold decreased by 2.1%
- Prices for all types of wood increased, for roundwood - 6.3%
- The normalised net profit of state forest enterprises decreased by 5.2%

**In 2017 state forest enterprises sold 2.1% less roundwood in comparison with 2016.** During the accounting period, the forest enterprises sold a total of 3.7 million cubic meters of roundwood. However, in 2017 wood and biofuel prices increased: prices of all combustibility groups of wood grew (I - 10.7%, II - 14.0%, III - 14%), as well as the prices of felling residues (17.3%) and biofuels (5.5%). The average price of roundwood increased by 6.3% and reached EUR 40.5 per cubic meter in 2017. Income from roundwood (including industrial wood and fuel wood) is the main income of the forest enterprises and in 2017 amounted to 92.7% of the total state forest enterprises' income. **Due to increasing wood prices, state forest enterprises' revenue grew by 3.5% and reached EUR 161.6 million in 2017.**

The cost of goods sold increased by 1.9% in 2017 – up to EUR 63.9 million, mainly due to the contract services price increasing. Ecological and social activities expenditures incurred increased by 3.4% in comparison with 2016, and in 2017 amounted to EUR 8 million. **Operating costs increased by 7.3%, up to EUR 91.9 million.** The increase was caused by costs related to the reorganisation of state forest enterprises. Due to the rapid increase in operating costs, the normalised net profit decreased by 4.9% to EUR 26.3 million in 2017. Because of a decline in the normalised net profit and the rise in forest value of EUR 64.7 million, the normalised return on assets and owner's equity declined by 0.2%.

Despite the decrease of net profit, due to the changes in profit contribution legislation, the assigned profit contributions to the state in 2017 increased up to EUR 4.4 million. Thus, total contribution and non-standard taxes to the State increased accordingly, by 6.4% and reaching EUR 29.2 million for the year 2017, as there was no major changes in the raw material or property taxes paid.

On December 22th, 2017, the government had decided to appoint UAB Baltpool to administer the trade in raw wood from state forests, (biofuel raw materials exchange was previously organised), taking over the roundwood electronic sales system of the General Forestry Enterprise from January 2018, which has been used for organizing trade auctions. In 2017, the forest enterprises had participated in biofuel raw materials exchange Baltpool and concluded 10,668 dealings (worth more than EUR 1.5 million). Actually, 96.7% of the total raw materials dealings were concluded by three state forest enterprises – Švenčionėliai, Valkininkai and Tauragė.

**From January 8th, 2018, 42 state forest enterprises were reorganized by merger, and VĮ Valstybinių miškų urėdija was established.** The merger of state forest enterprises should help to achieve more effective and transparent forest management, ensure better forest management quality and better distribution of resources between forest areas in different regions.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	156,238	161,635
Cost of goods sold	62,693	63,917
<b>Gross profit (loss)</b>	<b>93,545</b>	<b>97,718</b>
Operating expenses	85,722	91,907
Profit (loss) from other activities	690	583
<b>Operating profit (loss)</b>	<b>8,513</b>	<b>6,394</b>
<b>EBITDA</b>	<b>20,546</b>	<b>18,537</b>
<b>Net profit (loss)</b>	<b>7,278</b>	<b>5,030</b>
<b>Normalised net profit (loss)</b>	<b>27,692</b>	<b>26,330</b>
<i>Normalised net profit margin</i>	<i>17.8%</i>	<i>16.3%</i>

BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
<b>Non-current assets<sup>1</sup></b>	<b>1,168,754</b>	<b>1,230,640</b>
<b>Current assets</b>	<b>68,518</b>	<b>74,904</b>
Cash and cash equivalents	22,569	37,880
<b>Total assets</b>	<b>1,237,272</b>	<b>1,305,544</b>
<b>Equity<sup>1</sup></b>	<b>1,210,416</b>	<b>1,277,105</b>
<b>Grants and subsidies</b>	<b>14,197</b>	<b>15,262</b>
<b>Liabilities</b>	<b>12,659</b>	<b>13,177</b>
Financial liabilities	467	1,294
<b>Total equity and liabilities</b>	<b>1,237,272</b>	<b>1,305,544</b>

RATIOS <sup>1</sup>	31 DEC 2016	31 DEC 2017
Normalised ROA	2.3%	2.1%
Normalised ROE	2.3%	2.1%
D/E	0.0%	0.1%

RETURN TO THE STATE (EUR '000)	2016	2017
Assigned profit contributions	3,497	4,392
Property tax	2,271	2,271
Raw material tax	21,665	22,521
<b>Total contributions and non-standard taxes to the State</b>	<b>27,432</b>	<b>29,184</b>

INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	3,499	3,285
Number of employees holding managerial positions	46	43
Average monthly salary for of employees holding managerial positions (gross, EUR)	2,065	2,025

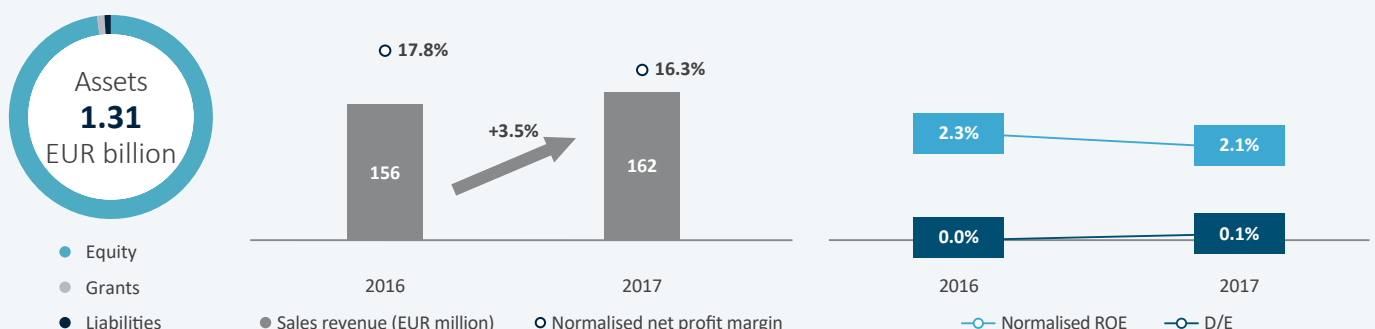
### MANAGEMENT (31 MAR 2018)<sup>2</sup>

<b>Director General</b>	Marius Pulkauninkas
<b>Chairman of the Board of Directors</b>	Ina Bikuvienė (Senior specialist of GIS and Geodesy department, Chairman of the trade union of workers, acting chairman of the board)
<b>Members of the Board of Directors</b>	Asta Čepienė (Economist at Kazlų Rūda branch, Member of the Board and Council of the Federation of Forest and Forest Workers' Trade Unions) Normantas Marius Dvareckas (Director General of UAB Ad ventum)* Gediminas Jasinevičius (Researcher at the European Institute of Forestry, Bioeconomy Research Group)* Alditas Saulius ( Member of the Boards of UAB Invega, AB Lietuvos geležinkeliai, member of the Audit committee of AB Lietuvos geležinkeliai)* Mantas Šukevičius (Chairman of the Board of AB Detonas, member of the Supervisory Board of UAB Investicijų ir verslo garantijos)*

<sup>1</sup>Independent member

<sup>1</sup> – The book values of consolidated non-current assets and equity of forest enterprises were increased by forest value calculated using the discounted cash flow method, which, based on the assessment at the beginning of 2018, was EUR 1,118 million. The ratios were calculated on the basis of the increased values of non-current assets and equity.

<sup>2</sup> – Information is provided about the management of the VĮ Valstybinių miškų urėdija





# VĮ Registry centras

www.registrucentras.lt



## Oversight of the Real Estate Cadastre, Real Estate and other registers, development and maintenance of related information systems, property valuation, issuance of certificates

- Sales revenue increased by 6%
- Normalised net profit increased to EUR 1,012 thousand
- EBITDA increased by 62.1% and amounted to EUR 4 million

According to the Law on State Information Resources Management, the VĮ Registry centras transfers registry and information system data free of charge to related registries and information systems, submits information to tax administration, law enforcement authorities and courts for provision of the functions required by legal acts. **The amount of unpaid data provision is growing - in the year 2017, 59.8 million units of data was submitted** (in 2016 - 46.2 million of units), but only EUR 341 thousand of about EUR 6 million incurred expenses in connection with this activity were reimbursed from the State budget in 2017.

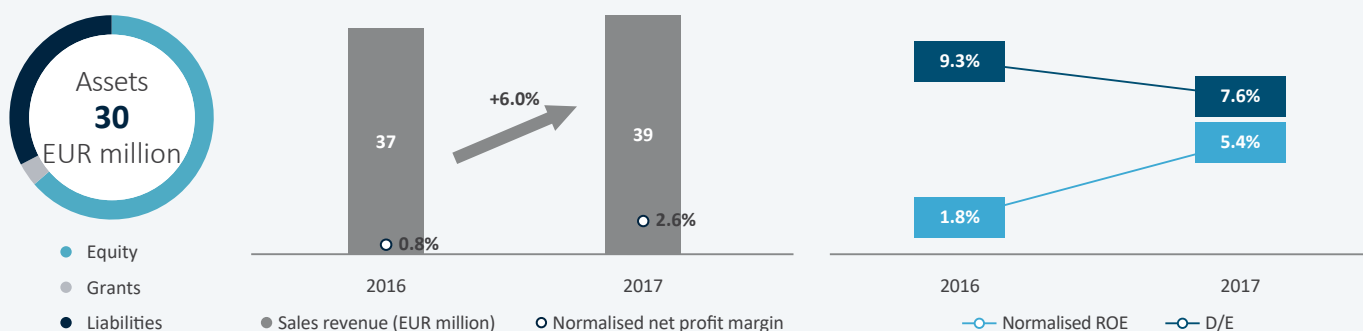
**In 2017, the company's sales revenue, compared with 2016, increased by 6% and amounted to EUR 39.1 million.** The Company earns 87.9% of sales revenue from non-commercial services, the major part of which – 69.2% - consist of the revenue from the Real Estate Register. Commercial income amounted up to EUR 4.7 million (5.2% less than a year ago).

**In 2017, the Company earned EUR 1,012 thousand of the normalised net profit** (in 2016 - EUR 280 thousand). The company's EBITDA grew, which at the end of 2017 amounted to EUR 4 million and was 62.1% higher than in 2016. The increase in profits had a positive impact on changes in return ratios. **The normalised return on equity grew up to 5.4% in 2017 (i.e., by 3.6 percentage points).**

**The growth in shareholder returns was also observed – profit contributions and atypical taxes to the State for 2017 amounted to EUR 1.4 million** (i.e. 3.5 times more than for 2016), which consisted of EUR 1.1 million of the profit contributions (70% of distributable profit). Profit contribution, compared with the allocated one for 2016, increased almost 5 times.

PROFIT (LOSS) STATEMENT (EUR '000)		
	2016	2017
Sales revenue	36,892	39,122
Cost of goods sold	26,796	27,504
<b>Gross profit (loss)</b>	<b>10,095</b>	<b>11,618</b>
Operating expenses	9,945	10,734
<b>Operating profit (loss)</b>	<b>226</b>	<b>953</b>
<b>EBITDA</b>	<b>2,479</b>	<b>4,017</b>
<b>Net profit (loss)</b>	<b>98</b>	<b>766</b>
Net profit margin	0.3%	2.0%
<b>Normalised net profit (loss)</b>	<b>280</b>	<b>1,012</b>
BALANCE SHEET (EUR '000)		
	31 DEC 2016	31 DEC 2017
<b>Non-current assets</b>	<b>24,702</b>	<b>24,110</b>
<b>Current assets</b>	<b>5,438</b>	<b>5,879</b>
Cash and cash equivalents	2,094	2,580
<b>Total assets</b>	<b>30,140</b>	<b>29,989</b>
<b>Equity</b>	<b>18,505</b>	<b>19,084</b>
<b>Grants and subsidies</b>	<b>1,277</b>	<b>1,123</b>
<b>Liabilities</b>	<b>10,358</b>	<b>9,782</b>
Financial liabilities	1,730	1,456
<b>Total equity and liabilities</b>	<b>30,140</b>	<b>29,989</b>
RATIOS		
	31 DEC 2016	31 DEC 2017
Normalised ROA	1.1%	3.4%
Normalised ROE	1.8%	5.4%
D/E	9.3%	7.6%
RETURN TO THE STATE (EUR '000)		
	2016	2017
Assigned profit contributions	187	1,111
Property tax	214	288
<b>Total contributions and non-standard taxes to the State</b>	<b>401</b>	<b>1,399</b>
INFORMATION ABOUT EMPLOYEES		
	2016	2017
Number of employees	1,691	1,611
Number of employees holding managerial positions	6	5
Average monthly salary of employees holding managerial positions (gross, EUR)	3,806	3,449
MANAGEMENT (31 MAR 2018)		
<b>Director General</b>	Ieva Tarailienė	
<b>Chairman of the Board of Directors</b>	Egidijus Vaišvila (Partner, Executive advisors, UAB)*	
<b>Members of the Board of Directors</b>	Eglė Radvilė (Head of IT centre of AB Lietuvos geležinkeliai)* Inga Černiuk (Ministry of Transport and Communications) Saulius Kerza (Ministry of Transport and Communications) Darius Kuliešius (Ministry of Transport and Communications)	

\*Independent member



## Processing of the register data on road transport vehicles of the Republic of Lithuania and driver registry of road vehicles of the Republic of Lithuania, registration of motor vehicles and their trailers, examination of drivers, issuance of driving licenses

- In 2017, the company's return to the owner increased 2.2 times
- The Company's revenue grew by 4%, the normalised net profit growth was 2.8%
- The normalised return on equity fell to 14.2%

One of the most important events of 2017 – the examination of new drivers has been started carrying out only in real traffic conditions. During the reporting year, 117 thousand theory exams (1.9% less than in 2016) and 136 thousand of practical exams (2.4% more than in 2016) were accepted, about 224 thousand driving licenses (i.e. 22.2% less than a year ago) were produced.

**In 2017, in comparison with the previous period, the volume of services provided by the Company for the registration/re-registration of road vehicles has increased.** The largest increase, y 20.3%, was in the volume of new vehicle registration services. This change was mainly caused by changes in market and a significant increase in vehicle re-exports to other countries.

The reorganisation of the Company's branches was approved during the reporting year, which was completed on May 1, 2018. During this period, the company's branches were consolidated throughout Lithuania (instead of 10 branches, 6 remained). In order to improve the quality of the services provided, an objective stated in the strategic plan, **the transfer of services to the electronic space is being carried out.**

During the reporting period, compared with 2016, **the Company's revenue growth was 4% or EUR 1 million (i.e., 13.3% more than planned).** The major part, 62.8% of revenue of the Company was earned from the provision of vehicle registration services. The growth of these revenues in 2017 amounted to 14%. The provision of driver examination services and the provision of driver licence services amounted to 20.6% and 14.6% of the Company's income in 2017, respectively.

**In 2017, the Company's normalised net profit, compared to the results of 2016, grew by 2.8% or by EUR 81 thousand and reached EUR 2,958 thousand.** Nevertheless, EBITDA of the Company decreased by 3.8% down to EUR 4.8 million. In 2016, the Company's achieved a normalised return on equity amounted to 14.3% and was 1.2 percentage points lower than in 2016.

In 2017, due to 2.4-times increase in the assigned profit contribution, amounting to EUR 4.8 million (EUR 1.4 million in 2016), **the return to owner has increased significantly from EUR 1.5 million to EUR 4.9 million.**

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	25,470	26,495
Cost of goods sold	18,641	19,277
Gross profit (loss)	6,829	7,217
Operating expenses	3,603	3,963
Operating profit (loss)	3,321	3,341
EBITDA	5,058	4,865
Net profit (loss)	2,767	2,825
Net profit margin	10.9%	10.7%
Normalised net profit (loss)	2,900	2,958

BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	7,024	7,499
Current assets	13,452	15,255
Cash and cash equivalents	12,178	9,161
Total assets	20,476	22,754
Equity	19,498	22,095
Grants and subsidies	0	0
Liabilities	978	659
Financial liabilities	0	0
Total equity and liabilities	20,476	22,754

RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	14.8%	13.7%
Normalised ROE	15.5%	14.2%
D/E	0.0%	0.0%

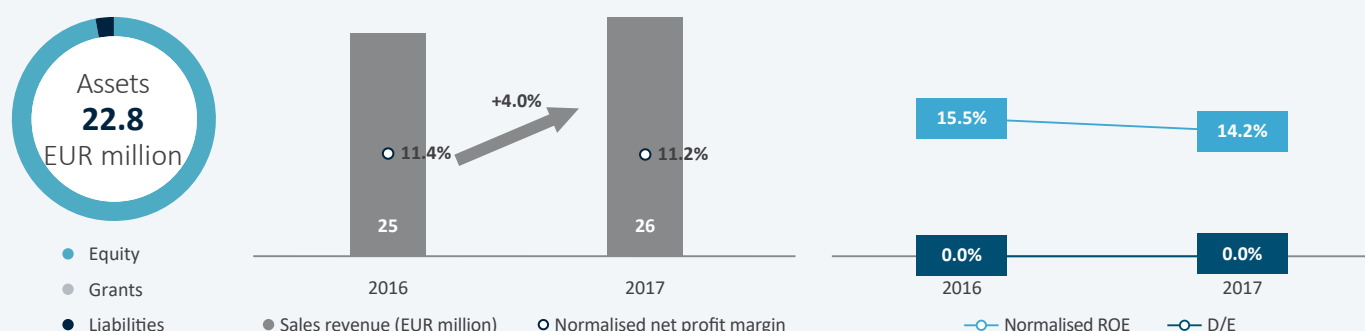
RETURN TO THE STATE (EUR '000)	2016	2017
Assigned profit contribution	1,384	4,761
Property tax	156	156
Total contributions and non-standard taxes to the State	1,539	4,917

INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	556	566
Number of employees holding managerial positions	3	2
Average monthly salary of employees holding managerial positions (gross, EUR)	2,878	2,937

### MANAGEMENT (31 MAR 2018)

Director General	Dalius Prevelis
Chairman of the Board of Directors	Not appointed
Members of the Board of Directors	Vainius Butinas (Director of Klaipėda branch of VĮ Regitra)
	Laimis Jančiūnas*
	Gintaras Nakutis*
	Ilona Pileckienė (Ministry of the Interior)
	Vytautas Pliuskus*
	Povilas Ruškus (Senior Specialist of Avižieniai group of Vilnius branch of VĮ Regitra)
	Aurimas Tomas Staškevičius*
	Paulius Skardžius (Ministry of the Interior)
	Kęstutis Širvaitis*
	Irina Urbonė (Ministry of the Interior)

\* Independent member



# VĮ Ignalinos atominė elektrinė

www.iae.lt



The company carries out decommissioning of the Ignalina NPP, covering the exploitation of the INPP necessary systems for ensuring nuclear, radiation, fire and physical safety, the unloading of spent nuclear fuel from energy blocks and transportation for temporary storage of spent nuclear fuel, decontamination and dismantling of equipment and buildings, treatment and storage of radioactive waste

- EUR 89.8 million was allocated for decommissioning of the plant in 2017
- Sales revenue grew by 3.6%
- EUR 1.5 million higher loss suffered, which amounted to EUR 5.4 million

According to the decommissioning plan of the Ignalina Nuclear Power Plant approved in 2014, the plant's decommissioning works, the value of which excluded inflation and risks, amounts to EUR 2,592.4 million, is planned to be completed by 2038. At the end of 2017, the Company managed more than EUR 700 million of assets, according to which the Company was the fourth among the SOEs and only lagged behind the groups of Lietuvos Energija, UAB, AB Lietuvos geležinkeliai and UAB EPSO-G.

In 2017, an amount of EUR 89.8 million was allocated to the decommissioning of the power plant, i.e., 27.9% more than in 2016. The biggest part of these funds – 45.8% (EUR 41.2 million) – was made up of funds from the Ignalina Program. The funds of the TIENRF Fund amounted to EUR 35.8 million or 39.8% of all funding. These funds for the decommissioning of the plant are not included in the income (loss) statement as income, but are considered to be grants that reduce costs. EUR 6.5 million (7.2%) was allocated from the budget of the Republic of Lithuania, the company's allocated funds amounted to EUR 3.7 million (4.1%). The dismantling plan of the equipment has been completed – 6,761.9 tons of technological equipment have been dismantled. The activities of the Company are considered as a special obligation – the Company performs non-commercial functions assigned by the State.

In 2017, compared to the results of the year 2016, sales revenue of the company increased by 3.6% and amounted to EUR 201 thousand. The major part of revenue, 66.3% or EUR 133,5 thousand, the company earns from the supply of the compressed air. Rail transport services also forms a significant part, 22.4% or EUR 45.2 thousand in the total revenue structure, which increased by 3.5% in 2017.

The net result of the company in the year 2017 was negative - the company incurred EUR 5.4 million net loss. Compared to the results of 2016, the loss increased by EUR 1.5 million. This was influenced by general and administrative (operational) expenses increase of 35.1%, which amounted to EUR 5.4 million.

The company's EBITDA for 2017 was EUR -4.5 million. The return on equity was also negative and amounted to -5.3%, i.e., 1.6 percentage points lower than in 2016.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	194	201
Cost of goods sold	0	0
Gross profit (loss)	194	201
Operating expenses	3,999	5,402
Operating profit (loss)	-4,114	-5,501
EBITDA	-2,957	-4,531
Net profit (loss)	-3,966	-5,430
Net profit margin	-2,044.3%	-2,701.5%

BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	284,284	302,338
Current assets	360,584	399,032
Cash and cash equivalents	55,526	64,507
Total assets	644,868	701,370
Equity	105,517	100,087
Grants and subsidies	527,833	588,201
Liabilities	11,518	13,082
Financial liabilities	0	0
Total equity and liabilities	644,868	701,370

RATIOS	31 DEC 2016	31 DEC 2017
ROA	-0.7%	-0.8%
ROE	-3.7%	-5.3%
D/E	0.0%	0.0%

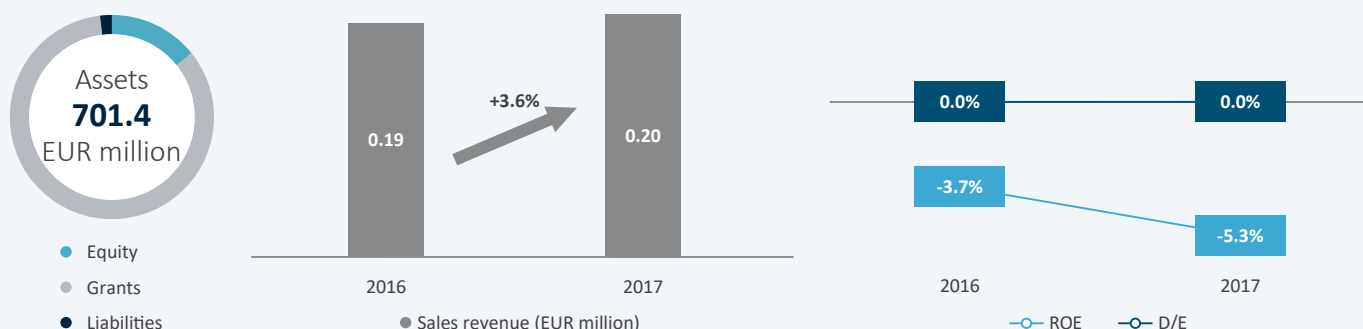
RETURN TO THE STATE (EUR '000)	2016	2017
Assigned profit contribution	0	0
Property tax	0	0
Total contributions and non-standard taxes to the State	0	0

INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	1,991	1,983
Number of employees holding managerial positions	4	4
Average monthly salary of employees holding managerial positions (gross, EUR)	5,450	5,355

#### MANAGEMENT (31 DEC 2018)

Director General	Audrius Kamienas
Chairman of the Board of Directors	Not appointed
Members of the Board of Directors	Agnė Amelija Kairytė (Ministry of Energy) Patricija Ceiko (Ministry of Energy) Andrius Bendikas (Director of Finance and Administration department Of Lietuvos paštas)* Artūras Vilimas (Head of branch in Lithuania RB RAIL AS, RB RAIL AS head manager for Lithuania and Poland)* Rimvydas Štilinis (Infrastructure director of UAB EPSO-G)*

\* Independent member



# VĮ Turto bankas

www.turtas.lt



Centralised management of the state-owned real estate, privatisation of shares owned by the state and municipalities, recovery of debts to the state and loans conveyed under a contract of agency, state guarantees and other proprietary liabilities settlement

- Controlled 38 companies' shares on a fiduciary basis (including 6 state-owned enterprises)
- Sales revenue of the company grew by 11.6%
- The positive net result was obtained – a normalised net profit of EUR 105 thousand

In 2017, while implementing the function of centralised management of the state-owned real estate, at the end of the accounting period the Company managed the property worth EUR 108.3 million. The amount of property included in the Company accounts as equity was 54,7%. This property is used for the functions of state institutions and bodies and is transferred to the Company for management, use and disposition of it on a fiduciary basis.

At the end of the accounting period, the Company controlled the shares of 38 state companies as a trustee, and the shares of 13 companies were included in the privatisation list (six of which are state-owned companies), 7 companies that were not on the list of privatisation objects (liquidation or bankruptcy proceeding has been started), and 18 companies whose shares were transferred to the Company as ownerless assets.

#### Sales revenue of the company, i. e. remunerations for:

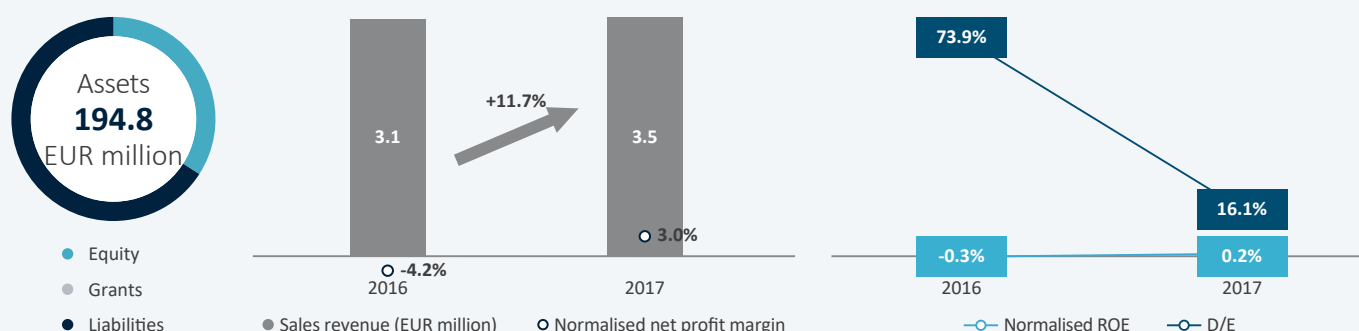
- recovery of debts to the state;
- sale of real estate and state land plots and other real property attributed to it;
- organisation and coordination of state real property renewal;
- the privatisation of state-owned shares;
- state real estate, used for administrative purposes, management and maintenance services.

The Company earned these revenues for performing statutory tasks assigned by the legal acts. In 2017, in comparison with the results achieved in 2016, the revenue increased by 11.6% and reached EUR 3.5 million. 40.5% of these revenues consisted of the sale revenues of state real property, state-owned land plots and other real property attributed to it, and these revenues increased by 83.5% in comparison with 2016. Income from recovery and administration of debts to the state, which decreased by 12.6% in 2017, accounted for 17.7% of the total turnover structure.

In 2017, the normalised net profit reached EUR 105 thousand, while in 2016, the net result of the company was negative – EUR 132 thousand net losses were incurred. EBITDA of the Company increased by 73.7%, and in 2017 it reached EUR 545 thousand).

In 2017, the Company had significantly reduced its financial liabilities by 64.5%, which also led to a noteworthy decline in D/E from 73.9% to 16.1%. This change was influenced by the fact that the target loan received for renewal financing and interest paid had been reimbursed.

PROFIT (LOSS) STATEMENT (EUR '000)	2016	2017
Sales revenue	3,127	3,491
Cost of goods sold	2,469	2,822
Gross profit (loss)	659	669
Operating expenses	915	731
Operating profit (loss)	-259	-63
EBITDA	314	545
Net profit (loss)	-188	31
Net profit margin	-6.0%	0.9%
Normalised net profit (loss)	-132	105
BALANCE SHEET (EUR '000)	31 DEC 2016	31 DEC 2017
Non-current assets	66,032	69,803
Current assets	93,418	124,969
Cash and cash equivalents	28,472	28,349
Total assets	159,450	194,771
Equity	40,654	66,316
Grants and subsidies	43	41
Liabilities	118,754	128,415
Financial liabilities	30,037	10,677
Total equity and liabilities	159,450	194,771
RATIOS	31 DEC 2016	31 DEC 2017
Normalised ROA	-0.1%	0.1%
Normalised ROE	-0.3%	0.2%
D/E	73.9%	16.1%
RETURN TO THE STATE (EUR '000)	2016	2017
Assigned profit contributions	0	441
Property tax	66	74
Total contributions and non-standard taxes to the State	66	514
INFORMATION ABOUT EMPLOYEES	2016	2017
Number of employees	140	144
Number of employees holding managerial positions	2	1
Average monthly salary of employees holding managerial positions (gross, EUR)	3,953	4,022
MANAGEMENT (31 MAR 2018)		
Director General		Marius Kliokys
Chairman of the Board of Directors		Not appointed
Members of the Board of Directors		Not appointed



# Evaluation Methodology

The analysis of indicators of SOE portfolio was based on the aggregate financial data disclosed in audited annual financial statements of enterprises (with the exception of **VĮ Mūsų amatai** and **UAB Respublikinė mokomoji sportinė bazė**, the information of which is presented using unaudited financial statements) due to the absence of consolidated or joint financial statements of all SOEs. Transactions between the companies have not been eliminated because of the lack of data. The value of assets within the SOE portfolio does not include the value of state-owned real estate which is not managed by SOEs and is not on their balance sheets. The SOE portfolio results include the consolidated **Lietuvos energija, UAB, UAB EPSO-G, AB Lietuvos geležinkeliai, AB Lietuvos paštas, UAB Lietuvos parodų ir kongresų centras LITEXPO** and **UAB Investicijų ir verslo garantijos** financial results.

While analyzing the SOE portfolio, comparative historical data are presented based on the 2017 SOE portfolio composition.

The following assumptions are used to determine the market value of the SOE:

- the value of listed companies is based on the stock price of their shares at the end of the period (31 December 2017);
- stock market value of unquoted companies was established in accordance with the accounting equity value;
- the value of the equity of the **forest enterprises** was increased by the value of the forest, which was determined using the discounted cash flow method. Under this approach, at the beginning of 2018, the value of forests was recalculated in the light of changed market conditions: the value of forests was estimated to increase by 6.1% from EUR 1,053 million at the end of 2016 to EUR 1,118 million at the end of 2017;
- the accounting value of these roads was deducted from the companies managing the regional roads, accounting assets, equity and liabilities values (EUR 2 billion at the end of 2016). It shows the amount of budget funds invested, but the market value of road as a public good is zero, since roads do not generate direct cash flows for road maintenance companies, which companies cannot dispose of. In 2017, until the merger of the enterprises into VĮ Kelių priežiūra, the roads were transferred to the Lithuanian Road Administration and were no longer included in the financial statements of the companies,
- The market value of the SOE was calculated by measuring only the state-owned share of these companies (i.e. minus minority interest).

The report indicates the aggregated performance of the portfolio of the SOE and the sector's activity before the depreciation and amortization (EBITDA), calculated based on operating profit or loss (covering both typical and other operating activities) plus depreciation and amortization costs and one-off expenses (revaluation of assets, goodwill, etc.). Business descriptions describe the company's estimated EBITDA.

The report indicates to atypical taxes to the state - a tax payable by state enterprises for the use of state property by trust (property tax) and mandatory payments by forest enterprises from raw wood and non-cut timber sales revenue (raw material tax). These tax liabilities bring additional revenues to the state budget and apply only to the abovementioned companies, therefore, it is appropriate to deduct atypical taxes from the operating expenses to the state when assessing the profitability and return to the state of these enterprises. Therefore, the report additionally specifies the net profit (loss) of the SOE portfolio and individual state enterprises, which is calculated by increasing the net profit (net loss) at the level of atypical taxes to the state, reduced by the profit tax (15%), or the sum of all atypical taxes to the state if according to the procedure established by legal acts, did not pay corporation tax. This adjustment is for informational purposes only, and its impact on the carrying amounts is not specified in the report.

Return on equity (ROE) and return on assets (ROA) were calculated by dividing the net profit (loss) of the last twelve months by the average of equity or assets derived from the balance sheet at the beginning and end of that period, respectively. In other words, in calculating the return on capital by 31 December 2017, the profit earned by the company from 1 January 2017 until 31 December 2017 is taken. Accordingly, the average of book value on 1 January 2017 and 31 December 2017 are taken into account.

The 2017 financial statements of the entity were affected by one-time events. In order to improve data comparability, the report indicates the normalised net profit of the SOE portfolio and sectoral overviews, eliminating atypical taxes to the state and also deducting the revaluation losses of **Lietuvos energija, UAB** and **UAB EPSO-G Groups**, as well as other one-offs of the atypical factors results. Costs that, according to the Corporate Tax Law, are not considered as allowable deductions, the total amount of expenses added to the net profit adjustment, i.e. unamutable portion of corporate income tax.

The net profit margins, ROE and ROA indicators for the report are calculated using the normalised profit margins.

The purpose of the normalised net profit disclosure is to reveal a result that would be corrected by eliminating the influence of the main one-off factors. For example, the normalised comparative net profit of **Lietuvos energija, UAB, Group** in 2017 and 2016 was calculated by eliminating<sup>1</sup>:

- the impact of the negative gas price discounts on gas consumers for the results of 2016 and 2017, which reduced the net profit in 2016 by EUR 24.6 million, in 2017 – by EUR 7.4 million;
- the negative impact of the impairment of assets of **Lietuvos energijos gamyba, AB** on the results for 2017 (EUR 26.7 million).

In the descriptions of the enterprises, the compositions of the boards of SOEs and the composition of companies forming the SOE groups are reported as they were on 31 March 2018. The number of employees and the number of employees holding managerial positions are presented as they were at the end of the reporting period (31 December 2017).

In the portfolio description, in the "P / E Indicator" section, the P / E indicator of comparable foreign sectors, was calculated on the basis of Capital IQ and Bloomberg data. The indices of the comparative sectors are calculated by deducing the average of the indicators from the Eastern European, Asian and Latin American sectors, which also include the Lithuanian listed SOEs, P / E indicators. The P / E indexes of the listed companies of Lithuania was calculated by dividing the market capitalization of companies from the net profit of 2017.

<sup>1</sup> Negative effects of the reporting period are eliminated by increasing the net result of prior periods and the positive effect of the reporting period is eliminated by reducing the net result of prior periods.

This annual report was prepared by Public Enterprise Stebėsenos ir prognozių agentūra, which implements the functions of the Management Coordination Center in accordance with the Government of the Republic of Lithuania on July 14, 2010, the date of Resolution No. 1052 "On the Approval of the Description of the Guidelines for the Guarantee of Transparency of State-Owned Enterprises and the Designation of the Coordinating Body" and on 6 June 2012, the date of Resolution No. 665 "On Approval of the Description of the Procedure for the Implementation of State Property and Non-property Rights in State-owned Enterprises".

During the preparation of this annual report, external sources of information were used: public information about companies, annual financial statements, annual reports and annual reports of enterprises submitted by enterprises, published information and data of Ministry of Transport of the Republic of Lithuania, Ministry of Energy of the Republic of Lithuania, Department of Statistics, State Control, State Forest Management Service, Baltpool Energy Resources Exchange, Lithuanian Research Centre for Agriculture and Forestry, National Commission for Energy Control and Prices, Communications Regulatory Authority, Lithuanian Road Administration, -, Accociation Lietuvos mediena, Riga International Airport (Riga Airport), AS Tallinna Lennujaam (Tallinn Airport), SJSC Latvijas dzelzceļš (Latvian Railways), Eesti Statistika (Estonian Statistical Office), Eurostat, Capital IQ, Bloomberg, and of NASDAQ OMX Vilnius.

The report's information was not verified by independent auditors and the reporters did not carry out an independent review of the information contained in this report, including estimates or forecasts, and, whenever there is any need to rely on this information in any decision-making process, any person should rely on his or her own assessment. The authors of the report, the Government and any state institution or other entity under its control are not, under any circumstances, responsible for third party decisions taken based on information, conclusions and opinions expressed in this review. The company's past performance does not guarantee and cannot be linked to future results. This annual report is neither an offer to sell nor an invitation to purchase securities or any assets nor constitute part of any investment decision or any decision to enter into any transaction.

# List of State-owned enterprises

No	Enterprise	State's Interest*	Accountability	Sector	Group	Category	Assets as of 31 DEC 2017 (EUR '000)	Sales Revenue in 2017 (EUR '000)	EBITDA in 2017 (EUR '000)	Net Profit in 2017 (EUR '000)
1	Lietuvos energija, UAB, Group	100.0%	Ministry of Finance	Energy	1B	I	2,505,068	1,100,831	235,767	93,525
1a	Lietuvos energijos gamyba, AB Group	96.1%	Lietuvos energija, UAB	Energy	-	I	636,288	149,815	70,538	20,521
1b	AB Energijos skirstymo operatorius <sup>1</sup>	95.0%	Lietuvos energija, UAB	Energy	-	I	1,277,801	612,309	140,080	77,552
2	UAB EPSO-G Group	100.0%	Ministry of Energy	Energy	1B	I	770,456	225,246	77,213	-2,796
2a	LITGRID AB Group	97.5%	UAB EPSO-G	Energy	-	I	439,210	160,188	40,525	9,585
2b	AB Amber Grid	96.6%	UAB EPSO-G	Energy	-	I	280,198	64,322	38,252	-9,861
3	AB Klaipėdos nafta	72.3%	Ministry of Energy	Energy	1B	I	301,245	106,484	31,393	17,031
4	VĮ Energetikos agentūra	-	Ministry of Energy	Energy	2	V	1,116	6	0	1
5	VĮ Ignalinos atominė elektrinė <sup>2</sup>	-	Ministry of Energy	Energy	2	III	701,370	201	-4,531	-5,430
6	VĮ Radioaktyviųjų atliekų tvarkymo agentūra	-	Ministry of Energy	Energy	2	V	338	26	-10	-23
7	VĮ Visagino energija	-	Ministry of Economy	Energy	1A	II	49,519	12,663	1,736	22
8	UAB Geoterma	99.1%	VĮ Turto bankas	Energy	1A	V	No data	No data	No data	No data
9	VĮ Lietuvos naftos produktų agentūra	-	Ministry of Energy	Energy	2	I	93,200	19,839	-1,434	-1,440
10	AB Lietuvos geležinkeliai Group	100.0%	Ministry of Transport and Communications	Transport and Communications	1B	I	2,067,572	448,100	156,458	26,987
11	AB Lietuvos paštas Group	100.0%	Ministry of Transport and Communications	Transport and Communications	1B	I	72,059	76,940	4,351	1,573
12	AB Smiltynės perkėla	99.0%	Ministry of Transport and Communications	Transport and Communications	1B	IV	8,691	4,836	2,097	691
13	VĮ Oro navigacija	-	Ministry of Transport and Communications	Transport and Communications	2	II	55,170	28,757	4,467	1,552
14	VĮ Klaipėdos valstybinio jūrų uosto direkcija	-	Ministry of Transport and Communications	Transport and Communications	1B	I	582,528	59,795	46,601	38,442
15	VĮ Lietuvos oro uostai	-	Ministry of Transport and Communications	Transport and Communications	1B	I	187,208	33,130	8,908	2,482
16	VĮ Vidaus vandens kelių direkcija	-	Ministry of Transport and Communications	Transport and Communications	2	IV	28,146	0	23	-576
17	AB Lietuvos radijo ir televizijos centras	100.0%	Ministry of Transport and Communications	Transport and Communications	1B	II	38,569	19,854	5,679	141
18	VĮ Kelių priežiūra <sup>3</sup>	-	Ministry of Transport and Communications	Transport and Communications	2	I	128,526	80,055	12,203	1,926
19	VĮ Valstybinis miškotvarkos institutas	-	Ministry of the Environment	Forestry	1A	V	3,433	2,676	435	110
20	VĮ Alytaus miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	7,234	6,260	1,165	309
21	VĮ Anykščių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,439	4,080	460	114
22	VĮ Biržų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,870	3,064	228	368
23	VĮ Druskininkų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,462	4,657	701	113
24	VĮ Dubravos eksperimentinė-mokomoji miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	6,327	4,181	459	-121
25	VĮ Ignalinos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	8,847	5,680	783	27
26	VĮ E Jonavos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	1,415	1,711	120	65
27	VĮ Joniškio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	4,766	3,264	143	159
28	VĮ Jurbarko miškų urėdija	-	Directorate General of State Forests	Forestry	1B	III	2,336	3,201	33	587
29	VĮ Kaišiadorių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,592	4,096	330	24

No	Enterprise	State's Interest*	Accountability	Sector	Group	Category	Assets as of 31 DEC 2017 (EUR '000)	Sales Revenue in 2017 (EUR '000)	EBITDA in 2017 (EUR '000)	Net Profit in 2017 (EUR '000)
30	VĮ Kauno miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,187	5,119	849	-53
31	VĮ Kazlų rūdos mokomoji miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	2,254	3,340	2	396
32	VĮ Kėdainių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	8,957	5,375	568	80
33	VĮ E Kretingos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,904	3,791	472	234
34	VĮ Kupiškio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	4,435	3,458	428	7
35	VĮ Kuršėnų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,766	3,264	143	-79
36	VĮ Marijampolės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,336	3,201	33	-152
37	VĮ Mažeikių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,592	4,096	330	51
38	VĮ Nemenčinės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,187	5,119	849	553
39	VĮ Pakruojo miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,254	3,340	2	-168
40	VĮ Panevėžio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	8,957	5,375	568	12
41	VĮ Prienų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,904	3,791	472	59
42	VĮ Radviliškio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,435	3,458	428	205
43	VĮ Raseinių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	3,926	3,249	212	-73
44	VĮ Rietavo miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	3,281	2,996	241	-35
45	VĮ Rokiškio miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,556	3,176	353	98
46	VĮ Šakių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,392	5,260	851	358
47	VĮ Šalčininkų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,621	3,368	473	259
48	VĮ Šiaulių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,507	3,892	662	139
49	VĮ Šilutės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,967	4,323	857	0
50	VĮ Švenčionėlių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	6,163	5,975	1,157	542
51	VĮ Tauragės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	III	8,156	6,661	1,282	501
52	VĮ Telšių miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,798	4,492	229	-303
53	VĮ Tytuvėnų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,816	2,530	150	-9
54	VĮ Trakų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,881	5,176	484	68
55	VĮ Ukmergės miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,966	6,131	704	210
56	VĮ E Utenos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	1,648	2,052	244	127
57	VĮ Valkininkų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,536	3,594	414	1
58	VĮ Varėnos miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	4,411	3,065	374	90
59	VĮ Veisiejų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	3,498	3,336	607	363
60	VĮ Vilniaus miškų urėdija	-	Directorate General of State Forests	Forestry	1B	IV	5,189	4,089	76	-250
61	VĮ Zarasų miškų urėdija	-	Directorate General of State Forests	Forestry	1B	V	2,031	1,989	243	100
62	UAB Projektų ekspertizė	100.0%	Ministry of the Environment	Other	1A	V	585	497	85	63



No	Enterprise	State's Interest*	Accountability	Sector	Group	Category	Assets as of 31 DEC 2017 (EUR '000)	Sales Revenue in 2017 (EUR '000)	EBITDA in 2017 (EUR '000)	Net Profit in 2017 (EUR '000)
63	VĮ Statybos produkcijos sertifikavimo centras	-	Ministry of the Environment	Other	1B	V	1,262	1,064	157	108
64	UAB Būsto paskolų draudimas	100.0%	Ministry of Finance	Other	2	IV	18,769	719	-571	60
65	VĮ Indėlių ir investicijų draudimas	-	Ministry of Finance	Other	2	IV	15,920	492	28	43
66	VĮ Lietuvos prabavimo rūmai	-	Ministry of Finance	Other	2	V	3,546	579	111	36
67	VĮ Turto bankas	-	Ministry of Finance	Other	2	II	194,771	3,491	444	31
68	UAB Viešųjų investicijų plėtros agentūra	100.0%	Ministry of Finance	Other	2	III	3,204	1,671	370	236
69	VĮ Mūsų amatai	-	Prison Department	Other	2	III	6,636	6,908	129	92
70	UAB Lietuvos kinas	100.0%	Ministry of Culture	Other	1A	V	1,019	310	282	256
71	VĮ Lietuvos paminklai	-	Department of Cultural Heritage	Other	2	V	676	6,555	39	11
72	UAB Respublikinė mokomoji sportinė bazė	100.0%	Department of Cultural Heritage	Other	1A	V	2,371	54	-51	-146
73	UAB Lietuvos monetų kalykla	100.0%	Bank of Lithuania	Other	1B	III	7,503	7,836	568	306
74	AB Informacinio verslo paslaugų įmonė	51.7%	Lithuanian Department of Statistics	Other	1A	V	2,015	405	1,182	987
75	VĮ distancinių tyrimų ir geoinformatikos centras Gis-centras	-	National Land Service	Other	2	V	2,895	1,566	226	162
76	AB Detonas	100.0%	Ministry of Transport and Communications	Other	1B	IV	4,324	3,232	875	590
77	AB Problematika	100.0%	Ministry of Transport and Communications	Other	1A	III	9,567	6,938	2,141	1,569
78	UAB Universiteto vaistinė	100.0%	Ministry of Health	Other	1A	V	1,263	2,171	37	29
79	UAB Kauno Petrašiūnų darbo rinkos mokymo centras	54.2%	VĮ Turto bankas	Other	2	V	770	828	84	40
80	VĮ Registrų centras	-	Ministry of Transport and Communications	Other	2	I	29,989	39,122	4,017	766
81	AB Giraitės ginkluotės gamykla	100.0%	VĮ Turto bankas	Other	1A	III	19,671	6,899	1,414	406
82	UAB Investicijų ir verslo garantijos	100.0%	Ministry of Economy	Other	2	IV	19,420	1,407	437	416
83	UAB Toksika	92.5%	Ministry of Economy	Other	1A	III	28,714	3,448	609	55
84	UAB Lietuvos parodų ir kongresų centras LITEXPO	98.8%	Ministry of Economy	Other	1A	III	20,386	6,068	1,470	650
85	UAB poilsio namai Baltija	100.0%	VĮ Turto bankas	Other	1A	V	5,108	599	-190	-393
86	AB Vilniaus metrologijos centras	100.0%	Ministry of Economy	Other	1B	IV	5,908	3,306	806	461
87	VĮ Infostruktūra	-	Ministry of Transport and Communications	Other	1B	III	6,336	6,065	1,202	135
88	VĮ Regitra	-	Ministry of the Interior	Other	2	II	22,754	26,495	4,865	2,825
89	AB Jonavos grūdai	70.1%	Ministry of Agriculture	Other	1B	III	6,918	5,700	1,410	940
90	AB Lietuvos veislininkystė	99.0%	Ministry of Agriculture	Other	2	V	1,748	1,307	139	91
91	AB Kiaulių veislininkystė	99.0%	Ministry of Agriculture	Other	2	V	1,635	1,290	-126	-181
92	UAB Gyvulių produktyvumo kontrolė	100.0%	Ministry of Agriculture	Other	2	V	1,004	3,344	10	-20
93	UAB Lietuvos žirgynas	89.6%	Ministry of Agriculture	Other	2	V	2,094	650	141	24
94	UAB Panevėžio veislininkystė	97.0%	Ministry of Agriculture	Other	1A	V	1,303	1,267	-89	-102
95	UAB Šeduvos avininkystė	100.0%	Ministry of Agriculture	Other	2	V	944	181	45	7
96	UAB Šilutės polderiai	81.0%	Ministry of Agriculture	Other	1A	V	1,368	2,597	151	44
97	UAB Šilutės veislininkystė	96.5%	Ministry of Agriculture	Other	2	V	1,446	581	95	9
98	UAB Valstybinė projektų ir sąmatų ekspertizė	100.0%	Ministry of Agriculture	Other	1A	V	89	151	9	8
99	UAB Aerogeodezijos institutas	99.8%	VĮ Turto bankas	Other	1A	V	1,176	40	-292	-338
100	UAB Dotnuvos eksperimentinis ūkis	100.0%	Ministry of Agriculture	Other	1A	V	3,587	1,608	186	43

No	Enterprise	State's Interest*	Accountability	Sector	Group	Category	Assets as of 31 DEC 2017 (EUR '000)	Sales Revenue in 2017 (EUR '000)	EBITDA in 2017 (EUR '000)	Net Profit in 2017 (EUR '000)
101	UAB Klaipėdos žuvininkystės produktų aukcionas	100.0%	VĮ Turto bankas	Other	2	V	No data	No data	No data	No data
102	UAB Upytės eksperimentinis ūkis	100.0%	Ministry of Agriculture	Other	1A	V	3,048	1,859	327	185
103	UAB Žemės ūkio paskolų garantijų fondas	100.0%	Ministry of Agriculture	Other	2	IV	20,789	641	-281	-63
104	VĮ Pieno tyrimai	-	Ministry of Agriculture	Other	2	IV	5,821	4,160	651	116
105	VĮ Lietuvos žemės ūkio ir maisto produktų rinkos reguliavimo agentūra	-	Ministry of Agriculture	Other	2	III	70,546	522	17	-15
106	VĮ Valstybės žemės fondas	100.0%	Ministry of Agriculture	Other	2	IV	5,856	3,030	-71	-437
107	VĮ Mašinų bandymo stotis	-	Ministry of Agriculture	Other	2	V	85	254	-172	15
108	VĮ Žemės ūkio informacijos ir kaimo verslo centras	-	Ministry of Agriculture	Other	2	V	3,839	674	79	-234

**\* Directly and indirectly; State enterprise (SE) are 100% owned by the State**

<sup>1</sup> On 1 January 2016 AB LESTO and AB Lietuvos Dujos were reorganised merged into AB Energijos skirstymo operatorius.

<sup>2</sup> VĮ Ignalinos atominė elektrinė is at the closing stage (production was carried out till December 31, 2009).

<sup>3</sup> As of November 1, 2017, 10 regional road maintenance enterprises were merged with the VĮ Kauno regiono keliai, which was renamed into VĮ Kelių priežiūra.

# Financial Results of SOEs not included in the SOEs portfolio

## VĮ Mašinių bandymo stotis

<b>PROFIT (LOSS) STATEMENT (EUR '000)</b>	<b>2016</b>	<b>2017</b>
<b>Sales revenue</b>	<b>249</b>	<b>254</b>
Cost of goods sold	128	146
<b>Gross profit (loss)</b>	<b>121</b>	<b>108</b>
Operating expenses	288	289
Profit (loss) from other activities	0	0
<b>Operating profit (loss)</b>	<b>-168</b>	<b>-181</b>
<b>EBITDA</b>	<b>-159</b>	<b>-172</b>
Financing and investing activities	184	199
<b>Profit (loss) before taxes</b>	<b>16</b>	<b>18</b>
Profit tax	3	3
<b>Net profit (loss)</b>	<b>14</b>	<b>16</b>
<i>Net profit margin</i>	<i>5.6%</i>	<i>6.4%</i>
<b>Normalised net profit</b>	<b>15</b>	<b>16</b>

<b>BALANCE SHEET (EUR '000)</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
<b>Non-current assets</b>	<b>52</b>	<b>21</b>
<b>Current assets</b>	<b>109</b>	<b>64</b>
Cash and cash equivalents	18	25
<b>Total assets</b>	<b>161</b>	<b>85</b>
<b>Equity</b>	<b>82</b>	<b>12</b>
<b>Grants and subsidies</b>	<b>15</b>	<b>9</b>
<b>Liabilities</b>	<b>64</b>	<b>64</b>
Financial liabilities	0	0
<b>Total equity and liabilities</b>	<b>161</b>	<b>85</b>

<b>RATIOS</b>	<b>31 DEC 2016</b>	<b>31 DEC 2017</b>
Normalised ROA	9.5%	13.1%
Normalised ROE	19.4%	34.3%
D/E	0.0%	0.0%

<b>RETURN TO THE STATE (EUR '000)</b>	<b>2016</b>	<b>2017</b>
Total contributions and non-standard taxes to the State	8	1

<b>INFORMATION ABOUT EMPLOYEES</b>	<b>2016</b>	<b>2017</b>
Number of employees	29	25
Number of executives	2	2

# Abbreviations and definitions

AB (PLLC)	Public Limited Liability Company
Asset turnover	A financial indicator which shows the amount of sales generated per euro of assets
B	Billion
COGS	Cost of goods sold
CSR	Corporate Social Responsibility- Business Principles, whereby companies voluntarily pursue social and environmental objectives, taking into account the interests of all interested parties.
DGSF	Directorate General of State Forests under the Ministry of Environment
DuPont	DuPont analysis is a type of analysis that breaks down the return on equity into a product of net profit margins, asset turnover, and financial leverage
D/E	Debt to equity ratio
EBITDA	Operating profit before depreciation and amortization. The ration is derived by adding depreciation and amortisation costs to the operating profit or loss (including the result of operating and other activities)
EBITDA Margin	The indicator, calculated by dividing the EBITDA (operating profit before interest, taxes, depreciation and amortization) by the net profit of the company
EU	European Union
Financial leverage	Financial indicator showing the ratio between assets and equity.
GDP	Gross Domestic Product
Governance Coordination Centre (GCC)	Centralized managing state property manager (VĮ Turto bankas, from 1 July 2017 VšĮ Stebėsenos ir prognozių agentūra), performing functions of the coordinating institution for the implementation of state-owned enterprise management policy
Government	The Government of the Republic of Lithuania
LAKD	Lithuanian Road Administration under the Ministry of Transport and Communications
Letter of Expectation	A letter submitted by the institution representing the State to the company concerning the State's aims in the state-owned enterprise and its expectations.
LNG terminal	Liquefied Natural Gas Terminal
LRA	Lithuanian Road Administration under the Ministry of Transport and Communications
Mill.	Million
NCC	National Control Commission for Prices and Energy
Net Profit Margin	Indicator calculated by dividing the net profit by net turnover.
Nomination guidelines	Procedure for the selection and nomination of the collegial governance bodies of the state-owned enterprises approved by the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015
Non-commercial functions / special obligations	Functions of the SOE that are not commercially viable or would be carried out at a higher price than the one set and which companies are entrusted with the responsibility of the shareholder/owner, i.e. state decisions
Non-standard taxes to the State	Property tax and raw material tax
Normalised Net Profit	The net profit, after eliminating non-standard taxes to the State, the influence of the revaluation and other one-time events of the assets of Lietuvos energija, UAB and UAB EPSO-G.
Normalised Net Profit Margin	Indicator calculated by dividing the normalised net profit by net turnover.
OECD	Organization for Economic Co-operation and Development
Operating profit margin	Indicator calculated by dividing operating profit by net turnover.
Ownership Guidelines	Description of the procedure for the implementation of state property and non-property rights in state-owned enterprises approved by the Government of the Republic of Lithuania on June 6, 2012 as Resolution No. 665
Property tax	Tax paid by state enterprises of the use of entrusted state property
PSO	Public service obligations
P/E	Indicator showing the company's share price and earnings per share ratio.
Raw material tax	Compulsory deductions from sales revenue of raw wood and uncut forest payed by forest enterprises
RES	Renewable energy sources
Return On Assets (ROA)	A financial indicator that shows the efficiency of using the assets of the company. The indicator is calculated by dividing the net profit from the average of total assets at the beginning and at the end of the period.
Return On Equity (ROE)	A financial indicator showing the efficiency of the use of equity invested by shareholders. The indicator is calculated by dividing the net profit from the average of equity at the beginning and at the end of the period.
SO	Special obligations
SOE	State-owned enterprise (State-owned enterprise engaged in commercial activities, public limited liability company and private limited company, in which the state owns the shares giving more than 1/2 of all votes at the general meeting of the company)
Transparency Guidelines	A description of the guidelines for ensuring transparency in the operation of state-owned enterprises approved by the Government of the Republic of Lithuania on July 14, 2010 as Resolution No. 1052
UAB (LLC)	Private Limited Liability Company
VAE	UAB Visagino Atominė Elektrinė (Visaginas Nuclear Power Plant)
VAI	The institution or shareholder exercising the rights and obligations of the owner of the company
VAS	Value added statement – a report which shows how much value or assets are created through joint efforts of the enterprise's equity owners, the management and employees and how it is distributed between different interested parties (employees, creditors, shareholders, the state, etc.) during the reference period
VAT	Value added tax
VIPA (PIDA)	UAB Viešųjų investicijų plėtros agentūra (Public Investment Development Agency)
VĮ (SE)	State Enterprise
Wh	Unit of measure of energy used to calculate the electricity consumed or produced by electric appliances (kilowatt hour = 10 <sup>3</sup> Wh, gigawatt hour = 10 <sup>9</sup> Wh, peak hour = 10 <sup>12</sup> Wh)











# Notes

A series of horizontal dotted lines for writing notes.



**STATE-OWNED ENTERPRISES IN LITHUANIA. ANNUAL REPORT 2017**

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