BASE PROSPECTUS

„LIETUVOS ENERGIJA", UAB

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

EUR 1,500,000,000

Euro Medium Term Note Programme

„Lietuvos energija", UAB (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to EUR 1,500,000,000 in aggregate principal amount of notes (the "**Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed EUR 1,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

This Base Prospectus has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), which is the Luxembourg competent authority for the purpose of Directive 2003/71/EC, as amended, (the "**Prospectus Directive**") and relevant implementing measures in Luxembourg, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg for the purpose of giving information with regard to Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof. Applications have also been made for such Notes to be admitted during the period of twelve months after the date hereof to listing on the official list (the "**Official List**") and to trading on the regulated market (the "**Regulated Market**") of the Luxembourg Stock Exchange. The Regulated Market of the Luxembourg Stock Exchange is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**"). The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer (which may include the Nasdaq Vilnius Stock Exchange, a regulated market for the purposes of MiFID II). Application has been made for a certificate of approval under Article 18 of the Prospectus Law 2005 to be issued by the CSSF to the competent authority in the Republic of Lithuania.

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

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

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

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

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

Arrangers

BNP PARIBAS **J.P. MORGAN**

Dealers

BNP PARIBAS **J.P. MORGAN** **SEB**

Base Prospectus dated 21 June 2018

CONTENTS

	Page
IMPORTANT NOTICES	1
FORWARD-LOOKING STATEMENTS	4
HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA	5
RISK FACTORS	6
GENERAL DESCRIPTION OF THE PROGRAMME	23
INFORMATION INCORPORATED BY REFERENCE	27
PRESENTATION OF FINANCIAL INFORMATION OF THE GROUP	29
OVERVIEW OF FINANCIAL INFORMATION	33
FINAL TERMS AND DRAWDOWN PROSPECTUSES	39
FORMS OF THE NOTES	40
OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM	45
TERMS AND CONDITIONS OF THE NOTES	47
FORM OF FINAL TERMS	68
USE OF PROCEEDS	75
DESCRIPTION OF THE GROUP	76
DESCRIPTION OF OTHER INDEBTEDNESS	102
MANAGEMENT	106
RELATED PARTY TRANSACTIONS	112
REGULATION	113
TAXATION	132
SUBSCRIPTION AND SALE	135
GLOSSARY	137
GENERAL INFORMATION	138

IMPORTANT NOTICES

Responsibility for this Base Prospectus

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

Final Terms/Drawdown Prospectus

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

Other Relevant Information

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

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

Unauthorised Information

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

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

Restrictions on Distribution

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

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

Programme Limit

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed EUR 1,500,000,000 and for this purpose, any Notes denominated in another currency shall be translated into euros at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

Use of Proceeds

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

Certain Definitions

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

Rounding

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

Ratings

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

Notice to Investors

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

(a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;

(d) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

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

Stabilisation

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

IMPORTANT – EUROPEAN ECONOMIC AREA RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

MiFID II PRODUCT GOVERNANCE / TARGET MARKET

The Final Terms in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **"distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

BENCHMARKS REGULATION

Interest payable under the Floating Rate Notes may be calculated on the basis of the reference rates LIBOR or EURIBOR (each as defined herein), which are benchmarks for the purposes of Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**"): see *"Risk Factors—Risks related to the structure of a particular issue of Notes—The regulation and reform of benchmarks may adversely affect the value of Notes linked to such benchmarks*".

LIBOR is provided by ICE Benchmark Administration Limited; as at the date hereof, ICE Benchmark Administration Limited appears in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 (*Register of administrators and* benchmarks) of the Benchmarks Regulation. EURIBOR is provided by the European Money Markets Institute; as of the date hereof, the European Money Markets Institute does not appear in such register.

However, Article 51 (*Transitional provisions*) of the Benchmarks Regulation provides that providers already providing a benchmark on 30 June 2016 have until 1 January 2020 to apply for authorisation or registration in accordance with Article 34 (*Authorisation and registration of an administrator*) of the Benchmarks Regulation and may continue to provide such an existing benchmark until 1 January 2020 or, where the provider submits an application for authorisation or registration, unless and until such authorisation or registration is refused. Such transitional provisions may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date hereof. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update this Base Prospectus to reflect any change in the registration status of the administrator.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA

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

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

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

RISK FACTORS

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

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

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

RISKS RELATING TO THE ISSUER

Risks Relating to the Regulatory and Legal Environment

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

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

For the year ended 31 December 2017, 72 per cent. of the Group's revenue (compared to 77 per cent. in 2016) and 82 per cent. of the Group's adjusted EBITDA (compared to 81 per cent. in 2016) depended on regulated tariffs (including electricity distribution prices and natural gas prices). Such tariffs are set by the NCC in Lithuania for periods of between six months (for public supply of electricity) and five years. The NCC may decide to limit or block tariff increases, or even order tariff decreases, with no change to the quality of service, or may change the conditions of access to such regulated tariffs, including changes to the price setting mechanisms as a result of political and social pressures. However, the Group cannot give any assurance that new tariff mechanisms would be put in place or that regulated tariffs would be set at a level which would allow it to preserve its short-, medium- or long-term investment capacity, while ensuring a fair return on the capital invested in its distribution, generation and supply assets. In the period from 2014-2017, electricity tariffs decreased by approximately 14 per cent. and natural gas tariffs decreased by approximately 30 per cent.

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

For more information on the Group's disputes relating to the regulated tariffs, please see "*Description of the Group—Legal Proceedings*".

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

Historically, Lietuvos Energijos Gamyba, AB ("**LEG**") has been the sole provider of tertiary power reserve services to the transmission system operator ("**TSO**") and strategic power reserve services in Lithuania, see "*Description of the Group—Principal Subsidiaries*". Tertiary reserves are intended to ensure the reliable operation of the national electricity system in emergencies when there is an unexpected reduction of electricity generation or unexpected increase in electricity consumption. Strategic reserves are intended to provide additional security in ensuring the reliable operation of the national electricity system. The provision of tertiary and strategic power reserve services by LEG contributed 7.8 per cent. of the Group's revenues and 11.3 per cent. of the Group's adjusted EBITDA for the year ended 31 December 2017 (compared to 8.5 per cent. and 14.8 per cent., respectively, in 2016). At the end of 2016, the Ministry of Energy and the TSO decided that providers of tertiary power reserve services would be determined by an auction process, with effect from 2017. On 28 December 2016, the TSO announced that the provision of tertiary power reserve services in 2017 would be provided by the LEG through its reserve power plants in the Elektrėnai Complex. However, under the auction process, the amount of tertiary reserve provided by LEG in 2018 declined to 260 MW, from 484 MW in 2017. There is uncertainty as to whether LEG will successfully bid for and be selected as the provider of tertiary power reserve services to the TSO in the future. Additionally, at the start of 2018 the Ministry of Energy decided that providers of the strategic power reserve services in Lithuania will be determined by an auction process starting in 2018, unless the TSO determines that there is only a single provider that meets the requirements for provision of such services. If LEG is unsuccessful in bidding for and is not selected as the provider of tertiary power reserve services to the TSO in the future, or is not selected as the strategic power reserve service provider in the future, this could have a material adverse effect on the Group's business, results of operations and financial condition.

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

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

In addition, the Group often invests resources prior to obtaining the necessary permits and authorisations, particularly in connection with feasibility studies and environmental studies, but may have to cancel or withdraw from a project if the Group is unable to obtain the necessary permits or authorisations. Licences for the distribution and supply of electricity and gas and the generation of electricity are granted for an indefinite period, but there is a risk that the Group may be required to reapply for licences should the regulatory framework change in the future. On 11 October 2016, the Supreme Court of Estonia withdrew the permits for the operation of two of the Group's wind turbines in Estonia. On 31 May 2018, permanent use permits were issued to the wind farms, but the decision can be challenged until 30 June 2018 (see "*Description of the Group-Legal Proceedings*"). Any failure to obtain, maintain, renew or extend all the necessary administrative authorisations and licences necessary for the operation of the Group's business and execution of its strategy, could have a material adverse effect on its business, results of operations and financial condition.

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

The Group is subject to various environmental, health and safety laws and regulations governing, among other things: the generation, storage, handling, release, use, disposal and transportation of waste or hazardous materials; the emission and discharge of hazardous materials into the ground, air or water; the decommissioning of its facilities; and the health and safety of the public and its employees. E.U. regulators and regulators in the countries in which the Group operates administer these laws and regulations. The Group is also required to obtain environmental and safety permits from various governmental authorities for its operations. Certain permits require periodic renewal or review of their conditions as well as continuous monitoring and reporting of compliance with their conditions and the Group cannot give any assurance that it will be able to renew such permits or that material changes to the Group's permits requiring significant expenditures, will not be imposed. Violations of these laws, regulations or permits could result in plant closures, fines or legal proceedings being commenced against the Group or other sanctions, in addition to negative publicity and significant damage to the Group's reputation. Environmental and health and safety laws are complex, change frequently and have tended to become more stringent over time. As a result, the Group may not at all times be in full compliance with all such laws and regulations. While the Group has budgeted for future capital and operating expenditures to comply with current environmental and health and safety laws, it is possible that any of these laws may change or become more stringent in the future or that new laws may be adopted (for example E.U. legislation may be adopted that imposes additional capital expenditure on the Group's gas-fired power plants). Therefore, the Group's costs of complying with current and future environmental and health and safety laws and its liabilities arising from past or future releases of, or exposure to, hazardous substances, could have a material adverse effect on the Group's business, results of operations and financial condition.

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

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

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

State-aid notification risk.

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

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

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

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

As a result of such notifications on LNG Supplements and PSO service fees, there is a risk that LNG Supplements or the PSO service fees will be recognised as inappropriate by the European Commission and could be abolished (with or without the requirement for repayment of some or all revenues already received from LNG Supplements or PSO service fees) or amended so that the schemes will generate insufficient revenues for LITGAS's activity as designated supplier of gas in Lithuania through the Klaipėda LNG Terminal or LEG's activity as provider of strategic power reserve services, respectively. This could potentially lead to a material adverse effect on the Group's business, results of operations and financial condition.

On 21 January 2016, the Issuer acquired a wind farm with a total installed capacity of 24 MW in Lithuania ("**UAB**

Eurakras"). Currently the wind farm operates under a feed-in tariff regime. Under a feed-in tariff regime, eligible renewable electricity generators, including homeowners, business owners, farmers and private investors, are paid fixed feed-in tariffs for the renewable electricity they supply to the grid. Feed-in tariffs are determined by the Republic of Lithuania or by running auction procedures. In addition to feed-in tariffs, the Republic of Lithuania also provides renewable power plants with additional support measures. This enables diverse technologies that generate renewable energies (such as wind, solar and biogas) to be developed and provides investors with a reasonable return for a 12 year period commencing on the launch of the relevant power plant. However, there is a risk that the feed-in tariff regime may be considered state-aid and may need to be approved by a decision of the European Commission. The Republic of Lithuania has made a state-aid notification requesting the European Commission to confirm that promotional measures do not constitute state-aid or are in compliance with the relevant state-aid measures. In case the European Commission rejects such request, the Republic of Lithuania will have to return the state support received by the wind farm acquired by the Issuer. The state-aid notification is currently being reviewed by the European Commission.

If such approval is not given, the wind farm may not be able to operate under a feed-in tariff regime and provide a reasonable return which, in turn, may have a material adverse effect on the Group's business, results of operations and financial condition.

UAB Vilnius kogeneracinė jėgainė ("**VKJ**") is a special purpose vehicle established by the Issuer to implement the Vilnius combined heat and power plant ("**Vilnius CHP**") as set out in the Government's resolution, No. 486, dated 28 May 2014. On 19 September 2016, the European Commission approved provision of state-aid to VKJ, amounting to EUR 153 million. However, this approval may be appealed by other parties such as competitors. For more information see "*Description of the Group—Legal Proceedings— UAB Vilniaus kogeneracinė jėgainė ("VKJ")*". If such appeals are successful, the Group may be required to return such state-aid, which may, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

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

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

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

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

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

The Government is in the process of implementing a tax reform for the years 2017-2020. This tax reform involves tightening sanctions surrounding tax evasion or violation of tax laws, improving tax administration, introducing new taxes and reducing the scale of the shadow economy in Lithuania. The introduction of any new taxes may have a significant impact on the Group's business, performance or financial position.

In Lithuania, tax calculation and declaration is carried out for the current calendar year and the last five calendar years. Any amendments under the tax reform may be subjected to further amendments or other interpretations in the future and, given the tax calculation and declaration period, the Group may face additional taxes, penalties or fines under the new tax regime in the future.

Changes in accounting standards may impact the financial situation and results presented in the financial statements of the Group

The Group's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. From time to time amendments are adopted to the applicable financial accounting and reporting standards that govern the preparation of the Group's financial statements

In particular, the Group has applied provisions of IFRS 15 when preparing the Group's unaudited interim financial statements for the three month period ended 31 March 2018, which may hinder a comparative analysis between the Group's interim financial statements and the financial statements for the years ended 31 December 2017 and 2016.

In addition, IFRS 16 will apply to the Group's financial reporting. IFRS 16 (effective for annual periods beginning on 1 January 2019 or after that date) eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. The Group currently estimates the application of IFRS 16 on the financial statements.

Any amendment to IFRS which, in future, is adopted by the European Union and which concerns the valuation of the balance sheet, off-balance sheet items, disclosures or creating write-downs and provisions, may have a negative impact on the presentation of the financial and economic situation of the Group and consequently on its ability to perform its obligations under the Notes.

Risks Relating to the Market

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

The Group operates in the deregulated energy markets in Europe, including the Nord Pool Exchange, Nasdaq Commodities Exchange and Get Baltic Exchange, through its trading activities, see "Description of the Group—Trading and Supply of Electricity and Gas—Trading of Electricity" and "Description of the Group—Trading and Supply of Electricity and Gas—Trading of Gas". The Group plans to expand its trading and supply businesses by increasing the volume of energy derivative products that it trades and by increasing trading with and supply to Latvia and trading with Poland. As a result, the Group is exposed to price fluctuations in the wholesale energy markets, affecting the prices at which it can purchase electricity and gas. Any such fluctuations in the wholesale energy markets could have a material adverse effect on the Group's business, results of operations and financial condition. The Group is also exposed to interest rate risks by virtue of its incurrence of loans and borrowings with variable interest rates and, in the future, the expansion of its businesses in markets other than Lithuania could also expose the Group to currency risks.

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

Additionally, any reduced access to the electricity wholesale markets could lead to a significant drop in trading volumes and revenue which could have a material adverse effect on the Group's business, results of operations and financial condition.

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

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

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

Risks relating to the separation of the public supply of electricity from ESO to another group company.

The amendments to the Law on Electricity are expected to be adopted in the Seimas of the Republic of Lithuania later in the summer of 2018. The expected amendments should provide the basis to separate the public supply of electricity services from the distribution activities that continue to be performed by ESO. After separation, the public supply of electricity should remain in the Group. There are operational and reputational risks related to the integration of public supply business into another Group company. Although there are no constraints on customers, customers may not be willing to change their respective suppliers. Deregulation could change the current market and competitors could use the situation to gain market share and, accordingly, the Group would lose market share, which may have a material adverse effect on its business, results of operations and financial condition.

Risks Relating to the Operations of the Group

Risks from potential participation in capital intensive projects.

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

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

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

The Group's revenues are particularly sensitive to the performance of the Lithuanian economy. As of 31 December 2017, 98.5 per cent. (compared to 98.4 per cent. as of 31 December 2016) of the Group's property, plant and equipment were located in Lithuania and 94.8 per cent. of its revenues and other operating income for the year ended 31 December 2017 were derived from Lithuania (compared to 99.3 per cent. for the year ended 31 December 2016). Changes in economic, regulatory, administrative or other policies of the Government, as well as political or economic developments in Lithuania (including potential changes in Lithuania's credit ratings) over which the Group has no control, could have a significant effect on the Lithuanian economy, which in turn could have a material adverse effect on the Group's business, results of operations and financial condition.

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

The Group's revenues are particularly sensitive to the performance of its distribution and generation businesses. As of 31 December 2017, 62 per cent. of the Group's revenues (compared to 66 per cent. as of 2016) and 89 per cent. of its adjusted EBITDA (compared to 88 per cent. as of 2016) were derived from its distribution and generation businesses. Changes in natural gas demand in Lithuania and the other Baltic countries, changes in electricity prices and the regulatory framework, increases in generation and distribution costs, future developments affecting the electricity and gas infrastructure within the Baltic and Nordic regions, competition in the markets in which the Group operates, political and economic developments affecting the Baltic and Nordic regions, E.U. legal and regulatory requirements and the reliability of its future partners for expanding the Group's business within the Baltic and Nordic regions and Poland, could have a significant effect on the financial performance in the Group's distribution and generation businesses, which in turn could have a material adverse effect on the Group's business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As part of the Group's strategy it is planning to invest EUR 2.6 billion in the modernisation and renewal of its electricity distribution network between 2018 and 2030. In addition, the Group plans to invest up to EUR 600 million to maintain and modernise strategic power generation plants and maintain the reliability of strategic power plants currently owned by the Group. In addition, the Group plans to invest approximately EUR 511 million in building new co-generation plants or modernising existing co-generation plants. Additionally the Group decommissioned four units, and is in the process of decommissioning two additional units in the Elektrėnai Complex. Although the Group seeks to implement new inspections and maintenance practices, including proactively repairing or replacing equipment and components before they fail, as well as implementing its plans to modernise its distribution network and power plant portfolio, the Group cannot give any assurance that it will be successful in its efforts or that maintenance and investment costs will not increase over time, which could have a material adverse effect on its business, results of operations and financial condition.

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

As at 31 December 2017, the current and non-current borrowings of the Issuer's subsidiaries amounted to EUR 82.3 million, or 3.3 per cent. of the Group's total assets (compared to EUR 429 million or 17.7 per cent. in 2016). This accounts for 13.4 per cent. of the Group's total borrowings, which amounted to EUR 614 million and which had been advanced as loans mainly to the subsidiaries of the Issuer (compared to EUR 494 million or 86.8 per cent. in 2016), please see "*Description of Other Indebtedness—Indebtedness at subsidiary level*". In the event of any insolvency of these subsidiaries, claims of their secured and unsecured creditors, including trade creditors, banks and other lenders, will have priority with respect to the assets of such subsidiaries over any claims that the Issuer or its creditors may have with respect to such assets. Additionally, if the Issuer became insolvent at the same time, claims of the Noteholders against the Issuer in respect of any Notes would only be met after the claims of all creditors of the Issuer's subsidiaries and may not be met in full even in circumstances where creditors of its subsidiaries are repaid in full, see "*Description of Other Indebtedness*". Secured indebtedness of the Issuer or any of its subsidiaries may also rank effectively senior to the obligations of the Issuer under the Notes. The incurrence of additional indebtedness by the Issuer or its subsidiaries, including secured indebtedness, may have a material adverse effect on the value of an investment in the Notes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A substantial number of the Group's employees, particularly those in its electricity generation business, are represented by labour unions and all Group employees were covered by its collective bargaining agreements as of 31 December 2017 (please see "*Description of the Group—Employees*"). Since the Group's foundation, it has not experienced any strikes or work stoppages, however, any strikes, threats of strikes, or other resistance or work stoppages in the future, particularly those affecting its facilities in Lithuania, could impair its ability to implement further measures to reduce costs and improve production efficiencies in furtherance of its strategy, which could have a material adverse effect on its business, results of operations and financial condition.

The Group's insurance coverage may not be adequate.

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

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

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

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

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

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

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

Potential events posing a risk to the continuity of the operation of IT systems and confidentiality of data include the risk of a breakdown of the systems and cyber-attacks on the systems. The growth of cloud services exposes IT infrastructure to additional cyber threats.

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

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

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

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

After the General Data Protection Regulation ("**GDPR**") requirements came into effect on 25 May 2018, the risk regarding personal data handling and security has increased. IT systems and business processes have been modified to achieve GDPR compliance, however, such compliance procedures have only just been put in place and human errors, IT systems faults and inadequacy of business processes may result in claims from customers and/or employees.

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

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

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

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

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

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

Risks associated with the implementation of the Energy Efficiency Directive.

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

In November 2016, Lithuania adopted the requirements of the Energy Efficiency Directive by implementing the Law on Energy Efficiency. Pursuant to this law, ESO concluded two agreements with the Ministry of Energy pursuant to which ESO by the end of 2020 is obliged to, *inter alia*, achieve energy savings of:

- 1636 GWh through the agreement on implementation of energy efficiency measures;
- 1 per cent. of energy supplied during the last calendar year prior to the signing date of the agreement (15 November 2017) on educational and consulting measures (energy savings must be achieved through implementation of educational and consulting measures indicated in the agreement on educational and consulting measures).

There are no indications that ESO would not achieve the energy savings target. However, if ESO fails to achieve the required energy savings, it may receive a warning or a fine of up to 5 per cent. of its annual revenue for violating the agreement on implementation of energy efficiency measures, and a warning or a fine of up to 3 per cent. of its gross annual income for violating the agreement on educational and consulting measures.

Pursuant to the Law on Energy Efficiency, the Group companies engaged in energy gas, electricity supply business to final consumers, including LEG (which also supplies electricity and heating to its final consumers), and the Ministry of Energy signed agreements on educational and consulting measures. According to the provisions of the agreements, the Group companies engaged in the energy supply business are obliged to implement educational and consulting measures for their final consumers and to achieve energy consumption savings of at least 1 per cent. of energy supplied to final energy consumers during the last calendar year prior to the signing date of agreement. If any such Group company fails to fulfil any of its obligations under the agreements concluded with the Ministry of Energy, it may receive a warning or a fine of up to 3 per cent. of its annual income.

Accordingly, the failure of ESO or any other Group company engaged in energy supply activities to implement the educational measures and achieve the required energy savings could have a material adverse effect on the Group's business, results of operations and financial condition.

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

The Republic of Lithuania, through the Ministry of Finance of the Republic of Lithuania, is the sole shareholder of the Issuer, the parent company of the Group. In the Supervisory Council of the Issuer, there are three independent members of the Supervisory Council. The Chairman of the Supervisory Council is independent and, in the case of equality of votes, has the deciding vote. The Republic of Lithuania is being represented by two Supervisory Council members of the Issuer assigned by the Ministry of Finance of the Republic of Lithuania. Accordingly, the Republic cannot make unilateral decisions on the Supervisory Council, please see "*Description of the Group—Shareholder*". However, the Republic of Lithuania, through its shareholdings, has and will continue to have, indirectly, the power to affect the Group's operations. As a result, certain of the Group's decisions may reflect Government policy.

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

Certain activities planned by the Group, including mergers and acquisitions, establishment of new legal entities by the Issuer (but not Group subsidiaries) and reorganisations or equity injections into the Group's principal subsidiaries require the approval of the Government, please see "*Description of the Group—Shareholder*". The Issuer and some of the Group's subsidiaries are also subject to additional corporate supervision under the Law on the Protection of the Objects of National Security Importance. If the Republic of Lithuania would lose more than two-thirds of its voting power, Parliament approval (in case of the Issuer) or Government approval (in case of the certain subsidiaries of the Group) would be required.

In respect of the Issuer and Group's subsidiaries, facilities and businesses which are considered to be of strategic importance to national security, the Law on the Protection of the Objects of National Security Importance:

(i) places restrictions on ownership that does not comply with the interests of national security; (ii) increases certain compliance requirements for managers and investors including (shareholders) and certain security measures for operations; (iii) places restrictions for reorganisation of directly and indirectly controlled enterprises; (iv) requires state ownership to be no less than two-thirds); (v) may limit enforcement against such subsidiaries, facilities and businesses and the Issuer (for example as set out in (iii) above) and in the paragraph below; and (vi) requires prior approval of a special commission if the transaction to be concluded meets certain criteria, including (but not limited to) cases when the transaction's value exceeds 10 per cent. of the company's last year's revenue.

The Law on the Protection of the Objects of National Security Importance also establishes the principles of liquidation, bankruptcy and realisation of assets of the entities that are important for national security. According to these principles, in case such entities face bankruptcy, the Republic of Lithuania shall have priority acquiring assets relevant to national security. Therefore, in an event of bankruptcy of the Issuer, its assets may not necessarily be realised for the highest possible price as the Republic of Lithuania may acquire such assets for the price determined in accordance with a special procedure (enactment of such procedure is still pending).

It should also be noted that in accordance with the Law on the Protection of the Objects of National Security Importance, the Issuer, or any other Group entity, may be directed by the Republic of Lithuania to purchase entities or assets relevant to national security from other entities important for national security.

The powers of the Republic of Lithuania described herein could affect the implementation of the Group's strategy which, in turn, could have a material adverse effect on the Group's business, results of operations and financial condition. There is also a risk that, notwithstanding the Issuer's waiver of immunity, Noteholders may be unable to enforce a court judgment against certain assets of the Issuer.

Risks associated with restitution and easement claims in Lithuania.

A restitution process is underway in Lithuania, which involves the return of nationalised real property to its previous owners, following the change of the political regime and the fundamental changes in the principles of registration of real estate property in Lithuania in 1990. A significant part of the Group's distribution assets, including its electricity and gas distribution networks, are located on real property which was previously owned by the Republic of Lithuania and has now been returned to its previous owners as a result of the restitution process. While the restitution process provides the Group with an easement over such real property for the Group to operate its distribution assets, there are new draft laws which if enacted will impose requirements on the Group to pay compensation for the use of such easements. Such legislation is expected to be enacted later in the summer of 2018. Although the Group believes it has sufficient funds to cover all amounts which may become payable in connection with the proposed legislation, it cannot give any assurance of this. The Group's failure to assess the funds needed to cover all amounts which may become payable by the proposed legislation could have a material adverse effect on its business, results of operations and financial condition.

RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

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

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

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

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

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

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

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

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

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

The regulation and reform of benchmarks may adversely affect the value of Notes linked to such benchmarks.

LIBOR, EURIBOR and other indices which are deemed to be benchmarks are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented (see "Uncertainty about the future of LIBOR may adversely affect the return on the Notes and the price at which the Notes can be sold" below). These reforms may cause such benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to such a benchmark.

The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and applied from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. Among other things it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Issuers) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to a rate or index deemed to be a benchmark, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to such benchmark; (ii) trigger changes in the rules or methodologies used in the benchmarks; or (iii) lead to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms, investigations and licensing issues in making any investment decision with respect to the Notes linked to a benchmark, such as the Floating Rate Notes.

Uncertainty about the future of LIBOR may adversely affect the return on the Notes and the price at which the Notes can be sold.

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities such as the Notes. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates during the term of the Notes and the return on the Notes and the trading market for LIBOR-based securities. In the event that a published LIBOR rate is unavailable after 2021, the rate on Floating Rate Notes using LIBOR as a reference rate will be determined as set forth in Condition 7 (Floating Rate Note Provisions).

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

The Final Terms relating to any specific Tranche of Notes may provide that it will be the Issuer's intention to apply the proceeds from an offer of those Notes specifically for projects and activities that promote climate-friendly and other environmental purposes ("**Eligible Projects**"). Prospective investors should determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary. In particular no assurance is given by the Issuer that the use of such proceeds for any Eligible Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Projects. Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Projects will meet any or all investor expectations regarding such "green", "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Projects.

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

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

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

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

RISKS RELATED TO THE NOTES GENERALLY

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

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

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

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

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Agent and the Issuer may, without the consent of Noteholders agree to the amendment of any of the provisions of the Notes in order to correct a manifest error.

The Meetings of Noteholders, as described above, do not meet the requirements of and are not regulated by the Law on the Protection of Interests of Owners of Bonds issued by Public and Private Companies of the Republic of Lithuania (in Lithuanian - Lietuvos Respublikos akcinių bendrovių ir uždarųjų akcinių bendrovių obligacijų savininkų interesų gynimo įstatymas). The provisions of the above mentioned law do not apply to Notes issued under the Programme.

Notes may be redeemed prior to their stated maturity.

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

There is no active trading market for the Notes.

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

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

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

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

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

Notes in New Global Note and New Safekeeping Structure form.

The New Global Note and New Safekeeping Structure form has been introduced to allow for the possibility of debt instruments being issued and held in a manner which will permit them to be recognised as eligible collateral for monetary policy of the central banking system for the euro (the "**Eurosystem**") and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. However in any particular case such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time. Investors should make their own assessment as to whether the Notes meet such Eurosystem eligibility criteria.

Minimum Specified Denomination and higher integral multiples.

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

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

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

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

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

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

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

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

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

GENERAL DESCRIPTION OF THE PROGRAMME

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

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

Issuer:	„Lietuvos energija", UAB
Programme Limit:	Up to EUR 1,500,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed under "*Risk Factors*" below.
Arrangers:	BNP Paribas and J.P. Morgan Securities plc
Dealers:	BNP Paribas, J.P. Morgan Securities plc and AB SEB Bankas and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent:	The Bank of New York Mellon, London Branch
Registrar:	The Bank of New York Mellon SA/NV, Luxembourg Branch
Paying Agents and Transfer Agents:	The Bank of New York Mellon, London Branch
Final Terms or Drawdown Prospectus:	Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and relevant Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of Notes will be the Terms and Conditions of the Notes as completed to the extent described in the relevant Final Terms or, as the case may be, as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus.
Listing and Trading:	Applications have been made for Notes issued under the programme to be admitted during the period of twelve months after the date hereof to listing on the Official List and to trading on the Regulated Market of the Luxembourg Stock Exchange and the Nasdaq Vilnius Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. Application has been made for a certificate of approval under Article 18 of the Prospectus Law 2005 to be issued by the CSSF to the competent authority in the Republic of Lithuania.
Clearing Systems:	Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent and the relevant Dealer(s).
Method of Issue:	The Notes will be issued in Series. Each Series may be issued in one or more Tranches on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.
Forms of Notes:	Notes may be issued in bearer form or in registered form. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as

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

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

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

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

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

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

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

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

Redemption:	Notes may be redeemable at par or such other Redemption Amount as may be specified in the relevant Final Terms.
Optional Redemption (including Make-Whole Redemption):	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders, and if so the terms applicable to such redemption. If a Change of Control Put Option is specified in the relevant Final Terms, following the occurrence of a Change of Control, the Noteholders will be entitled to request the Issuer to redeem or, at the Issuer's option, procure the purchase of their Notes, as more fully set out in Condition 9(f) (*Redemption and Purchase – Change of Control Put Option*). If specified in the relevant Final Terms, the Issuer will have the option to redeem the Notes, in whole or in part, at any time or from time to time, prior to their Maturity Date, at the Make-Whole Redemption Amount. See Condition 9(c) (*Redemption and Purchase – Redemption at the option of the Issuer*).
Tax Redemption:	Except as described in "*Optional Redemption (including Make-Whole Redemption)*" above, early redemption will only be permitted for tax reasons as described in Condition 9(b) (*Redemption and Purchase— Redemption for tax reasons*).
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate ("**Fixed Rate Notes**") or a floating rate ("**Floating Rate Notes**") and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Denominations:	No Notes may be issued under the Programme with a minimum denomination of less than EUR 100,000 (or its equivalent in any other currency). Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).
Cross Default:	The Notes will have the benefit of a cross default provision, as described in Condition 13(c) (*Cross-default of the Issuer or Subsidiary*).
Taxation:	All payments of principal and interest in respect of Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Lithuania or any political subdivision therein or authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall (subject as provided in Condition 12 (*Taxation*)) pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders after such withholding or by them had no such withholding or deduction been required, all as described in "*Terms and Conditions of the Notes – Taxation*". Under current Lithuanian laws and regulations, interest payments under any Notes (which also includes as interest, if applicable, the difference

	between the redemption price and the issue price of the Notes) to individuals (non-tax residents of Lithuania) are subject to Lithuanian withholding tax at a rate of 15 per cent. (unless a double tax treaty with the Republic of Lithuania provides for a lower tax rate) and to entities residing outside of the EEA or in countries which do not benefit from a double tax treaty with the Republic of Lithuania are subject to Lithuanian withholding tax at a rate of 10 per cent. – see further "*Taxation*". The Issuer will pay additional amounts in respect of this withholding so that Noteholders receive the full amount they would have received had there been no withholding. For so long as the Notes are held in global form, the Issuer will pay such additional amounts on the entire principal amount of the Notes represented by such Global Note.
Rating:	Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will be specified in the applicable Final Terms or Drawdown Prospectus. A rating is not a recommendation to buy, sell or hold securities and may be subject to supervision, change or withdrawal at any time from the assigning rating agency.
Governing Law:	English law
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, the EEA (with respect to retail investors), the Republic of Lithuania and Japan, see "*Subscription and Sale*" below.

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

1. the sections set out below from the Group's Q1 2018 interim report, representing unaudited condensed consolidated and standalone interim financial information for the three month period ended 31 March 2018, together with the notes to the unaudited condensed consolidated interim financial information:

(a)	Condensed interim statements of financial position for the three month period ended 31 March 2018	Page 3
(b)	Condensed interim statements of comprehensive income for the three month period ended 31 March 2018	Page 4
(c)	Condensed interim statements of changes in equity for the three month period ended 31 March 2018	Pages 5 - 6
(d)	Condensed interim statements of cash flows for the three month period ended 31 March 2018	Page 7
(e)	Notes to the condensed interim financial information for the three month period ended 31 March 2018	Pages 8 - 19

2. the sections set out below from the annual report of the Group, representing audited consolidated and standalone financial statements for the financial year ended 31 December 2017, together with the notes to the audited consolidated financial statements and the independent auditors' report thereon:

(a)	Independent auditors' report for the year ended 31 December 2017	Pages 119 - 130
(b)	Consolidated and standalone statement of financial position for the year ended 31 December 2017	Pages 133 - 134
(c)	Consolidated and standalone statement of profit or loss and other comprehensive income for the year ended 31 December 2017	Pages 135
(d)	Consolidated and standalone statements of changes in equity for the year ended 31 December 2017	Pages 136 - 137
(e)	Consolidated and standalone statements of cash flow for the year ended 31 December 2017	Page 138
(f)	Notes to the financial statements for the year ended 31 December 2017	Pages 139 - 200

3. the sections set out below from the annual report of the Group, representing audited consolidated and standalone financial statements for the financial year ended 31 December 2016, together with the notes to the audited consolidated financial statements and the independent auditors' report thereon:

(a)	Independent auditors' report for the year ended 31 December 2016	Pages 108 - 111
(b)	Consolidated and standalone statement of financial position for the year ended 31 December 2016	Pages 114 - 115
(c)	Consolidated and standalone statement of profit or loss and other comprehensive income for the year ended 31 December 2016	Page 116
(d)	Consolidated and standalone statements of changes in equity for the year ended 31 December 2016	Pages 117 - 118
(e)	Consolidated and standalone statements of cash flow for the year ended 31 December 2016	Page 119
(f)	Notes to the financial statements for the year ended 31 December 2016	Pages 120 - 177

4. the terms and conditions set out on pages 46 to 67 of the base prospectus dated 27 June 2017 relating to the Programme under the heading "*Terms and Conditions of the Notes*" (the "**2017 Conditions**").

The non-incorporated parts of the documents referred to above are not relevant for the investors or are covered elsewhere in this Base Prospectus.

Any statement contained herein or any of the documents incorporated by reference in, and forming party of, this

Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement, **provided that** such modifying or superseding statement is made by way of an annual information update or supplements to this Base Prospectus pursuant to Articles 10 and 16 respectively of the Prospective Directive.

Copies of the documents specified above as containing information incorporated by reference in this Base Prospectus will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu) and may also be inspected, free of charge, during normal business hours at the offices of the Issuer at Žvejų g. 14, LT-09310, Vilnius, Lithuania for 12 months from the date of this Base Prospectus.

Any statement contained herein or any of the documents incorporated by reference in, and forming part of, this Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

PRESENTATION OF FINANCIAL INFORMATION OF THE GROUP

With the exception of certain alternative performance measures ("**APMs**"), the financial information as of and for the three months ended 31 March 2018, as of and for the year ended 31 December 2017 and as of and for the year ended 31 December 2016, included in this Base Prospectus have been derived from the Group's Q1 2018 interim report, representing unaudited condensed consolidated and standalone interim financial information for the three month period ended 31 March 2018 prepared in accordance with the International Accounting Standard IAS 34 (the "**Interim Financial Statements**"), the annual report of the Group, representing audited consolidated and standalone financial statements for the financial year ended 31 December 2017 prepared in accordance with the International Financial Reporting Standards as adopted by the E.U. ("**IFRS**") (the "**2017 Financial Statements**"), and the annual report of the Group, representing audited consolidated and standalone financial statements for the financial year ended 31 December 2016 prepared in accordance with IFRS (the "**2016 Financial Statements**", and together with the 2017 Financial Statements, the "**Audited Financial Statements**").

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

UAB PricewaterhouseCoopers ("**PwC**"), with its registered office in Vilnius (J.Jasinskio 16B, LT – 03163 Vilnius) audited the 2017 Financial Statements and issued an unqualified auditor's report on the aforementioned financial statements.

In addition, PwC audited the 2016 Financial Statements and issued an unqualified auditors' report on the aforementioned financial statements.

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

Changes in accounting policies

Since 1 January 2018, the Group applied the rules of the IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contract with customers", which causes the changes in the adopted accounting policies and presentation of the financial statements. As a result, financial data presented in this Base Prospectus for the 12 months period ended 31 December 2016 and 2017, respectively and for the 3 months period ended 31 March 2018 may not be fully comparable.

The impact of IFRS 9 was evaluated to be immaterial from the Group's perspective. However, the impact of IFRS is significant for the Group. For more information, see "*Changes in accounting standards may impact the financial situation and results presented in the financial statements of the Group*".

The Group and the Issuer adopted IFRS 15 from 1 January 2018 under the modified retrospective approach. As at 1 January 2018, differences in the carrying amount of assets and liabilities resulting from the application of IFRS 15 were recognised in the Group's equity. As a result the Group's total equity as of 1 January 2018 decreased by EUR 62,768 thousand.

The overall impact of the entry into force of IFRS 15 on 1 January 2018 is presented in Note 2 of the Interim Financial Statements.

Alternative Performance Measures

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

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

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

	Unaudited As of and for the year ended 31 December	
	2017	**2016**
	(EUR in thousands, except percentages)	
EBITDA	227,248	232,770
EBITDA Margin	20.6%	21.1%
Adjusted EBITDA	238,678	234,639
Adjusted EBITDA margin	21.7%	21.3%
Net debt	442,325	315,826
Net debt to equity	32.9%	23.9%
Net debt to adjusted EBITDA	1.85	1.35
Free cash flow	(48,346)	94,445

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

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

EBITDA and Adjusted EBITDA

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

EBITDA and adjusted EBITDA have certain limitations as analytical tools, and should not be considered in isolation, or as a substitute for financial information as reported under IFRS. Investors should not place undue reliance on this data. EBITDA in this Base Prospectus is presented, for each period, as: profit/(loss) before tax, adjusted by financial income and financial costs, depreciation and amortisation and impairment, revaluation and write offs of property plant and equipment, investment property and other non-current assets. Adjusted EBITDA is EBITDA further adjusted for impairments and write offs of inventories and receivables, changes in market value of open financial derivative instruments, extraordinary and exceptional items separately identified as such by the management and temporary regulatory differences identified as such by the management (such as the Gazprom price reduction and temporary regulatory differences of ESO, LDT, LEG and LITGAS). For further details, see Note 38 of the 2017 Financial Statements.

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

The table below presents reconciliation of EBITDA and adjusted EBITDA to the net profit for the period of the Group for the years ended 31 December 2017 and 31 December 2016:

	For the year ended 31 December	
	2017	2016
	(EUR in thousands, except percentages)	
Net profit	93,525	118,438
Current year income tax expense	2,682	13,373
Deferred income tax expense/(benefit)	(6,009)	12,404
Depreciation and amortisation	87,357	78,518
Finance income	(2,163)	(3,720)
Finance costs	9,098	6,856
Impairment, revaluation and write-offs of property, plant and equipment, investment property and other non-current assets	42,758	6,901
EBITDA	**227,248**	**232,770**
EBITDA Margin	20.6%	21.1%
Impairments and write-offs of inventories and receivables	862	4,781
Change in market value of open financial derivative instruments	(1,055)	(1,993)
Gas price discount provided by Gazprom(1)	8,712	28,923
Temporary regulatory differences(2)	2,911	(29,842)
Adjusted EBITDA	**238,678**	**234,639**
Adjusted EBITDA Margin	21.7%	21.3%

(1) The Group received the full amount of the Gazprom discount in 2014. However, this discount was not distributed to consumers in 2014 but in subsequent years, between 2015-2018. Accordingly, the adjustment in this line item has been made by management to reflect the portion of the original discount received by Gazprom which was distributed to consumers in the relevant year.

(2) Adjustments to EBITDA for temporary regulatory differences are recalculations of regulated revenue to reflect temporary differences between actual and approved regulatory revenues, by which the Group's future financial results would be adjusted.

EBITDA Margin and Adjusted EBITDA Margin

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

The following table illustrates the methodology the Group uses to determine EBITDA margin for the year ended December 2017 and 31 December 2016:

	For the year ended 31 December	
	2017	2016
	(EUR in thousands, except percentages)	
EBITDA	227,248	232,770
Total Revenue	1,100,831	1,101,630
EBITDA Margin	20.6%	21.1%

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

The following table illustrates the methodology the Group uses to determine adjusted EBITDA margin for the year ended 31 December 2017 and 31 December 2016:

	For the year ended 31 December	
	2017	2016
	(EUR in thousands, except percentages)	
Adjusted EBITDA	238,678	234,639
Total Revenue	1,100,831	1,101,630
Adjusted EBITDA Margin	21.7%	21.3%

Net Debt

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

The following table illustrates the methodology the Group uses to determine its net debt as of 31 December 2017 and 31 December 2016:

	As of 31 December	
	2017	**2016**
	(EUR in thousands)	
Non-current borrowings		
Bonds issued	293,981	—
Bank borrowings	186,087	364,957
Finance lease liabilities	187	316
Current borrowings		
Current portion of non-current borrowings	119,599	90,008
Current borrowings	—	38,948
Current portion of finance lease liabilities	145	157
Bank overdrafts	10,655	—
Accrued interest	3,427	5
Total borrowings	**614,081**	**494,391**
Cash and cash equivalents	(171,756)	(178,565)
Net Debt	**442,325**	**315,826**

Net Debt to Equity

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

Net Debt to Adjusted EBITDA

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

Free cash flow

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

The following table illustrates the methodology the Group uses to determine its free cash flow for the year ended 31 December 2017 and 31 December 2016:

	As of 31 December	
	2017	**2016**
	(EUR in thousands)	
Net cash generated from (used in) operating activities	134,560	251,692
Net cash used in investing activities	(182,906)	(157,247)
Free cash flow	**(48,346)**	**94,445**

OVERVIEW OF FINANCIAL INFORMATION

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

With the exception of APMs discussed in "*Presentation of Financial Information of the Group*", the financial information as of and for the three months ended 31 March 2018 and 31 March 2017 and as of and for the years ended 31 December 2017 and 31 December 2016 incorporated by reference in this Base Prospectus has been derived from the Interim Financial Statements and the Audited Financial Statements, respectively.

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

The following table sets forth summary Consolidated Statements Of Profit Or Loss and Other Comprehensive Income Data of the Group for the three months ended 31 March 2018 and 31 March 2017 and for the years ended 31 December 2017 and 31 December 2016:

Consolidated Statements Of Profit Or Loss And Other Comprehensive Income Data

	For the three months ended 31 March (unaudited)		For the year ended 31 December	
	2018	**2017**	**2017**	**2016**
	(EUR in thousands)			
Revenue				
Sales revenue	344,580	302,825	1,064,459	1,070,542
Other income	13,720	6,795	36,372	31,088
Total revenue	**358,300**	**309,620**	**1,100,831**	**1,101,630**
Operating expenses				
Purchases of electricity, gas for trade and related services	(161,960)	(129,082)	(712,298)	(691,738)
Purchases of gas and heavy fuel oil	(108,334)	(96,615)	(28,193)	(35,689)
Depreciation and amortisation	(21,240)	(20,338)	(87,357)	(78,518)
Wages and salaries and related expenses	(20,941)	(20,185)	(81,336)	(86,065)
Repair and maintenance expenses	(3,237)	(3,880)	(21,318)	(22,765)
Revaluation of non-current assets	—	—	(7,103)	336
Impairment of property, plant and equipment	84	(1,086)	(33,387)	(566)
Other expenses	(3,451)	(9,432)	(32,706)	(39,274)
Total operating expenses	**(319,079)**	**(280,618)**	**(1,003,698)**	**(954,279)**
Total revenue less operating expenses	39,221	29,002	97,133	147,351
Finance income	231	623	2,163	3,720
Finance costs	(2,457)	(1,425)	(9,098)	(6,856)
Profit (loss) before income tax	**36,995**	**28,200**	**90,198**	**144,215**
Current year income tax (expenses)/benefit	(1,860)	(3,500)	(2,682)	(13,373)
Deferred income tax (expenses)/benefit	(3,021)	(2,681)	6,009	(12,404)
Profit for the year	**32,114**	**22,019**	**93,525**	**118,438**
Attributable to:				
Owners of the parent	31,106	20,398	89,103	108,105
Non-controlling interests	1,088	1,621	4,422	10,333
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss				
Gain (loss) on revaluation of property, plant and equipment	4,210	—	259	385
Impact of accounting policy changes adopting new IFRSs.	(62,768)	—	—	—
Items that will not be reclassified subsequently to profit or loss, total	**(58,558)**	**—**	**259**	**385**
Items that will be reclassified subsequently to profit or loss				
Change in fair value of available-for-sale financial assets	—	—	—	(48)
Other income/(expenses) recognised directly in equity during the period	—	—	(187)	—
Translation of net investments in foreign operations into the Group's presentation currency	(6)	—	42	—
Items that will be reclassified subsequently to profit or loss, total	(6)	—	(145)	(48)

Other comprehensive income (loss)	**(58,564)**	—	**114**	**337**
Total comprehensive income (loss) for the period	**26,450**	**22,019**	**93,639**	**118,775**
Attributable to:				
Owners of the parent	(24,453)	20,398	89,217	108,442
Non-controlling interests	(1,997)	1,621	4,422	10,333

The following table sets forth summary consolidated statements of financial position data of the Group as of 31 March 2018 and 31 December 2017:

Consolidated Statements of Financial Position Data

	As of 31 March (unaudited)	As of 31 December
	2018	**2017**
	(EUR in thousands)	
Assets		
Non-current assets		
Intangible assets	47,444	36,360
Property, plant and equipment	1,780,678	1,761,082
Prepayments for non-current assets	24,133	21,911
Investment property	8,856	14,878
Amounts receivable after one year	169,975	170,488
Other financial assets	798	426
Other non-current assets	5,312	3,239
Deferred income tax asset	5,742	7,084
Total non-current assets	**2,042,938**	**2,015,468**
Current assets		
Inventories	32,106	56,866
Prepayments and deferred expense	26,146	38,119
Trade receivables	124,965	112,563
Other amounts receivable	24,285	27,800
Other current assets	1,079	1,093
Prepaid income tax	3,180	2,102
Short-term investments	—	—
Cash and cash equivalents	124,449	171,756
	336,210	**410,299**
Non-current assets held for sale	78,866	79,301
Total current assets	**415,076**	**489,600**
Total assets	**2,458,014**	**2,505,068**
Equity and liabilities		
Equity		
Share capital	1,212,156	1,212,156
Reserves	99,966	99,380
Retained earnings (deficit)	(38,745)	(13,706)
Equity attributable to owners of the parent	1,273,377	1,297,830
Non-controlling interests	42,666	45,796
Total equity	**1,316,043**	**1,343,626**
Liabilities		
Non-current liabilities		
Non-current borrowings and bonds	461,088	480,068
Finance lease liabilities	152	187
Grants and subsidies	199,301	200,311
Deferred income tax liabilities	27,484	36,049
Provisions	1,922	1,893
Deferred income	118,654	54,509

Other non-current amounts payable and liabilities	7,474	7,306
Total non-current liabilities	**816,075**	**780,323**

	As of 31 March (unaudited)	As of 31 December
	2018	**2017**
	(EUR in thousands)	
Current liabilities		
Current portion of non-current borrowings	131,677	119,599
Current borrowings	9,086	14,082
Current portion of finance lease liabilities	142	145
Trade payables	64,137	98,338
Prepayments received	31,919	27,765
Income tax liabilities	4,853	3,695
Provisions	3,030	2,498
Other current amounts payable and liabilities	80,043	114,663
	324,887	**380,785**
Liabilities related to non-current assets held for sale	1,009	334
Total current liabilities	**325,896**	**381,119**
Total liabilities	**1,141,971**	**1,161,442**
Total equity and liabilities	**2,458,014**	**2,505,068**

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

	As of 31 December	
	2017	**2016**
	(EUR in thousands)	
Assets		
Non-current assets		
Intangible assets	36,360	32,261
Property, plant and equipment	1,761,082	1,770,814
Prepayments for non-current assets	21,911	—
Investment property	14,878	46,207
Amounts receivable after one year	170,488	203,582
Other financial assets	426	—
Other non-current assets	3,239	2,620
Deferred income tax assets	7,084	5,699
Total non-current assets	**2,015,468**	**2,061,183**
Current assets		
Inventories	56,866	38,117
Prepayments	38,119	6,967
Trade receivables	112,563	111,884
Other amounts receivable	27,800	29,363
Other current assets	1,093	4,606
Prepaid income tax	2,102	589
Cash and cash equivalents	171,756	178,565
	410,299	**370,091**
Non-current assets held for sale	79,301	878
Total current assets	**489,600**	**370,969**
Total assets	**2,505,068**	**2,432,152**

Equity and Liabilities		
Equity		
Share capital	1,212,156	1,212,156
Reserves	99,380	92,171
Retained earnings (accrued deficit)	(13,706)	(35,952)
Equity attributable to owners of the parent	1,297,830	1,268,375
Non-controlling interests	45,796	51,172
Total equity	**1,343,626**	**1,319,547**

	As of 31 December	
	2017	**2016**
	(EUR in thousands)	
Liabilities		
Non-current liabilities		
Non-current borrowings	480,068	364,957
Finance lease liabilities	187	316
Grants and subsidies	200,311	284,929
Deferred income tax liabilities	36,049	40,481
Provisions	1,893	3,254
Deferred revenue	54,509	52,214
Other non-current amount payable and liabilities	7,306	11,780
Total non-current liabilities	**780,323**	**757,931**
Current liabilities		
Current portion of non-current borrowings	119,599	90,008
Current borrowings	14,082	38,953
Current portion of finance lease liabilities	145	157
Trade payables	98,338	96,118
Advance amounts received	27,765	27,636
Income tax liabilities	3,695	9,355
Provisions	2,498	12,883
Other current amounts payable and liabilities	114,663	79,564
	380,785	**354,674**
Liabilities related to non-current assets held for sale	334	—
Total current liabilities	**381,119**	**354,674**
Total liabilities	**1,161,442**	**1,112,605**
Total equity and liabilities	**2,505,068**	**2,432,152**

The following table sets forth summary consolidated cash flow statements data of the Group for the three months ended 31 March 2018 and 31 March 2017 and for the years ended 31 December 2017 and 31 December 2016:

Statements of Cash flow Data

	For the three months ended 31 March (unaudited)		For the year ended 31 December	
	2018	**2017**	**2017**	**2016**
		(EUR in thousands)		
Cash flows from operating activities				
Net profit for the period	32,114	22,019	93,525	118,438
Adjustments for non-monetary expenses (income):				
Depreciation and amortisation expenses	23,585	23,462	107,579	90,925
Impairment of intangible assets, property, plant and equipment	12	1,086	106,259	566
Grants attributable to impaired property, plant and equipment			(72,872)	—
Revaluation of investment property	—	—	3,929	(214)
Result of revaluation of property, plant and equipment	—	—	(1,379)	(122)

Revaluation of derivative financial instruments	4	1,492	(2,165)	(2,036)
Share of profit of associates and joint ventures	—	—	—	—
(Gain) loss on disposal of investments in subsidiaries and associates	—	—	(352)	—
Impairment of financial assets (reversal of impairment)	201	(1,585)	(1,003)	1,019
Income tax expenses/ (benefits)	4,881	6,181	(3,327)	25,777
(Depreciation) of grants	(2,345)	(3,124)	(20,222)	(12,407)
Increase (decrease) in provisions	462	(5,607)	(11,362)	(10,481)
Inventory write-down expenses / (income)	(323)	—	(98)	275
Emission allowance revaluation expenses (income)	(6,170)	3,417	(2,296)	3,346
Emission allowances utilised	—	—	932	1,742
(Gain) loss on disposal/write-off of non current assets (other than financial assets)	(12,827)	592	2,258	2,285
Realized (gain) loss attributable to derivative financial instruments	(4,786)	—	—	—

	For the three months ended 31 March (unaudited)		For the year ended 31 December	
	2018	**2017**	**2017**	**2016**
	(EUR in thousands)			
Elimination of results of financing and investing activities:				
Interest (income)	(356)	(427)	(1,520)	(2,858)
Interest expenses	2,504	1,355	7,858	5,760
Other finance (income) expenses	78	(126)	597	234
Changes in working capital:				
(Increase) decrease in trade receivables and other amounts receivable	2,460	11,125	3,672	3,803
(Increase) decrease in inventories, prepayments and other current assets	34,837	(14,116)	(55,678)	31,057
Increase (decrease) in amounts payable, deferred income and advance amounts received	(16,210)	(18,886)	(10,112)	(3,188)
Income tax (paid)	(2,577)	(491)	(9,663)	(2,229)
Net cash flows from (used in) operating activities	**55,544**	**26,367**	**134,560**	**251,692**
Cash flows from investing activities				
(Acquisition) of property, plant and equipment and intangible assets	(103,678)	(41,339)	(232,548)	(172,946)
Disposal of property, plant and equipment and intangible assets	11,789	1,490	5,525	4,327
Repayments received	—	—	34,759	29,201
(Acquisition) disposal of investments in subsidiaries and associates	—	—	62	(27,378)
Grants received	1,220	—	7,798	2,157
Bonds redeemed	—	—	—	4,534
Interest received	79	84	1,498	2,858
Realized (gain) loss attributable to derivative financial instruments.	4,786	—	—	—
Increase (decrease) of cash flows from other investing activities	(372)	—	—	—
Change in non-controlling interest resulting from changes in the Group's structure	—	—	—	—
Net cash flows from (used in) investing activities	**(86,176)**	**(39,765)**	**(182,906)**	**(157,247)**
Cash flows from financing activities				
Proceeds from borrowings	—	13,038	97,305	172,189
Issued bonds	—	—	293,759	—
Repayments of borrowings	(7,840)	(24,192)	(284,904)	(96,689)
Finance lease payments	(642)	(37)	(158)	(155)
Interest paid	(2,350)	(1,313)	(4,436)	(5,760)
Dividends paid	—	—	(65,350)	(100,537)

Increase in share capital of Kauno Kogeneraciné Jégainé UAB	—	—	—	1,317
Acquisition of non-controlling interest	—	—	(4,284)	(9,055)
Result of the closing of derivative financial instruments	—	—	(1,050)	—
Net cash flows from (used in) financing activities	**(10,832)**	**(12,504)**	**30,882**	**(38,690)**
Increase (decrease) in cash and cash equivalents (including overdraft)	**(41,464)**	**(25,902)**	**(17,464)**	**55,755**
Cash and cash equivalents (including overdraft) at the beginning of the period	161,101	178,565	178,565	122,810
Cash and cash equivalents (including overdraft) at the end of the period	**119,637**	**152,663**	**161,101**	**178,565**

FINAL TERMS AND DRAWDOWN PROSPECTUSES

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

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

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

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

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

FORMS OF THE NOTES

Bearer Notes

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

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

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

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

Temporary Global Note exchangeable for Permanent Global Note

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

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

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

(ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

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

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

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

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

(a) on the expiry of such period of notice as may be specified in the Final Terms; or

(b) at any time, if so specified in the Final Terms; or

(c) if the Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

    (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

    (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

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

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

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

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

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

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

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

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

Permanent Global Note exchangeable for Definitive Notes

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

(a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(b) at any time, if so specified in the relevant Final Terms; or

(c) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

    (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

    (ii) any of the circumstances described in Condition 13 (Events of Default) occurs.

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

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

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

Rights under Deed of Covenant

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

Terms and Conditions applicable to the Notes

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

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

Legend Concerning United States Persons

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

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

Registered Notes

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

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

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

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

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

Global Registered Note Exchangeable for Individual Note Certificates

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

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Global Registered Note", then:

  (a) if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and

  (b) in any case, if any of the circumstances described in Condition 13 (*Events of Default*) occurs.

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

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

Terms and Conditions applicable to the Notes

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

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

OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

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

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

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

Transfers of Interests in Global Notes and Global Registered Notes

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

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

Conditions Applicable to Global Notes

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

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

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

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

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

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

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

TERMS AND CONDITIONS OF THE NOTES

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

1. Introduction

(a) *Programme:* „Lietuvos energija", UAB (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to EUR 1,500,000,000 (or the equivalent in other currencies at the date of issue) in aggregate principal amount of notes (the "**Notes**").

(b) *Final Terms:* Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of final terms (the "**Final Terms**") which complete these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

(c) *Agency Agreement:* The Notes are the subject of an issue and paying agency agreement dated 21 June 2018 (the "**Agency Agreement**") between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

(d) *Deed of Covenant:* The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 21 June 2018 (the "**Deed of Covenant**") entered into by the Issuer.

(e) *The Notes:* All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing, and copies may be obtained from, the registered office of the Issuer, Žvejų g. 14, LT-09310 Vilnius, the Republic of Lithuania and the Issuer's website www.le.lt. Copies of the relevant Final Terms will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

(f) *Summaries:* Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

2. Interpretation

(a) *Definitions:* In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Benchmark Security**" has the meaning given it in Condition 9(c) (*Redemption at the option of the Issuer*);

"**Business Day**" means:

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

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

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

"**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

"**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

"**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

"**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:

(i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

"**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

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

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

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

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

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

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

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

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

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

(a) if "**Actual/Actual (ICMA)**" is so specified, means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(ii) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and

(2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(iii) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iv) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(v) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(vi) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30";

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

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and if "30E/360 (ISDA)" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30,

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

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

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

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

(a) depreciation and amortisation;

(b) finance income and finance costs;

(c) revaluation of property, plant and equipment, and investment property;

(d) impairment of property, plant and equipment;

(e) current year income tax expense and deferred income tax (expense)/benefit

(f) any revaluation of non-current assets; and

(g) exceptional items, as defined by IFRS or separately identified as such within the most recent publicly available annual or interim financial statements of the Issuer or the relevant Material Subsidiary (as the case may be), prepared in accordance with IFRS;

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

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

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

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

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms; "**Group**" means the Issuer and its Subsidiaries taken as a whole;

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

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

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

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

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

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

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

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

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

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

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

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

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

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

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

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

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

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

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

"**Margin**" has the meaning given in the relevant Final Terms;

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

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

(b) to which is transferred all or substantially all of the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary;

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

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

"**Meeting**" means a meeting of Noteholders (whether originally convened or resumed following an adjournment); "**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

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

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

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

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

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

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

"**Payment Business Day**" means:

(a) if the currency of payment is euro, any day which is:

  (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

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

(b) if the currency of payment is not euro, any day which is:

  (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

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

"**Permitted Restructuring**" means:

(a) any disposal by any Material Subsidiary of all or any part of its business, undertaking or assets, on an arm's length basis, to the Issuer or any other Subsidiary;

(b) any solvent amalgamation, consolidation or merger of a Material Subsidiary with the Issuer or any other Subsidiary; or

(c) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by an Extraordinary Resolution;

"**Permitted Security Interest**" means:

(a) a Security Interest which is created to secure or provide for the payment of Relevant Indebtedness in connection with any Project Financing provided that the assets or revenues subject to such Security Interest are (i) assets which are used or to be used in or in connection with the project to which such Project Financing relates or (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or damage to, such assets; or

(b) any Security Interest created over any asset of any company which becomes a Subsidiary after the Issue Date of the first Tranche of the Notes, where such Security Interest is created prior to the date on which the company becomes a Subsidiary, provided that:

(i) such Security Interest was not created in contemplation of the acquisition of such company; and

(ii) the principal amount secured was not increased in contemplation of or since the acquisition (or proposed acquisition) of that company;

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

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency

provided, however, that:

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

(b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

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

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

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

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

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

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

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

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

"**Reference Price**" has the meaning given in the relevant Final Terms;

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

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

"**Regular Period**" means:

(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

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

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

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

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

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

"**Relevant Time**" has the meaning given in the relevant Final Terms;

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

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

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination(s)**" has the meaning given in the relevant Final Terms;

"**Specified Office**" means the office specified against an Agent's name in Schedule 3 (*The Specified Offices of the Agents*) to the Agency Agreement or, in the case of an Agent not originally party to the Agency Agreement or a Calculation Agent which is not the Fiscal Agent, specified in its terms of appointment or such other office as may be specified by an Agent or Calculation Agent from time to time in accordance with Clause 14.8 (*Change in Specified Offices*) of the Agency Agreement or its terms of appointment;

"**Specified Period**" has the meaning given in the relevant Final Terms;

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

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

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

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; "**Treaty**" means the Treaty of the Functioning of the European Union, as amended; and

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

(b) *Interpretation:* In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form, Denomination, Title and Transfer

(a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes:* Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

(d) *Title to Registered Notes:* The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership:* The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

(j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. Status

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

5. Negative Pledge

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

6. Fixed Rate Note Provisions

(a) *Application:* This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments—Bearer Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

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

7. Floating Rate Note Provisions

(a) *Application:* This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments—Bearer Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period; ***provided, however, that*** if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

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

(d) *ISDA Determination:* If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant

Final Terms;

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms; and

(iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(e) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

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

(g) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(h) *Notifications etc.:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Zero Coupon Note Provisions

(a) *Application:* This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Redemption and Purchase

(a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments—Bearer Notes*) or Condition 11 (*Payments—Registered Notes*), as applicable.

(b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (unless the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Final Terms, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the Republic of Lithuania or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

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

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

(1) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Final Terms) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

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

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

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

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

(i) the principal amount of the Notes; and

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

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

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

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

(a) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

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

(c) Change of Control Put Option

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

Where:

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

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

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

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

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

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

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

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

(a) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (f) above.

(b) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

    (i) the Reference Price; and

    (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

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

(a) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.

(b) *Cancellation:* All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them may at the option of the Issuer be cancelled and all Notes so cancelled may not be reissued or resold.

10. Payments—Bearer Notes

This Condition 10 is only applicable to Bearer Notes.

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

(b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons:* If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

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

(a) *Unmatured Coupons void:* If the relevant Final Terms specifies that this Condition 10(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(e) (*Redemption at the option of Noteholders*), Condition 9(f) (*Change of Control Put Option*), Condition 9(c) (Redemption at the option of the Issuer) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(b) *Payments on business days:* If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(c) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(d) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(e) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to

Condition 14 (Prescription). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. Payments—Registered Notes

This Condition 11 is only applicable to Registered Notes.

(a) *Principal:* Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest:* Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11 arriving after the due date for payment or being lost in the mail.

(e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

12. Taxation

(a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Lithuania or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

   (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon;

(ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or

(iii) required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

(b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Lithuania, references in these Conditions to the Republic of Lithuania shall be construed as references to the Republic of Lithuania and/or such other jurisdiction.

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

13. Events of Default

If any of the following events occurs and is continuing:

(a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and the default continues for a period of five days in the case of principal and for a period of 14 days in the case of interest; or

(b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default is not capable of remedy or remains unremedied for at least 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) Cross-default of Issuer or Material Subsidiary:

(i) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds EUR 50,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment:* one or more judgment(s) or order(s) for the payment of any amount in excess of EUR 50,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced:* a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries; or

(f) *Insolvency etc.:* (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer or any of its Material Subsidiaries or the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries, unless the petition to commence such proceedings or procedure is discharged, stayed or dismissed within 60 days of such commencement, (iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (save for the purposes of a Permitted Restructuring); or

(g) *Winding up etc.:* an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (save for the purposes of a Permitted Restructuring); or

(h) *Analogous event:* any event occurs which under the laws of the Republic of Lithuania has an analogous effect to any of the events referred to in paragraphs (d) to (g) above; or

(i) *Failure to take action etc.:* any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Coupons admissible in evidence in the courts of the Republic of Lithuania is not taken, fulfilled or done; or

(j) *Unlawfulness:* it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes, then any Note may, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

14. Prescription

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

15. Replacement of Notes and Coupons

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

16. Agents

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

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

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

(b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and

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

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

17. Meetings of Noteholders; Modification and Waiver

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

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

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

18. Further Issues

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

19. Notices

(a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Bearer Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

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

20. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of

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

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

21. Rounding

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

22. Governing Law and Jurisdiction

(a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England:* Notwithstanding Condition 22(b) (*English courts*), any Noteholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Service of process:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) *Waiver of immunity:* To the extent that the Issuer has any immunity from the jurisdiction of any court or from any process, the Issuer hereby irrevocably agrees not to claim, and hereby waives, any such immunity.

FORM OF FINAL TERMS

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

PROHIBITION OF SALES TO EEA RETAIL INVESTORS—The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**") or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. [**MiFID II product governance / Professional investors and eligible counterparties only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Final Terms dated [●]

„Lietuvos energija", UAB

(incorporated with limited liability in the Republic of Lithuania)

Issue of [Aggregate Nominal Amount of Tranche][Title of Notes] under the EUR 1,500,000,000 Euro Medium Term Note Programme

PART A—CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated 21 June 2018 [and the supplement[s] dated [•] [and [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus.

The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date and the relevant terms and conditions from that base prospectus with an earlier date were incorporated by reference in this Base Prospectus:

Terms used herein shall be deemed to be defined as such for the purposes of the [2017/*date*] Conditions (the "**Conditions**") incorporated by reference in the Base Prospectus dated 27 June 2017. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Base Prospectus dated 21 June 2018 [and the supplement to the Base Prospectus[es] dated [•] [and [•]]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive, save in respect of the Conditions which are set forth in the base prospectus dated 27 June 2017 and are incorporated by reference in the Base Prospectus. This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive.

End of options

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

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

1. (i) Series Number:	[•]
[(ii) Tranche Number:	[•]
[(iii) Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [[•]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [21] below [which is expected to occur on or about [•]].]
2. Specified Currency or Currencies:	[•]
3. Aggregate Nominal Amount:	[•]
[(i)] Series:	[•]]
[(ii) Tranche:	[•]]
4. Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]]
5. (i) Specified Denominations:	[•] [and integral multiples of [•] in excess thereof up to and including [•]. No notes in definitive form will be issued with a denomination above [•]] (*If Notes are to be issued which have denominations consisting of a minimum Specified Denomination and higher integral multiples of another smaller amount, the following sample wording should be used (as adjusted for the relevant Specified Currency and the actual Specified Denominations*): EUR100,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000. No Notes in definitive form will be issued with a denomination in excess of EUR199,000.)
(ii) Calculation Amount:	[•]
6. (i) Issue Date:	[•]
(ii) Interest Commencement Date:	[[•]/Issue Date/Not Applicable]
7. Maturity Date:	[•]
8. Interest Basis:	[[●] per cent. Fixed Rate] [•] [•] [EURIBOR]/[LIBOR] +/– [•] per cent. Floating Rate] [Zero Coupon] (further particulars specified below in paragraph(s) [13/14/15])
9. Redemption/Payment Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100]/[•] per cent. of their nominal amount.
10. Change of Interest or Redemption/Payment Basis:	[Applicable/Not Applicable]
11. Put/Call Options:	[Not Applicable] [Investor Put] [Change of Control Put] [Issuer Call] (See paragraph(s) [16/17/18] below)
12. (i) Status of the Notes:	Senior
[(ii)] [Date [Board] approval for issuance of Notes obtained]:	[•]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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

(ii) Reference Price:	[•]
(iii) Day Count Fraction in relation to early Redemption Amounts:	[Actual/Actual (ICMA)/Actual/Actual (ISDA)/Actual/365 (Fixed)/Actual/360/30/360/30E/360]

PROVISIONS RELATING TO REDEMPTION

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

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes:

[Bearer Notes:]

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice]

[Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes includes language substantially to the following effect: "EUR100,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000". Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Notes which is to be represented on issue by Permanent Bearer Global Notes exchangeable for Definitive Notes.)

[Registered Notes:]

Global Registered Note registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]

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

THIRD PARTY INFORMATION

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

Signed on behalf of **„LIETUVOS ENERGIJA", UAB**:

By: ....

Duly authorised

PART B—OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

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

2. **RATINGS**

The Notes to be issued [[have been/are expected to be] rated]/[are unrated]:

[Standard & Poor's:	[•]]
[Moody's:	[•]]
[Fitch:	[•]]

[•]

[[•] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").]

[[•] is established in the EEA and has applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"), although notification of the corresponding registration decision has not yet been provided by the [relevant competent authority]/[European Securities and Markets Authority].]

[[•] is established in the EEA and is neither registered nor has it applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").]

[[•] is not established in the EEA but the rating it has given to the Notes is endorsed by [•], which is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").]

[[•] is not established in the EEA but is certified under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").]

[[•] is not established in the EEA and is not certified under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**") and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.]

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

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

4. **REASONS FOR THE OFFER** [See "*Use of Proceeds*" wording in Base Prospectus.] [The

		Notes are intended to be issued as Green Bonds, [*further particulars to be provided*].]
5.	***Fixed Rate Notes only*—YIELD**	[Applicable/Not Applicable]
	Indication of yield:	[•]
		[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
6.	***Floating Rate Notes only*—HISTORIC INTEREST RATES**	[Applicable/Not Applicable]

Details of historic [LIBOR/EURIBOR] rates can be obtained from Reuters.

7.	**OPERATIONAL INFORMATION**	
	ISIN:	[•]
	Common Code:	[•]
	[FISN:	[●]]
	[CFI Code:	[●]]
	Delivery	Delivery [against/free of] payment
	Names and addresses of additional Paying Agent(s) (if any):	[•]
	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
8.	**DISTRIBUTION**	
	(i) Method of distribution:	[Syndicated/Non-syndicated]
	(ii) If syndicated:	[Not Applicable/*give names*]
	(a) Names of Dealers:	[•]
	(b) Date of subscription agreement:	[•]
	(c) Stabilising Manager(s) (if any):	[Not Applicable/[•]]
	(iii) If non-syndicated, name Dealer:	[Not Applicable/give name]
	(iv) US Selling Restrictions:	[Reg. S Compliance Category 1]; [TEFRA C/TEFRA D/TEFRA not applicable]

USE OF PROCEEDS

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

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

DESCRIPTION OF THE GROUP

Overview

Lietuvos energija, UAB (the "**Issuer**") together with its 22 directly and indirectly controlled subsidiaries (the "**Group**") is one of the largest state-owned energy companies in the Baltic countries. The Group's core business activities are the distribution of electricity and gas, the generation of electricity and heat, and the trading and supply of electricity and gas. The Group is the primary distributor of electricity in Lithuania. For the year ended 31 December 2017, the Group generated sales revenues of EUR 1,064 million (compared to EUR 1,071 million in 2016), adjusted EBITDA of EUR 239 million (compared to EUR 235 million in 2016) and a net profit of EUR 94 million (compared to EUR 118 million in 2016). As at 31 December 2017, the Group had total assets of EUR 2,505 million and total equity (net assets) of EUR 1,344 million (compared to EUR 2,432 million and EUR 1,320 million in 2016). As at 31 December 2017, the Group had 4,513 employees (compared to 4,859 in 2016).

The Group's four principal business segments are (i) distribution, which involves the distribution and public supply of electricity and distribution of gas; (ii) electricity generation; (iii) trade and supply in electricity; and (iv) trade and supply in gas, which together represented 97.4 per cent. of the Group's revenue in the year ended 31 December 2017 (compared to 97.7 per cent. as of 31 December 2016). Revenue from the supply and distribution of electricity, gas distribution represented 51.5 per cent. of the Group's revenue in the year ended 31 December 2017 (compared to 54.4 per cent. as of 31 December 2016). Revenue from electricity generation represented 10.2 per cent. of the Group's revenue in the year ended 31 December 2017 (compared to 11.4 per cent. as of 31 December 2016). Revenue from the trading and supply of electricity and gas represented 35.8 per cent. of the Group's revenue in the year ended 31 December 2017 (32.0 per cent. as of 31 December 2016). The Group's remaining revenue is principally generated from Group companies which provide support services to its principal businesses, including maintenance, repair and construction of the Group's energy facilities and the electricity distribution network in Lithuania, the provision of information technology, real estate management and transport services.

Since 2013, the Group has reorganised its corporate structure, operations and governance model in order to enhance the value of the Group, improve its operational efficiency and improve the quality of service to its customers. As part of this process, the Group's electricity and gas distribution activities were merged and transferred to a new company, AB „Energijos Skirstymo Operatorius" ("**ESO**"), the Group's electricity generation activity was concentrated in LEG and its electricity trading and supply activities were concentrated in Energijos Tiekimas UAB ("**Energijos Tiekimas**"). The Group's gas trading and supply activities remain separated in LITGAS and UAB "Lietuvos Dujų Tiekimas" ("**LDT**"). The Group also transferred its electricity and gas customer service activities to a joint service centre known as Gile, which is managed by its subsidiary UAB Verslo Aptarnavimo Centras ("**VAC**"). Taking into account the results of the activities of UAB Energetikos Paslaugu ir Rangos Organizacija ("**EnePRO**"), profitability and evaluated business continuity alternatives, it was decided to commence the termination of the business activities. In 2017, the Group divested its non-core activities, conducted through VšĮ Energetikų Mokymo Centras ("**EMC**"). The Group is also planning to divest its non-core activities, conducted by NT Valdos, UAB ("**NTV**") and UAB Duomenų logistikos centras ("**DLC**"), and UAB Transporto Valdymas ("**TV**"), if market conditions are favourable. NTV conducts real estate maintenance and real estate services for the Group. Its transport activities were transferred to TV in order to attract potential buyers of the business. DLC and transport activities transferable to TV are presented as held for sale in the financial statements. Furthermore, the Group has begun liquidation procedures for UAB „VAE SPB" ("**VAE**"), engaged in non-core activities and required contributions from the Issuer to maintain its loss making activities. The Group has also begun procedures to close support foundation, "Lietuvos energijos paramos fondas", due to the changes in the Law on Charity and Support of the Republic of Lithuania.

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

The table below sets forth certain information relating to the Group's distribution, generation and trading and supply businesses for the year ended 31 December 2017 and 2016.

For the year ended 31 December 2017

Installed electricity generation capacity	**Electricity distributed to consumers**	**Gas distributed to consumers**	**Electricity generated**	**Electricity sold to consumers**	**Gas sold to consumers**
(MW)	*(TWh)*	*(TWh)*	*(TWh)*	*(TWh)*	*(TWh)*
2,098.1	9.22	7.37	1.28	5.34	11.47

For the year ended 31 December 2016

Installed electricity generation capacity	**Electricity distributed to consumers**	**Gas distributed to consumers**	**Electricity generated**	**Electricity sold to consumers**	**Gas sold to consumers**
(MW)	*(TWh)*	*(TWh)*	*(TWh)*	*(TWh)*	*(TWh)*
2,098.1	8.98	7.39	1.49	4.79	11.80

The Issuer was incorporated as a joint stock company under the laws of Lithuania on 28 August 2008 and registered with Register of Legal Entities, State Enterprise, the Centre of Registers with company no. 301844044. Its registered head office is located at Žvejų g. 14, LT- 09310, Vilnius, Republic of Lithuania, and the telephone number of its registered head office is + 370 5 278 2998. As of 31 December 2017, the Issuer had a registered share capital of EUR 1,212.156 million and was solely owned by Lithuania represented by the Ministry of Finance of the Republic of Lithuania.

History and Development of the Group

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

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

Elektrinė shares were acquired by the Government by contributing the shares of AB Lietuvos Elektrinė and certain non-current assets.

On 27 December 2010, AB VST and AB Rytų Skirstomieji Tinklai were merged and registered as a new company, AB LESTO.

2011 The merger of two companies—AB „Lietuvos energija" and AB Lietuvos Elektrinė in 2011 marked the end of the process of formation of the Group's power generation unit. The new company Lietuvos energija, AB officially started operations on 1 August 2011.

On 21 October 2011, the Ministry of Energy of the Republic of Lithuania became a sole shareholder of UAB Visagino Atominė Elektrinė after the liquidation of LEO LT, AB.

2012 On 26 September 2012 the shares of UAB Visagino Atominė Elektrinė were transferred under the right of trust to the possession of the Ministry of Economy of the Republic of Lithuania.

On 26 September 2012, the implementation of the provisions of the Third Energy Package of the European Parliament in the Lithuanian electricity sector was finalised. Shares of Litgrid AB, the TSO controlled by the UAB Visagino Atominė Elektrinė were transferred to a newly established state-owned private limited liability company EPSO-G, controlled by the Ministry of Energy of the Republic of Lithuania.

2013 On 26 February 2013, the shares of UAB Visagino Atominė Elektrinė were transferred to the Ministry of Finance of the Republic of Lithuania.

On 5 August 2013, Lietuvos energija, AB was renamed to Lietuvos Energijos Gamyba, AB.

On 30 August 2013, the Group parent company UAB Visagino Atominė Elektrinė changed its name to Lietuvos energija, UAB.

On 8 October 2013, Lietuvos energija, UAB paid up the newly issued shares of LITGAS and became an owner of 67 per cent. of LITGAS share capital.

2014 During February-June 2014, Lietuvos energija, UAB acquired 96.63 per cent. of shares in Lietuvos Dujos AB (17.7 per cent. were transferred by the State, 38.9 per cent. were acquired from E.ON Ruhrgas International and 40.03 per cent. were acquired through a tender offer (of which 37.1 per cent. was acquired from OAO Gazprom)).

In November 2014, Lietuvos energija, UAB implemented the requirement of the Third Energy Package of the E.U. regarding the unbundling of natural gas supply, trade and distribution activities by transferring the natural gas supply activity from Lietuvos Dujos AB to the newly established subsidiary, LDT.

2015 On 10 April 2015, Lietuvos energija, UAB established two special purpose companies Vilniaus Kogeneracinė Jėgainė UAB and Kauno Kogeneracinė Jėgainė UAB for the implementation of co- generation power plant projects in Vilnius and Kaunas.

On 17 August 2015, Lietuvos energija, UAB acquired 100 per cent. of the shares of Gotlitas, UAB from Kauno energetikos remontas UAB and became the sole shareholder of the company. On 26 October 2015 the name of Gotlitas, UAB was changed to UAB Elektroninių mokėjimų agentūra. On 22 December 2015, UAB Elektroninių mokėjimų agentūra received a licence to operate as a payment institution and on 12 September 2017, UAB Elektroninių mokėjimų agentūra received a licence to operate as an electronic money institution.

2016 On 1 January 2016, LESTO AB and Lietuvos Dujos AB were reorganised by way of merger, as a result of which a new entity Energijos Skirstymo Operatorius AB was established.

On 1 January 2016, Elektros Tinklo Paslaugos UAB and Kauno Energetikos Remontas UAB were reorganised by way of merger, as a result of which a new entity was established under the name of Energetikos Paslaugų ir Rangos Organizacija UAB.

On 21 January 2016, Lietuvos energija, UAB acquired two wind farms with the total installed capacity of

42.3 MW: 24MW in Lithuania (UAB „Eurakras") and 18.3MW in Estonia („Tuuleenergia" OU).

On 18 February 2016, Lietuvos energija, UAB established Energijos Sprendimų Centras UAB, with the objective of developing energy efficiency improvement and renewable energy projects.

On 3 October 2016, Lietuvos energija, UAB acquired 33.3 per cent. of the shares of LITGAS from AB Klaipėdos Nafta and became the sole shareholder of the company.

2017 On 5 June 2017, a subsidiary of Lietuvos energija, UAB, Energijos Tiekimas UAB established

Geton Energy Sp. z o.o., which is licensed to engage in wholesale electricity trade in Poland.

On 14 August 2017, Lietuvos energija, UAB sold 100 per cent. of shares of VšĮ Energetikų mokymo centras, to VŠĮ „Kauno virpstas“, as a part of its disposal programme on non-core operations EMC provides training and certification services for its workers, engineers, managers and executives from electricity and heat, occupational safety and health, welding and hosting equipment and other equipment sectors.

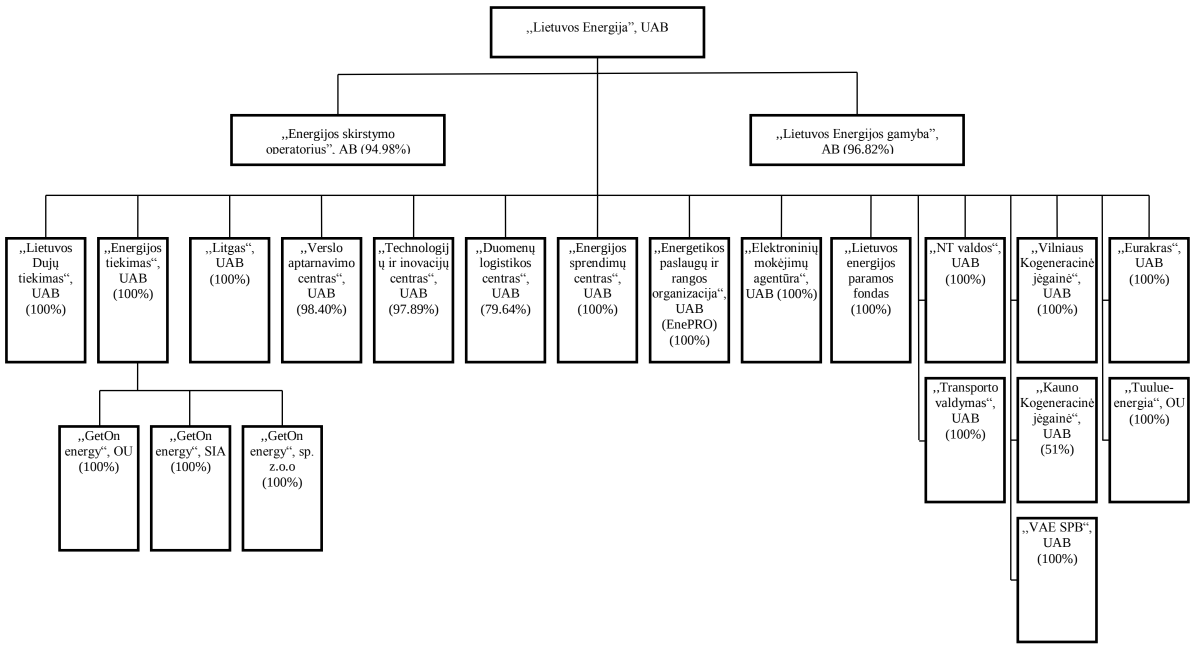
On 12 October 2017, Lietuvos energija, UAB signed a sale and purchase agreement in relation to the acquisition of the Vilnius third combined Heat and Power Plant assets.

2018 On 26 March 2018, the Ordinary General Meeting of Shareholders of LEG made a decision to increase the authorised share capital of LEG by issuing new shares to and paid by Lietuvos energija, UAB, as the subscriber of shares, by making a contribution in kind, i.e. transfer of assets of Vilnius Third Combined Heat and Power Plant to LEG. On 30 March 2018, Lietuvos Energija, UAB and LEG signed a share purchase agreement, pursuant to which the ownership of Vilnius Third Combined Heat and Power Plant was transferred to LEG on 31 March 2018.

Organisational Structure

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

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



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

Main activities				
Production	Supply and trade	Distribution	Customer care	Services
„Lietuvos Energijos gamyba”, UAB „Eurakras”, UAB „Tuuleenergia”, UAB „Vilniaus	„Lietuvos Dujų tiekimas“, UAB „Litgas“, UAB „Energijos tiekimas“, UAB „Energijos skirstymo	„Energijos skirstymo operatorius”, AB	„Verslo aptarnavimo centras”, UAB	„Energijos sprendimų centras”, UAB „Elektroninių mokėjimų agentūra”, UAB

kogeneracinė jėgainė”, UAB „Kauno kogeneracinė jėgainė”, UAB	operatorius“, AB „Geton Energy“, OU „Geton Energy“, SIA „Geton Energy“ sp.z o.o

Servicing Activities

Corporate governance	Shared services	Non-core activities
„Lietuvos energija”, UAB	„Technologijų ir inovacijų centras”, UAB „Verslo aptarnavimo centras”, UAB	„Energetikos paslaugų ir rangos organizacija”, UAB „NT valdos”, UAB „Transporto valdymas”, UAB Lietuvos energijos paramos fondas

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

Shareholder

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

The relationship between the Shareholder and the Issuer is conducted primarily through members of the Issuer’s Supervisory Council. The Republic of Lithuania is represented by two Supervisory Council members of the Issuer assigned by the Ministry of Finance of the Republic of Lithuania. On the Supervisory Council of the Issuer, there are three independent members of the Supervisory Council. Chairman of the Supervisory Council is independent and, in the case of equality of votes, has the deciding vote. Accordingly, the Republic cannot make unilateral decisions on the Supervisory Council. All members of the Supervisory Council are elected by the General Meeting of the shareholders for a term of four years,, please see “*Management—Supervisory Council*”.

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

The Issuer is subject to a statutory requirement to pay dividends based on a percentage of the Group’s return on equity. The higher the Group’s return on equity, the lower the proportion of retained earnings that the Group is required to pay to the Shareholder. ESO and LEG, in turn, are required to pay dividends to the Issuer based on their return on equity. The higher ESO or LEG’s return on equity, the lower the proportion of net profit that ESO and LEG are required to pay to the Shareholder. In 2017, the Issuer paid dividends to the Shareholder of EUR 59.8 million, a decrease of 38.5 per cent. from 2016 (EUR 97.2 million), and an increase of 3.5 per cent. from 2015 (EUR 57.8 million). The decrease in 2017 was due to the fact that dividends for the first half of 2017 were not required by the shareholder. The Issuer is the largest contributor to the state budget among state-controlled companies in Lithuania.

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

The Ministry of Energy previously determined that payments to LITGAS by electricity and heat producers performing regulated activities prior to 2016 has been approved by the European Commission as compliant state-aid in 2013. At the same time, the Ministry of Energy considered that PSO service fees paid to LEG would not be considered state-aid by the European Commission. In 2016, the Ministry of Energy informed the European Commission about legislative changes regarding LNG Supplements and PSO service fees and started the pre-notification procedure with the European Commission, please see "*Risk Factors—State-aid notification risk*".

Principal Subsidiaries

ESO, 94.98 per cent. owned by the Issuer with the remainder of its shares listed on the main market of Nasdaq Vilnius Stock Exchange, was established on 1 January 2016 as part of the implementation of the Group's corporate reorganisation as a result of which the electricity distribution activities of LESTO AB and the gas distribution activities of Lietuvos Dujos AB were merged and transferred to ESO. ESO is the largest company on the Nasdaq Baltic Market by market capitalisation. The main activities of ESO are distribution and public supply of electricity, natural gas distribution and the maintenance and development of electricity and gas distribution networks. ESO is the primary distributor of electricity in Lithuania and serves approximately 1.6 million customers in Lithuania, which represents approximately 100 per cent. of consumers in Lithuania. ESO's electricity distribution network comprises approximately 122,000 kilometres of lines, of which approximately 79 per cent. is comprised of overhead lines and approximately 21 per cent. is comprised of underground electricity cables. ESO's gas distribution network comprises approximately 8,400 kilometres of pipelines. In 2017, ESO distributed 9.22 TWh of electricity, supplied 3.22 TWh of electricity and distributed 7.37 TWh of gas. In the year ended 31 December 2017, ESO contributed 59.2 per cent. of the Group's adjusted EBITDA. For more information on the Group's distribution business, please see "*—The Group's Business—Distribution and Public Supply of Electricity and Distribution of Gas*" below.

LEG, 96.82 per cent. owned by the Issuer as at 11 April 2018 with the remainder of shares listed on the main market of the Nasdaq Vilnius Stock Exchange, was established on 21 July 2011. LEG owns and operates three generation facilities: the Elektrėnai Complex which, following the decommissioning of four units in 2014 and 2015, and excluding two units which are inactive and are currently in the process of being decommissioned, now consists of two gas and oil-fired reserve power units (the "**Reserve Power Plants**") and a combined cycle gas unit ("**CCGT**"); Kruonis Pumped Storage Hydroelectric Power Plant ("**Kruonis PSHP**") which consists of four units, two of which operate as a secondary reserve; and Kaunas Algirdas Brazauskas Hydroelectric Power Plant ("**Kaunas HPP**"). In 2017, LEG produced 1.15 TWh of electricity. LEG also provides balancing services to the Lithuanian TSO LITGRID AB (the "**TSO**"), regulation power (as defined in the Glossary) and power reserve services. LEG's activities are focused on two operating segments, regulated activities and commercial activities. Its regulated activities include power reserve services and strategic power reserve services, including the Reserve Power Plant's revenue from heat and electricity generation and balancing and regulation. Its commercial activities include electricity trading in the open market, electricity generation at Kaunas HPP and Kruonis PSHP, the related balancing and regulation services and certain other activities.

LEG is the sole provider of "secondary" power reserve services and also provides "tertiary" power reserve services. Tertiary and secondary reserves are intended to ensure the reliable operation of the national electricity system in emergencies when there is an unexpected reduction in electricity generation or unexpected increase in electricity consumption. The secondary power reserve consists of power from installations or hydroelectric units which can be activated within 15 minutes. The tertiary power reserve is derived from power-generating facilities which can be activated within 12 hours. LEG provides secondary power reserve services at Kruonis PSHP and it provides the tertiary power reserve with the CCGT unit at the Elektrėnai Complex. The CCGT unit is only therefore activated when there is a shortfall in the amount of electricity in the system and LEG is instructed by the TSO to generate additional power, which is sold to the TSO. At the end of 2016, the Ministry of Energy and the TSO decided that providers of tertiary power reserve services would be determined by an auction process, beginning in 2017. On 21 December 2017, the TSO announced auction results that tertiary power reserve services in 2018 would be provided by LEG, which through its CCGT unit in the Elektrėnai Complex will provide 260 MW of total reserve, and three other suppliers that will provide the rest of the reserve amounting to 223 MW. In addition, LEG provides strategic power reserve services via the Reserve Power Plant's unit 8 at the Elektrėnai Complex. The strategic power reserve provider was determined by the Government based on proposals from the Lithuanian Ministry of Energy in 2018 and prior years. In early 2018, the Ministry of Energy decided that providers of the strategic power reserve services in Lithuania will be determined by an auction process starting 2018, unless the TSO and the Ministry of Energy determine that there is only a single provider that meets the requirements for provision of such services. The aim of these services is to provide additional security in ensuring the reliable operation of the national electricity system. LEG receives public service obligation ("**PSO**") service fees for providing strategic power reserve services. PSO service fees are the fees payable to the producers of electricity under a PSO scheme based on pre-determined annual quantities and prices of services set by the NCC. In the year ended 31 December 2017, PSO fees contributed 33 per cent. of LEG's adjusted EBITDA. In the year ended 31 December 2017, LEG contributed 22.5 per cent. of the Group's adjusted EBITDA.

In 2017, the Elektrėnai Complex produced 0.14 TWh of electricity compared to 0.49 TWh in 2016. This reduction in the level of production was principally caused by the decline in wholesale electricity prices on the power exchange (in 2017, the average electricity price on the Nord Pool power exchange for the Lithuania price area was 35.15 EUR/MWh compared to 36.51 EUR/MWh in 2016). The Elektrėnai Complex does not produce electricity if it can be obtained at a cheaper price, including, if it is possible to import it at a lower price. During 2017, the CCGT was connected to the grid 19 times compared to 58 times in 2016. In 2017 the CCGT provided PSO services, i.e. ensured the strategic reserve was actively operating during the peak consumption of electricity. The Unit was connected to the grid when the electricity price reached the highest point, thereby enabling competitive production of electricity at the Unit. For more information on the Group's generation business, please see "*—The Group's Business—Electricity*".

Energijos Tiekimas, a wholly owned subsidiary of the Issuer was established on 21 October 2009. The main activities of Energijos Tiekimas are the supply and trading of electricity. Its core business is the independent supply of electricity, including supply of electricity to consumers, scheduling, forecasting, balancing, purchasing, sales, balancing energy, trade intermediation and import and export of electricity. Its trading activities consist of: (i) planning and optimisation of LEG's generation capacity and sales of electricity generated by LEG; (ii) purchasing electricity for its consumer supply business; and (iii) hedging and proprietary wholesale trading. The Group's gas trading business, operated through LDT and LITGAS, purchases and sells gas and energy commodities on wholesale markets. Energijos Tiekimas is a member of the Nasdaq Commodities exchange and is the only Lithuanian electricity supplier that actively participates on this exchange. Energijos Tiekimas is also a member of Nord Pool Exchange. Energijos Tiekimas owns Geton Energy OU, a company established in Estonia, Geton Energy SIA, a company established in Latvia and Geton Energy Sp. z.o.o., a company established in Poland, that are engaged in power supply and/or trading in Estonia, Latvia and Poland, respectively. According to the Group's internal data, Energijos Tiekimas has the highest number of commercial customers, approximately 6,700, among independent electricity suppliers in Lithuania, which represents approximately 42 per cent. of electricity consumers in Lithuania. In 2017, Energijos Tiekimas supplied 1.7 TWh of electricity. In 2017, Energijos Tiekimas entered into financial derivatives transactions on the Nasdaq Commodities exchange worth more than 8.7 TWh. In the year ended 31 December 2017, Energijos Tiekimas contributed 2.7 per cent. of the Group's adjusted EBITDA. For more information on the Group's electricity trading and supply business, please see "*—The Group's Business—Trading and Supply of Electricity and Gas*".

LDT, a wholly owned subsidiary of the Issuer, was established on 2 September 2014. The main activities of LDT are the supply, purchase (import) and sale of natural gas to industrial and business companies and household customers. LDT serves approximately 580,000 customers in Lithuania, which represents approximately 99 per cent. of gas consumers in Lithuania. In 2016, the company supplied 8.27 TWh of natural gas. In the year ended 31 December 2017, LDT contributed 5.6 per cent. of the Group's adjusted EBITDA. For more information on the Group's gas supply business, please see "*—The Group's Business—Trading and Supply of Electricity and Gas— Supply of Gas*".

LITGAS, wholly owned by the Issuer, was established on 17 December 2012. The main activities of LITGAS are LNG trading and the supply of natural gas through the liquefied natural gas ("**LNG**") terminal in Klaipeda (although it does not own or operate the terminal). Since 2015, LITGAS has been the designated supplier of gas in Lithuania and is responsible for ensuring that a minimum quantity of gas is delivered through the Klaipėda LNG Terminal. In 2017, LITGAS supplied 3.21 TWh of natural gas.

In the year ended 31 December 2017, LITGAS contributed 0.5 per cent. of the Group's adjusted EBITDA. For more information on the Group's gas trading and supply please see "*—Trading and Supply of Electricity and Gas—Trading of Gas*" and "*—Trading and Supply of Electricity and Gas—Supply ofGas*".

Competitive Strengths

The Group benefits from the following key strengths:

Strong and Stable Financial Position

The Group benefits from a strong and stable financial position as a result of its low level of indebtedness relative to its equity and the levels of profitability from its operating activities. As at 31 December 2017, the Group's net debt to equity ratio was 32.9 per cent. (compared to 23.9 per cent. as at 31 December 2016). The Group's net debt to adjusted EBITDA ratio for the year ended 31 December 2017 was 1.85 times compared to 1.35 times for the year ended 31 December 2016. It has also been able to make dividend payments to its shareholder in each of the last 4 years, please see "*—Shareholder*". For the year ended 31 December 2017, sales revenues exceeded EUR 1 billion for the second year in a row in its operating history. As a result, the Group has the financial capacity to invest in the maintenance of its current services and network, including the construction of co-generation power plants, while at the same time retaining a relatively low debt level with respect to profit earned and the other elements of its capital structure, please see "*Description of Other Indebtedness*". In addition, the Group's low debt level gives the Issuer good access to financing.

Experienced and Dynamic Management Team and Structure

The Group has an experienced senior management team within the Issuer and at its principal operating subsidiaries. Mr. Darius Maikštėnas is the Chairman of the Board and Chief Executive Officer of the parent company. Mr. Darius Maikštėnas graduated from the Harvard Business School GMP (General Management Program). Mr. Darius Kašauskas is a member of the Board of Directors and has been the Finance and Treasury Director of the Issuer since its establishment. In 2015, Mr. Darius Kašauskas was awarded the "CFO of the Year" in Lithuania by the Association of Financial Analysts and the Verslo Žinios newspaper.

The Group's 2030 Strategy involves building sustainable value in the energy sector by promoting development of Lithuania's economy and society, and becoming the highest value energy company in the Baltic States. The Group has introduced uniform management and control policies, including integrated planning and monitoring systems across the Group in order to facilitate operational efficiency and to benefit from synergies between Group companies. In 2013, 2014, 2015 and 2016, the Group was recognised as the best managed state-owned entity in Lithuania by the Government's state- owned enterprise monitoring and governance coordination unit ("**Governance Coordination Centre**").

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

Since 2014, the Group has been consistently and successfully implementing its 2020 Strategy to double the Group's value by 2020. The Group has merged companies and combined operations to benefit from synergies and has centralised Group support functions to reduce operating costs. In May 2018, the Group adopted its new 2030 strategy. For more details, see "*—The Group's Strategy*". During recent years the Group recorded its highest levels of revenue and net profit and adjusted EBITDA for the year ended 31 December 2017 amounted to EUR 238.7 million (compared to EUR 234.6 million for the year ended 31 December 2016). The Group's management believes that adopting and consistently implementing its clearly defined strategy has enabled the Group to deliver higher added value to customers and its Shareholder, to benefit from operational efficiencies and to deliver strong sustainable financial results.

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

A significant proportion of the Group's revenue and adjusted EBITDA is generated by its electricity and gas distribution business which is operated by ESO. The electricity and gas distribution business provides predictable and stable cash flows. For the year ended 31 December 2017, the Group distributed 9.22 TWh of electricity to approximately 1.6 million customers and electricity and gas distribution contributed 17 per cent. of the Group's revenues and 64 per cent. of the Group's adjusted EBITDA. Management believes that the stability of the Group's principal revenue stream, which, as a natural monopoly within Lithuania, is not subject to competitive pressures, contributes significantly to the management of its overall risk profile and provides a solid basis for the implementation of its investment programmes.

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

The Republic of Lithuania, through the Ministry of Finance, owns 100 per cent. of the share capital of the Issuer, the parent company of the Group. At the beginning of 2018, Standard & Poor's raised its rating on Lithuania to A/A-1/stable from A-/A-2/stable, and Fitch Ratings affirmed its unchanged rating on Lithuania of A-/stable. In 2017, Moody's assigned Lithuania an unchanged rating of A3/stable. The Group's management believes that being wholly-owned by a government that is backed by a stable and open economy provides additional credibility in the electricity and credit markets and allows the Group to benefit from more favourable credit terms compared to competitors without similar ownership.

The Group's Strategy

In May 2018, the Group adopted its "**2030 Strategy**". The 2030 Strategy set the "Mission" of the Group to stimulate the development of the country's economy and society by building sustainable value in the energy sector. The Group's "Vision" is to become a globally competitive energy company while at the same time, adding value to Lithuania's economy and society.

The 2030 Strategy defines the following three fundamental strategic priorities which outline the Group's operating guidelines until 2030:

- **Sustainable development:** the Group intends to diversify its generation portfolio while developing sustainable activities and acquiring businesses operating in the sustainable energy industry. Investments will be financed by optimising the Group's capital structure while matching investments with future cash flows. The projects to be invested in or developed will be selected according to clear profitability criteria and having regard to the national strategic priorities in the energy sector. Key areas of sustainable development comprise:
    - *Strategic power generation:* maintenance and modernisation of certain local power generation plants

to make them more sustainable and contribution to the successful synchronisation of Baltic States with the Continental European Network ("**CEN**") until 2025. Development of the Group's power plants, modernisation of the Group's gas and hydro accumulation power plants to make them more sustainable as well as acquisition and development of new sustainable power generation capacity are important aspects of the Group's strategy. The Group intends to increase its strategic power generation portfolio in Europe to 2200 MW power installed by 2030.

- *Green energy:* focus on the development of electricity production capacities of renewable resources (wind, solar, biofuels and waste). Target growth areas include the Baltic Sea region as well as Central and Eastern Europe by acquiring existing power plants and developing new projects. The Group expects that 33 per cent. of Lithuanian electricity generated from RES will be generated by the Group's RES power plants by 2030. The 2030 Strategy sets the target to increase green energy capacity to 3,000 MW and account for half of the Group's EBITDA.
- *Commercial organisation:* continue the consolidation of Group companies with similar activities and the offer of different services to its clients under "one brand". The 2030 Strategy sets the target to increase energy sales volume by more than 4 times by steadily expanding in Central and Eastern Europe, followed by increasing the Group's market share in South East Europe.
- *New energy:* adoption of innovative technologies and investments in new energy businesses with the potential for growth by further active penetration of energy efficiency solutions through the Group's subsidiary UAB Energijos sprendimų centras ("**ESCO**"). The Group intends to provide packaged service solutions including small-scale power generation, electric vehicle charging network services and distributed energy storage and consumption management. The Group plans to develop the "Energy-tech HUB" in order to contribute to the development of Lithuania as a centre of energy innovation. The Group plans collaborate with reputable international companies to develop energy related smart and advanced products and invest in start-ups and innovative ideas in the field of energy to be funded.

- **Quality and efficiency:** the Group intends to provide the best client experience, price and quality. Such client experience will be achieved by maintaining its position as market leader in distribution service prices and by further reducing connection times to the distribution network of new customers. The quality and efficiency of current and future businesses will be increased by automation/robotic processes and fostering operational excellence. It is targeted to digitalise 100 per cent. of the network (including through a smart meter mass roll-out) and to install a predictive distribution maintenance system which would prevent and resolve faults before they occur. The Group intends to focus only on its core businesses while efficiently using shared service centres.
- **Transparency:** the Group intends to become an internationally recognised example of a responsible, transparent and credible business by implementing internationally recognised standards of transparency, ethics and good governance including ISO 37001. The Group continues to follow a zero tolerance approach to unethical or deceptive behaviour.

The Group anticipates the main source of growth in its 2030 Strategy will come from the investments in green energy – development and acquisitions of energy generation from renewable energy resources. Out of a total of EUR 6.2 billion investments expected to be made in 2030, approximately 45 per cent. will be focused on the expansion of green energy operations, followed by approximately 39 per cent. maintenance and development of distribution network. It should be noted that approximately 35 per cent. of total investment flow will be directed to foreign countries. Investments in green energy will include activities related to RES: completing biofuel and waste co-generation power plants, developing and acquiring wind and solar power plants, regionally and globally, and the aim is to increase capacity of Group's RES assets to 3,000 MW by 2030.

In August 2017, the Group announced a non-binding invitation to participants in the energy sector to submit offers to sell off power plants, as well as projects on solar, wind, biofuel, or biogas energy developed by them. The Group has commenced development of its wind farm near Kruonis. Obtaining approval for the environmental assessment report was one of the most important events in 2017. The Environmental Protection Agency approved the environmental assessment report at the end of April 2017. The implementation of the project will continue after the responsible authorities pass decisions regarding the further development of the wind energy in Lithuania. Kruonis is an exclusive territory with energy production infrastructure where the Kruonis PSP operates and a solar panel farm has been installed. The Group plans to build 9 or 10 wind plants with a total capacity of up to 35 MW in the Kruonis wind farm. The implementation of this project will continue after the relevant authorities pass decisions regarding further development of wind energy in Lithuania.

In 2017, the Group established a corporate capital fund (Smart Energy Fund powered by the Issuer) for energy technology and innovation that will make investments into energy start-ups and an entrepreneurial start-up accelerator. It is the first corporate venture capital fund in the Baltic States. The Group intends to invest EUR 1 million a year into start-ups, and the accelerator should contribute to the development of at least 15 start-ups within three years.

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

During April 2018, the Group announced the winding down of the contractor operations carried out by the Group's company, EnePRO. EnePRO will complete its existing contracts and will not take new orders, also will settle accounts with suppliers. The Group also resolved to liquidate VAE. Additionally, it was decided by the Group to commence an auction sale of the non-core real estate assets managed by NTV. Currently, a sale process of TV and DLC is taking place as well.

The Group is making progress in the implementation of co-generation plants. In 2014, the Group started implementing its projects for the development of combined heat and power ("**CHP**") production plants in Vilnius and Kaunas. According to the resolution of the Government of the Republic of Lithuania of 28 May 2014, these projects were declared economic projects of state significance and the Issuer was assigned to hold not less than 51 per cent. of shares of the CHP plants in Vilnius and Kaunas. In 2015, the Group established two special purpose vehicles: one for project implementation of the CHP plant in Vilnius (UAB Vilniaus kogeneracinė jėgainė, Vilnius CHP plant), and the other for project implementation of the CHP plant in in Kaunas (UAB Kauno Kogeneracinė Jėgainė, Kaunas CHP plant). The Group is developing the Kaunas CHP plant jointly with Fortum Heat Lietuva, UAB, which owns 49 per cent. of the Kaunas CHP plant. The Vilnius CHP plant is funded by the combination of a EUR 190 million loan facility provided by the European Investment Bank, an E.U. grant for the Vilnius CHP plant (which will cover up to 40 per cent. of the capital expenditure for the Vilnius CHP plant) and shareholders' equity, while the Kaunas CHP plant is funded via a commercial bank loan and shareholders' equity. Both CHP plants will ensure the implementation of the Circular Economy Strategy objectives set by the European Commission, i.e. to dispose of only up to 5 per cent. of waste in landfills. The Group intends that both projects' share capital will be partly funded through the Eurobond market, please see "*Description of Other Indebtedness*".

At the beginning of December 2017, the construction site for Kaunas CHP was opened in the Free Economic Zone in Kaunas, and the first construction work on the power plant was officially started. Kaunas CHP plant will have a total installed electricity generation capacity of approximately 24 MW and a total installed heat generation capacity of approximately 70 MW. The new Kaunas CHP will help resolve not only waste problems in the region, but also lower heating bills for Kaunas residents. It is estimated that upon the completion of the project, Kaunas residents will save by paying approximately EUR 12 million less for waste management and EUR 3 million less for heating per year. It is expected that the Kaunas CHP plant will generate approximately 40 per cent. of the heat required by the Kaunas district. Local electricity will be produced meeting the needs of approximately 100,000 households. The commercial activities of the power plant are expected to start in 2020.

In order to obtain the permit to connect the Vilnius CHP plant to the central heating network and to obtain the municipality permit to increase the height of the Vilnius CHP plant, in May 2017 the Issuer signed a cooperation agreement with Vilniaus šilumos tinklai to acquire an inactive gas-fired CHP power plant (with an installed heat generation capacity of 604 MW and an installed electricity generation capacity of 360 MW) for EUR 9.96 million along with an option to acquire 5 per cent. of the shares in the Vilnius CHP plant, subject to approvals from the European Commission, European Investment Bank and any other third parties, if required. The Vilnius CHP plant will have a total installed electricity generation capacity of approximately 92 MW and a total installed heat generation capacity of approximately 229 MW. It is expected that the Vilnius CHP plant, using biofuel and municipal waste, will produce nearly half of the heat centrally supplied to Vilnius. Local electricity will be produced meeting the needs of approximately 230,000 households. It is projected that annual expenses for heat to Vilnius residents will be reduced by EUR 13 million, and for waste management by EUR 10 million. Upon completion of the construction, the Vilnius CHP will be one of the most modern in Europe in terms of environmental protection and energy generation technologies. The commercial activities of the power plant are expected to start at the end of 2019.

The Group's Business

The Group's four principal business segments are:

- Supply and distribution of electricity, gas distribution;
- Electricity generation;
- Trade in electricity; and
- Trade in gas.

In 2017, the management of the Group changed its presentation of segmental information. The Group now presents four operating segments: (i) distribution and public supply of electricity and distribution of gas; (ii) electricity generation; (iii) trade in electricity; and (iv) trade in gas. In addition, starting from 2017 the Group presents adjusted EBITDA as a profitability measure in its segment analysis. Comparative operating segment data for 2016 was restated accordingly to reflect changes made. Please refer to Note 38 in the 2017 Financial Statements.

Distribution and Public Supply of Electricity and Distribution of Gas

Distribution of electricity

The Group distributes electricity in Lithuania to approximately 1.7 million customers covering an area of approximately 65,300 square kilometres as of 31 December 2017. The Group is the primary distributor of electricity in Lithuania through its subsidiary ESO. ESO, which commenced operations on 1 January 2016, was formed following the merger of LESTO AB (the electricity distribution network operator) and Lietuvos Dujos AB (the gas distribution company). Revenue from the distribution of electricity is the largest single contributor to the Group's revenue and EBITDA. ESO operates 121,698 kilometres of electricity lines: 78.7 per cent. of them consist of overhead electricity lines, and 21.3 per cent. of electricity cables.

In the year ended 31 December 2017, the Group distributed 9.22 TWh of electricity to consumers compared to 8.98 TWh for the year ended 31 December 2016. The Group does not currently distribute electricity to consumers in any other country. In the year ended 31 December 2017, approximately 30.8 per cent. of electricity distributed by the Group was consumed by private residents, 29.0 per cent. by industrial customers and 11.3 per cent. by service-sector institutions. The supply quality indicator of the network, SAIDI, (as defined in the "*Glossary*"), decreased from 172.9 minutes in the year ended 31 December 2016 to 137.8 minutes in the year ended 31 December 2017, reflecting an improvement in the reliability of distribution and supply. Another supply quality indicator of the network, SAIFI (as defined in the "*Glossary*"), increased from 1.25 units in the year ended 31 December 2016 to 1.32 units in the year ended 31 December 2017, mainly due to abnormal weather conditions, which caused more frequent interruptions.

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

Key operating indicators of ESO

	2017	2016	Change	
	(TWh)	*(TWh)*	+/-	%
Operating Indicators				
Distributed electricity via medium and low voltage networks .... *TWh*	9.22	8.98	0.24	2.72
			2.72	2.72
Public and guaranteed supply of electricity .... *TWh*	3.22	3.15	0.07	2.28
			2.28	2.28
Supply quality indicators of the network				
ELECTRICITY				
SAIDI, (with *force majeure*) .... *min.*	137.8	172.9	-35.1	-20
SAIFI, (with *force majeure*) .... *units*	1.32	1.25	0.07	5.6

More frequent natural disasters caused by extremely varied weather conditions had a significant impact on the operation of the Group's electricity distribution network in 2017. The Group's distribution network losses were 605 million kWh of electricity or 6.16 per cent. of the amount of electricity received in the year ended 31 December 2017 compared to network losses of 6.55 per cent. in the year ended 31 December 2016.

Electricity distribution investment plans

The Group is planning to significantly modernise its electricity distribution network and to invest EUR 1.87 billion in the modernisation and renewal of its network between 2018 and 2027. A significant proportion of this investment, approximately EUR 572 million, will seek to improve the resistance of the network to adverse weather conditions by replacing overhead lines with underground lines or isolated lines. Over the next 10 years, the portion of such lines is expected to increase from approximately 28 per cent. to 41 per cent. with planned construction of underground and isolated lines spanning 11 thousand kilometres. ESO is in the process of reviewing its ten-year investment plans to modernise its electricity distribution network and expects to complete this review by the end of July this year. It does not anticipate the total amount of its capital expenditure in respect of these plans to change significantly.

The Group also plans to invest up to EUR 562 million in its "Safe and Reliable Network" programme, which involves the replacement of unsafe transformers, cable lines and distribution devices and up to approximately EUR 117 million to improve the quality of the electricity supply voltage by fixing nearly 6 thousand kilometres of lines currently affected by voltage fluctuation. The Group plans to allocate EUR 203 million to implement smart grid projects. Seven projects are expected to be implemented by 2027 including the automation of the grid, pilot projects for smart reading devices, the creation of a single dispatcher centre and the installation of a system for the management of the distribution network. The remaining investments, approximately EUR 534 million, will be allocated to other measures including the connection of new customers.

Regulation of electricity distribution

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

Public Supply of Electricity

The Group supplies electricity to approximately 1.7 million customers in Lithuania. The electricity supply market in Lithuania is fully liberalised. Consumers are able to choose to be supplied from independent electricity suppliers. However, it is not fully deregulated as consumers are also still able to rely on the Government to supply electricity at a regulated tariff. The public supply of electricity is conducted through ESO. As the principal public supplier, ESO supplies electricity to both regulated consumers on the basis of public tariffs and as a guaranteed supplier on the basis of a guaranteed supply price set by the Law on Electricity. ESO provides a guaranteed electricity supply to consumers who have not chosen an independent supplier or where an independent supplier fails to fulfil its obligations. In the year ended 31 December 2017, ESO supplied 3.22 TWh of electricity to the public in Lithuania (approximately 99 per cent. of total electricity supplied to the public in Lithuania), representing an increase of 2.3 per cent. compared to the year ended 31 December 2016.

Regulation of Public Supply

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

Amendments to the Law on Electricity are expected to be adopted in the Seimas of the Republic of Lithuania later in the summer of 2018. The expected legal changes should provide the basis for the separation of public supply of electricity services from ESO. After separation, the public supply of electricity should remain in the Group.

Distribution of Gas

The Group distributed natural gas to approximately 0.584 million customers as of 31 December 2017. As of 31 December 2017, the Group owned and operated 8.4 thousand kilometres of gas distribution pipelines in Lithuania. In the year ended 31 December 2017, the Group distributed 7.37 TWh of natural gas to consumers, representing a decrease of 0.34 per cent. or 0.0.02 TWh compared to 2015. The Group does not distribute gas to consumers in any other country.

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

	2017	2016	Change	
	(TWh)	*(TWh)*	*+/-*	*%*
Operating Indicators				
Distributed volume of natural gas .... *TWh*	7.37	7.39	-0.02	-0.34
Supply quality indicators of the network				
GAS				
SAIDI (with *force majeure* .... *min.*	1,161	0,529	0,632	119,5
SAIFI (with *force majeure*) .... *units*	0,007	0,006	0.001	16,7

In 2017, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 34.9 million or 111.72 per cent. more compared to 2016. In 2017, ESO constructed 372.5 kilometres of gas distribution pipeline

(2016: 109.1 kilometres) for the connection of new customers to the gas network and connected 12,531 customers to gas pipelines, which is 137 per cent. more than in 2016 when 5,288 customers were connected.

Gas Distribution Investment Plans

ESO is in the process of reviewing its 10 year investment plans which projected that its investments in the gas distribution network would amount to EUR 224 million over a ten year period. ESO plans to allocate EUR 120 million of this investment for the development of the distribution system in order to meet the demand generated by the growing number of natural gas customers. ESO plans to invest a further EUR 40 million to modernise remote data collection and control systems, and EUR 15 million is planned to be allocated to reconstruct gas distribution pipelines. ESO has also allocated EUR 49 million to modernise the gas metering system within ten years. ESO also intends to invest in the reconstruction of gas pressure regulating equipment, the replacement and additional installation of closing devices, and investments in the reconstruction of corrosion protection equipment for the pipelines.

Regulation of Gas Distribution

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

Electricity Generation

Overview

The Group owns and operates five generation facilities: the Elektrėnai Complex, which contains three gas and oil-fired power units with a combined installed capacity of 1,055.0 MW, two hydroelectric power plants with total installed capacity of 1,000.8 MW and two wind farms with total installed capacity of 42.3 MW. For the year ended 31 December 2017, 33 per cent. of all electricity generated in Lithuania was produced by LEG.

The following table sets forth a breakdown of the total installed capacity of the Group's power plants for the years ended 31 December 2017 and 31 December 2016:

	As of 31 December			
	2017		2016	
	(MW)	*%*	*(MW)*	*%*
Gas and oil	1,055.0	50	1,055.0	50
Hydro	1,000.8	48	1,000.8	48
Wind	42.3	2	42.3	2
Total installed capacity	**2,098.1**	**100**	**2,098.1**	**100**

As of 31 December 2017, the total capacity of the Group's generation facilities remained the same compared to 31 December 2016, as no new acquisitions of operating business assets were made or capacity installed in the existing operating facilities. As of 31 December 2017, 50 per cent. of the Group's total installed capacity was gas and oil-fired and 50 per cent. was hydroelectric and wind power combined.

The following table sets forth a breakdown of the total electricity generated by the Group's power plants by type of energy for the years ended 31 December 2017 and 31 December 2016:

	As of 31 December			
	2017		2016	
	(MW)	*%*	*(MW)*	*%*
Gas and oil	0.14	11	0.49	33
Hydro	1.01	79	0.88	59
Wind	0.13	10	0.12	8
Total electricity generated	**1.28**	**100**	**1.49**	**100**

In the year ended 31 December 2017, the Group generated 1.28 TWh of electricity, representing a decrease of 0.21 TWh, or 14 per cent, from 1.49 TWh in the year ended 31 December 2016. The decrease was caused mainly by lower electricity generation in the Elektrėnai Complex due to the decline in wholesale electricity prices on the power exchange. In the year ended 31 December 2017, 11 per cent. of the Group's total electricity generated was generated by gas and oil, and the remaining 89 per cent. was generated by renewable sources including hydro power and wind.

Gas and Oil-fired Power Generation

The Group owns and operates the Elektrėnai Complex in Lithuania, which contains the Reserve Power Plants (gas and oil-fueled) and the CCGT (gas-fuelled), with a combined installed capacity of 1,055 MW as of 31 December 2017. The Reserve Power Plants have 2 units with an installed capacity of 300 MW each and the CCGT has an installed capacity of 455 MW. The CCGT uses heat, which is a by-product of the generation of electricity by gas and heavy fuel oil power plants to generate steam, which is then used to drive a steam turbine generator to make additional electricity. LEG decided to terminate the use of unit 7 of the Reserve Power Plant from 1 January 2018 and to put it into preservation mode. LEG's management determined that it was necessary to account for an impairment loss as of 31 December 2017 based on the net book amount of assets attributed to Units 7 and 8 of the Elektrėnai Complex. This impairment loss amounted to EUR 31.4 million, with impairment of assets amounting to EUR 104.3 million, and impairment of grant amounting to EUR 72.9 million.

In the year ended 31 December 2017, the Elektrėnai Complex generated 0.139 TWh of electricity, representing a decrease of 72 per cent. compared to the year ended 31 December 2016. The decrease was caused predominantly by the decline in wholesale electricity prices on power exchange. The Elektrėnai Complex generated 11 per cent. of the total electricity generated by the Group in 2017.

In the year ended 31 December 2017, the Reserve Power Plants generated 0.010 TWh of electricity. The Reserve Power Plant is also responsible for providing Lithuania's strategic power reserve in 2018, which was determined by the Government based on proposals from the Lithuanian Ministry of Energy. Strategic power reserve service with capacity of 212 MW in 2018 is provided by the Reserve Power Plants (unit 8). The Reserve Power Plants' electricity generation and related balancing, regulation and strategic power reserve services are regulated activities.

In the year ended 31 December 2017, the CCGT generated 0.129 TWh of electricity representing a decrease of 72 per cent. compared to the year ended 31 December 2016. The decrease was caused predominantly by the decline in wholesale electricity prices on power exchange. In 2017, the CCGT was switched on 19 times representing a decrease of 67 per cent. compared to the year ended 31 December 2016 when it was switched on 58 times. On 21 December 2017, the TSO announced that the provision of tertiary power reserve services with capacity of 260 MW in 2018 would be provided by the CCGT following completion of an auction process. The CCGT's electricity generation and related balancing and tertiary power reserve provision services are regulated activities.

The units in the Elektrėnai Complex have a diversified age profile. Construction of the CCGT was completed in October 2012 whereas the construction of the currently operational Reserve Power Plants' electricity generation units were completed in 1971 to 1972. The units are affected by various factors including the availability of gas and oil. The Group has a schedule of regular repairs and overhauls for its gas and oil-fired power plants. Four power generation units in the Elektrėnai Complex were decommissioned in 2014 and 2015 and two units are inactive and are currently in the process of being decommissioned, in each case due to their poor technical condition, low potential of use in the future, high maintenance costs and negative impact on the environment. The use of one power generation unit (unit 7) in the Elektrėnai Complex was terminated from 1 January 2018. The unit has been put into preservation mode. The decision was taken on 11 December 2017, by the Board of LEG, having assessed the scope of services provided by Elektrėnai Complex's units in 2018, the market situation of electricity production and system services, changes in the regulatory environment and prospects, and taken into account the opinion of the LEG Supervisory Board.

In the year ended 31 December 2017, the Group, through LEG, consumed 0.34 TWh of natural gas in relation to its power generation operations which was primarily sourced from Group subsidiaries compared to 1.1 TWh in the year ended 31 December 2016. The Group consumed approximately 1,500 tons of oil in 2017, which was primarily sourced from reserves held by LEG, compared to 2,000 tons of oil consumed in 2016. From 2019, oil will no longer be used by the Group subsidiaries.

The Group, through LEG, has permits for an indefinite term to engage in electricity generation activities at the Reserve Power Plants and the CCGT. LEG also holds permits to expand electricity generation capacities at the Reserve Power Plants. Since the establishment of LEG in 2011, all of the Group's gas and oil-fired power plants in Lithuania, which are owned by LEG, have complied with all environmental requirements and regulations. The Elektrėnai Complex was assigned approximately 0.07 million tons of CO^2 emission allowances for the year ended 31 December 2017. For additional information on CO^2 emission allowances and the allocation of CO^2 emission allowances, please see "*Regulation — Carbon Compliance (Emissions Allowances)*".

On 26 March 2018 the Ordinary General Meeting of LEG approved the decision to increase the authorised share capital of LEG by issuing new shares to and paid for by the subscriber - Lietuvos Energija UAB, in the form of a non-monetary contribution, by transferring the asset complex of the Vilnius Thermal Power Plant to LEG.

Hydroelectric Power Generation

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

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

The following table sets forth certain information regarding the Group's hydroelectric power plants as of 31 December 2017:

Plant	Installed capacity (MW)	Type of plant	Start of operation
Kruonis PSHP	900	Pump storage	1992-1998
Kaunas HPP............................	100/8	Hydroelectric	1959
Total installed capacity	1,000.8		

In the year ended 31 December 2017, the Group's hydroelectric power plants generated 1.01 TWh of electricity, representing approximately 79 per cent. of the Group's total electricity generated, compared to 0.88 TWh or 59 per cent. of the Group's total electricity generated for the year ended 31 December 2016. The increase in hydro electricity production was caused predominantly by higher generation in Kaunas HPP due to a much higher water level in the Nemunas river compared to the previous year, which contributed to more favourable production conditions.

In the year ended 31 December 2017, Kruonis PSHP generated 0.549 TWh of electricity. Kruonis PSHP is also responsible for secondary power reserve provision. Two units of Kruonis PSHP's capacity (representing 450 MW of installed capacity) are allocated solely to providing secondary power reserves which can be switched on within 15 minutes. This activity is regulated.

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

In the year ended 31 December 2017, Kaunas HPP generated 0.459 TWh of electricity. Kaunas HPP also generates electricity which is used for the recovery of the electricity system when there has been a sudden loss of power in the system, for example, when there is an electricity "black-out". Electricity generation at Kaunas HPP and related balancing and regulation services are commercial activities.

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

Wind Power Generation

The Group owns two operating wind farms in Lithuania and Estonia with total installed capacity of 42.3 MW, which were both purchased in the first quarter of 2016. In the year ended 31 December 2017, these wind farms generated 0.131 TWh electricity, compared to 0.123 TWh electricity generated for the year ended 31 December 2016. The Group also is in the process of developing its own wind farm near Kruonis and plans to acquire wind power projects at a stage when the necessary infrastructure for the installation of a wind farm has already been developed, where land plots have been leased, connection to the power grid is present and territorial planning and public health and environmental requirements have been met. The progress of these developments depends significantly on the level of subsidies that will be provided by the Government.

Nuclear Power Generation

Lithuania has been working towards the development of a new nuclear power plant project, Visaginas NPP, which was intended to operate in the joint Nordic/Baltic region. The project's preparation works were being carried out by the Group via VAE, a special purpose vehicle. However, this project has been put on hold following the negative vote in an advisory non-binding referendum on the development of a new nuclear power plant in Lithuania in October 2012. In conjunction with the Group's 2030 strategy with a focus on green energy, a decision to wind up VAE was adopted in April 2018.

Trading and Supply of Electricity and Gas

Trading of Electricity

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

z o.o. is active in the Polish wholesale market and trades on the Polish Power Exchange TGE.

From 2016, all electricity generated by the Group's Lithuanian power plants is sold directly on the Nord Pool Exchange. Generated electricity is traded on day ahead as well as intraday markets. Since 2010, the wholesale prices have been unregulated. Prices on the Nord Pool Exchange are set on the basis of supply and demand. When trading on a day ahead basis, the Group submits sell bids for physical electricity to be delivered the next day, whereas intra-day market trading allows the Group to trade physical electricity to be delivered on the same day. Due to the nature and flexibility of the generation assets and optimisation activities, total generated volume may differ from the volume sold. In 2017 the Group's power plants generated 1.19 TWh, compared to 1.44 TWh in 2016. Asset backed sold electricity volume was 1.11 TWh in 2017, compared to 1.45 TWh in 2016.

The Group's electricity supply and generation portfolios are separated in accordance with the Third Energy Package, REMIT and best market practices. Accordingly, Energijos Tiekimas sources electricity for its supply portfolio directly from the Nord Pool Exchange or through bilateral agreements with third parties, rather than directly from LEG. Energijos Tiekimas estimates that a significant proportion of the electricity it purchased for its supply portfolio in 2017 was imported from outside Lithuania, as the marginal cost of electricity production in Lithuania was higher than the cost of importing electricity. As of 31 December 2017, the Group had entered into a number of long-term contracts for physical power supply with various durations (the longest duration being until 31 December 2022) at prices which reflect prices on the derivative or wholesale markets in order to minimise price risk.

In order to manage market price fluctuation risk, Energijos Tiekimas hedges retail portfolio exposure using physical and financial instruments traded over-the-counter or on the Nasdaq Commodities Exchange. The Group began its proprietary electricity wholesale trading activity in 2016, through Energijos Tiekimas. Energijos Tiekimas trades standard and nonstandard physical and financial derivative products for the Group's own account bilaterally as well as on the Nasdaq Commodities Exchange and Nord Pool Exchange. In 2017 the Group's wholesale trading volume was 9.1 TWh.

The following table sets forth a breakdown of the volume of electricity purchased and sold by the Group on wholesale markets (including the Group's net electricity generated and total sales to consumers) for the years ended 31 December 2017 and 31 December 2016.

	For the year ended 31 December		
	2017	**2016**	**Change in 2017 compared to 2016**
	(TW)	*(TW)*	*%*
Wholesale trading in electricity. TWh			
Electricity purchased on wholesale markets	**15.30**	**14.90**	**2.68**
ESO portfolio	3.81	3.75	1.60
Energijos Tiekimas (for Energijos Tiekimas retail customers)	1.57	1.64	(4.27)
Energijos Tiekimas (for Kruonis PSHP)	0.82	0.81	1.23
Energijos Tiekimas (for proprietary trading purposes)	9.10	8.70	4.60
Electricity sold on wholesale markets	**10.35**	**10.27**	**0.78**
LEG (through Energijos Tiekimas)	1.11	1.45	(23.45)
Energijos Tiekimas (for proprietary trading purposes)	9.10	8.70	4.60
Eurakras	0.08	0.07	14.29
Tuuleenergia	0.06	0.05	20.00
Balance of wholesale trading in electricity	**4.95**	**4.63**	**6.91**
Electricity generated and sold to consumers. TWh			
Total electricity generated by the Group (gross)	**2.50**	**3.00**	**(16.67)**
LEG	1.19	1.44	(17.36)
LEG – Elektrėnai Complex	0.14	0.49	(71.43)
LEG – Kaunas HPP	0.45	0.37	21.62
LEG – Kruonis PSHP	0.58	0.58	0.00
Eurakras	0.08	0.07	14.29
Tuuleenergia	0.06	0.05	20.00
Own consumption of electricity generated	**0.82**	**0.81**	**1.23**
Kruonis PSHP	0.82	0.81	1.23
Total electricity generated by the Group (net)	**1.68**	**2.19**	**(23.29)**

Technological losses	**0.63**	**0.66**	**(4.55)**
ESO	0.60	0.62	(3.23)
LEG	0.03	0.04	(25.00)
Eurakras	0.00	0.00	0.00
Tuuleenergia	0.00	0.00	0.00
Electricity sold by the Group to consumers	**4.75**	**4.83**	**(1.66)**
Energijos Tiekimas	1.57	1.64	(4.27)
ESO	3.18	3.19	(0.31)
Balance between electricity generated by the Group and sold to its consumers	**(3.07)**	**(2.66)**	**15.41**

The Group carries out proprietary trading that consists of taking on energy commodity (electricity and emissions) exposures in European markets by means of financial derivative instruments and contracts for physical delivery exchanged on the regulated and over-the-counter markets, seeking to exploit arbitrage opportunities and speculating on price developments. By trading on its own account, the Group aims to generate additional profits. The Group carries out these activities through Energijos Tiekimas and Geton Energy Sp. z o.o. that have formal governance frameworks with strict risk limits set by its board of directors and in coordination with the Group's Risk Management and Operational Ethics Committee. The Group has specific controls in place in terms of quantitative risk limits (value at risk and other risk limits, including a EUR 3.5 million stop-loss). Credit risk management for trading operations is based on strict evaluation, assignment and monitoring procedures that the Group believes are in accordance with international best practices.

Trading of Gas

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

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

Supply of Electricity

Lithuania

In the year ended 31 December 2017, the Group, through its subsidiary Energijos Tiekimas, supplied electricity to approximately 6,700 commercial customers, which is one of the largest electricity customer bases in Lithuania. In the year ended 31 December 2017, the Group supplied 1.6 TWh of electricity to commercial customers in Lithuania, representing an decrease of 5.9 per cent. compared to the year ended 31 December 2016 which was a result of tight competition in the retail market.

Latvia

In the year ended 31 December 2017, Energijos Tiekimas, through its subsidiary Geton Energy SIA, sold 657 GWh of electricity to consumers in Latvia, representing an increase of more than 4 times compared to the year ended 31 December 2016. The increase was caused predominantly by competitive pricing, flexible, tailored products and excellent customer service and energy balancing services to Latvian distribution system operator Sadales Tikls. The Group's subsidiary Geton Energy SIA is the fourth-largest power supplier in the Latvian electricity market according to the Group's data.

Estonia

In the year ended 31 December 2017, Energijos Tiekimas, through its subsidiary Geton Energy OU, sold 0.052 GWh of electricity to consumers in Estonia. It is the same amount of GWh as in the year ended 31 December 2016. The Group's subsidiary Geton Energy OU is one of the smallest suppliers in the Estonian electricity market according to the Group's internal data.

Supply of Gas

In the year ended 31 December 2017, the Group, through its subsidiaries LDT and LITGAS, supplied gas to approximately 7 thousand industrial and business companies and 575 thousand household customers. LDT supplies natural gas to industrial and business companies and household customers. LITGAS is the designated supplier of LNG in Lithuania and is responsible for ensuring that a minimum quantity of gas is delivered through the Klaipeda LNG Terminal. The gas supplied by LITGAS as designated gas supplier through the Klaipeda LNG Terminal is purchased from Statoil ASA under a long term LNG supply contract concluded on 9 September 2014, which expires at the end of 2024. The price of LNG does not have a material impact on LITGAS's designated supply business given that the designated supply of gas is a regulated activity and its profit margins are set by the NCC. In 2017, LDT purchased approximately 37 per cent. of the gas it supplied to consumers from the LNG Terminal in Klaipeda. In 2017, the Group purchased LNG from Statoil ASA, "Koch Supply & Trading", "Cheniere marketing International" and "Gas Natural Fenosa". Two cargoes were delivered from the United States. The remainder was purchased from Gazprom through natural gas pipelines and other sources such as wholesale markets under short term natural gas supply contracts. LDT's decision to purchase gas from either the Klaipeda LNG Terminal or Gazprom is based on price and the need to ensure diversification of supply. Part of the gas purchased was stored in the Incukalns LNG storage facility in Latvia. In 2014, LDT received a retrospective discount on the price of the gas it had purchased from Gazprom since 1 January 2013. The full amount of the discount received from Gazprom was distributed to end-users between 2015 and 2018.

In the year ended 31 December 2017, the Group supplied 11.48 TWh of gas in the Lithuanian and Latvian market to 582 thousand consumers, representing an increase of 1 per cent. compared to the year ended 31 December 2016. The increase was caused by sales to the Latvian market. LDT and LITGAS achieved a market share in sales to consumers in Lithuania in the year ended 31 December 2017 of approximately 44 per cent. compared to 50 per cent. in 2016, according to the Group's data. In the year ended 31 December 2017, the Group's revenues from the supply of gas were EUR 290 million, representing an increase of EUR 22.4 million, or 8.4 per cent, from EUR 267.6 million in the year ended 31 December 2016. The revenue increase was caused by higher gas sale prices following the full utilisation of the gas price discount provided by Gazprom.

The supply of gas to consumers in Lithuania is regulated by the Lithuanian Law on Energy, Law on Liquefied Natural Gas Terminal, the Lithuanian Law on Natural Gas and other regulatory legislation. A licence (and from 2018, a permit) is necessary in order to supply gas, which is issued by the NCC for an indefinite period. A licence for LITGAS was issued on 27 December 2013, and for LDT on 13 October 2014.

Other Businesses

Heat Generation

The Elektrėnai Complex also contains steam and biofuel boilers which generate heat and have an installed capacity of 90 MW. The Reserve Power Plants sold around 119 GWh of heat in 2017.

Part of heat generation is a regulated activity. Regulated heat generation comprises generation which is sold to a local heat supplier. Around 40 per cent. of heat generation is not regulated by the NCC. Non-regulated heat generation comprises generation sold directly to companies. However, both activities are treated as regulated activities in the company's managerial accounting. LEG has permits for indefinite term to engage in heat generation activities at the steam and biofuel boilers in the Elektrėnai Complex.

Biomass in the form of wood chip, straw and pellets is combusted in the Elektrėnai Complex. In the year ended 31 December 2017, the Group burned 10,500 tons of biomass in the Elektrėnai Complex.

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

Provision of Ancillary Services

Contracting activities

The Group's full-scope contracting activities up to the beginning of 2018 were conducted through EnePRO. EnePRO's activities included the reconstruction, repair and technical maintenance of electricity equipment and power stations, installation of boilers, technological pipes and other installation works, manufacturing of stacks, metal construction structures, pressure vessels and management of engineering projects. In the year ended 31 December 2017, EnePRO's revenues were EUR 31.2 million (EUR 30.6 million in 2016) and its net loss was EUR 5.4 million (EUR 7.2 million in 2016). The decline in revenue and the net loss was predominantly caused by lower scopes of works and loss- making orders (including those concluded in the previous periods). During April 2018, in line with the Group's strategy to divest non-core businesses, it was announced that the operations of EnePRO would be wound down during the coming months.

Real estate management and transport services

The Group's real estate management and transport services activities until February 2018 were conducted through NTV. It was engaged in the long-term and short-term lease of administrative, production and warehousing premises as well as long-term and short-term lease of territories and long-term and short-term lease of cars and special purpose motor vehicles and equipment, management of vehicle fleet, accommodation and conference organisation services. In the year ended 31 December 2017, its revenues were EUR 21 million (EUR 21.7 million in 2016) and adjusted EBITDA before elimination of intragroup transactions was EUR 9.4 million (EUR 8.3 million in 2016).

In December 2017, the Group announced that from February 2018 transport service activities managed by NTV will be taken over by TV.

Currently, the Group is involved in the disposal process of TV. In addition, in line with the Group's strategy to divest non-core businesses, it commenced the auction sale process of its real estate portfolio managed by NTV.

Data centres and data transmission services

The Group's data activities are conducted through DLC. DLC is one of the largest operators of data transmission networks and data centres in the Baltic region. DLC provides data transmission services to companies and communication operators, manages data centres in which major banks, telecommunication operators, cloud computing services providers and other companies store their equipment. In the year ended 31 December 2017, its revenues were EUR 3.8 million (EUR 4.4 million in 2016) and EBITDA before elimination of intragroup transactions was EUR 1.3 million (EUR 1.0 million in 2016). In line with the Group's non-core businesses divestment strategy, the sale process of DLC has commenced.

Customer service activities

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

Shared services

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

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

Divestment of non-core activities

The Group is in the process of divesting its non-core activities which are conducted through NTV, TV and DLC, if market conditions are favourable.

Other Ancillary Businesses

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

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

Property, Plant and Equipment and Investment Property

As of 31 December 2017, the Group owned property, plant and equipment with a net book value of EUR 1,761,082 thousand (compared to EUR 1,770,814 thousand as of 31 December 2016), investment property with net book value of EUR 14,878 thousand (compared to EUR 46,207 thousand as of 31 December 2016) and non-current assets held for the sale with net book value of EUR 79,301 thousand (compared to EUR 878 thousand as of 31 December 2016).

The Group owns all of its significant generation facilities and other properties and the Group holds the title to all of the land underlying its operation facilities. The Group's plant, property and equipment mainly comprise power plants and electricity and gas distribution networks as the well as administrative buildings, investment property and other assets. As of 31 December 2017, the Group owned buildings, which are classified as property, plant and equipment and investment property with a total net book value of EUR 43,361 thousand (compared to EUR 103,038 thousand as of 31 December 2016). 72.9 per cent of buildings owned by the Group are classified under property, plant and equipment and 27.1 per cent are classified as investment property (56.6 and 43.4 per cent accordingly as of 31 December 2016). Other assets classified as property, plant and equipment, investment property and items included to non-current assets held for sale amounted to net book value of EUR 1,809,576 thousand (compared to EUR 1,712,485 thousand as of 31 December 2016) and to net book value of EUR 2,324 thousand (compared to EUR 2,376 thousand as of 31 December 2016). Non-current assets held for sale as of 31 December 2017 includes the assets of subsidiary NTV related to its transport activities, which the Group plans to dispose of and real estate objects held for sale.

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

As of 31 December 2017, the Group owned property, plant and equipment pledged as a security for liabilities in the amount of EUR 316.1 million, representing 17.8 per cent. of total net book value of plant, property and equipment, compared to the amount of EUR 353.7 million as of 31 December 2016.

At the moment the Group is planning to sell and leaseback all of the administrative buildings that it owns by 2021. Following such sales, the Group will move to new headquarters while focusing on its core activities and using its balance sheet more effectively.

Capital Expenditures

In the year ended 31 December 2017, the Group's investments amounted to EUR 252.8 million, representing an increase of 6.2 per cent. compared to EUR 238.1 million for the year ended 31 December 2016. Without taking into consideration the acquisition of the wind farms in 2016, investments increased by 44.4 per cent. or EUR 77.7 million compared to 2016 (EUR 175.1 million). The majority of the investments were allocated to the renewal (51 per cent) and development (21 per cent) of the electricity distribution network.

In the year ended 31 December 2017, investments allocated by ESO for the renewal of the electricity distribution network increased by EUR 43.5 million to EUR 128.2 million, representing an increase of 51.4 per cent. compared to the year ended 31 December 2016 (EUR 84.7 million) and investments allocated by ESO for the development of the electricity distribution network increased by EUR 12.7 million to EUR 52.2 million, representing an increase of 32.2 per cent. compared to the year ended 31 December 2016 (EUR 39.5 million). In the year ended 31 December 2017, investments allocated by ESO for the development of gas systems increased by EUR 16.9 million, representing an increase of 173.8 per cent. compared to the year ended 31 December 2017 (EUR 9.8 million) and investments allocated by ESO for the renewal of the gas systems increased by EUR 1.5 million to EUR 8.2 million, representing an increase of 21.6 per cent. compared to the year ended 31 December 2016 (EUR 6.7 million). During the year ended 31 December 2017, ESO constructed 323 kilometres of gas distribution pipelines (109.1 kilometres constructed during the year ended 31 December 2016) for the connection of new customers to the gas network.

In the year ended 31 December 2017, investments in vehicles decreased by EUR 8.6 million to EUR 4.8 million from the year ended 31 December 2016 (EUR 13.4 million). The decrease was caused predominantly by a regular renovation of the Group's fleet of motor vehicles and the acquisition of fire fighting vehicles by the Group company NTV in 2016 that were leased to the state fire fighting and rescue services. Investments in real estate in the year ended 31 December 2017 decreased by EUR 3.5 million to EUR 3.7 million from the year ended 31 December 2016 (EUR 7.3 million). This change was caused by the acquisition of land plot lease rights by the Group company Kauno Kogeneracinė Jėgainė in 2016 as an in-kind contribution (the value of the lease rights amounted to EUR 4 million).

In the year ended 31 December 2017, investments in IT, telecommunication and management systems increased by EUR 4.9 million from the year ended 31 December 2016 (EUR 10.5 million). The increase was caused predominantly by the Group company Technologijų ir Inovacijų Centras' investments in the data transmission network.

In the year ended 31 December 2017, the Group's assets increased by 3 per cent. or EUR 72.9 million to EUR 2,505.1 million compared to the year ended 31 December 2016 (EUR 2,432.2 million). The increase was caused predominantly by the increase in current assets – prepayments for natural gas made by subsidiary Lietuvos dujų tiekimas to PAO Gazprom in the amount of EUR 27.8 million, compared to no prepayments in the year ended 31 December 2016.

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

Employees

The Group had 4,513 and 4,861 employees in the years ended 31 December 2017 and 2016, respectively. ESO had 2,503 and 2,677 employees in the years ended 31 December 2017 and 2016, respectively. LEG had 393 and 399 employees in the years ended 31 December 2017 and 2016, respectively.

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

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

Research and Development

For the purpose of implementing the Group's 2030 strategy and with a view to promoting innovations, the Issuer has established an Innovations Fund (the "**Fund**") in 2017. The Fund provides funding for early stage start-ups in the energy sector. The Fund is seeking to cooperate with start-ups and research institutions, targeting the development of new services and sustainable products as well as contributing to the commercialisation of research and development ("**R&D**") in the energy sector. The capital commitment of the Fund is approximately EUR 7 million (including all fees, expenses and accelerations costs) for an investment period of 5 years. The Fund is seeking a financial partner which would manage the implementation of the acceleration programme and the fund itself.

The Issuer seeks to create an attractive environment for innovations within the energy sector. ESO launched ESO Sandbox in early 2018. ESO Sandbox enables companies to test technological innovative solutions in the distribution network free of charge in real life conditions. Any company can participate in the ESO Sandbox, including corporations, technological start-ups, science centres and universities.

ESO, in cooperation with Elering AS, the transmission system operator of electricity and gas in Estonia, is developing a Cross-Border Data Exchange pilot project between Estonia and Lithuania. This pilot project is one of the demonstrations in Work Package 9 ("**Cross-border and cross-sector data management demonstrations**") of EU SysFlex project, a pan-European system with an efficient coordinated use of flexibilities for the integration of a large share of renewable energy sources, supported by EU H2020.

The Group's other R&D projects are mainly performed by private scientific institutions, or by the academic sector. R&D covers numerous topics in micro generation, smart metering, electricity quality, waste-to-energy, drones, demand side management and chimney technology. The Group has entered into a cooperation agreement with the largest technical university in Lithuania, Kaunas University of Technology, with whom the Group has established an applied research centre that helps the Group to develop its scientific base and knowledge in a quick and efficient manner. The Group also encourages students by offering internship positions at the research centre.

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

Licences

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

Insurance

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

LEG maintains insurance for its power plants, excluding its hydro power plants. The Group plans to obtain insurance policies to cover its hydro power plants in 2018, please see "*Risk Factors—The Group's insurance coverage may not be adequate*". Additionally it maintains surety insurance for major waste projects.

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

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

Risk Management

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

The Risk Management and Operational Ethics Supervision Committee comprises:

(a) the Chair, who also sits on the Supervisory Council; and

(b) three independent members.

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

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

The main systemic risks which have been identified for 2018 are:

(a) Health and safety of employees, residents and contractors;

(b) Information security (cyber security);

(c) Market changes and competitiveness;

(d) Reputational damage; and

(e) Regulation and compliance.

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

For 2018, the Risk Management and Operational Ethics Supervision Committee identified the main issues in this category to be non profitable EnePRO activity.

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

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

For more information relating to material risks that the Group faces, please see "Risk Factors" and Note 3 of the 2017 Financial Statements.

In addition to the Risk Management and Operational Ethics Supervisory Committee, there is the Audit Committee of the Company's Supervisory Council. The Audit Committee of the Company's Supervisory Council ("**Audit Committee**") is responsible for the submission of the objective and impartial conclusions or proposals to the Supervisory Council on the functioning of the audit and control system in the Group. The Audit Committee is responsible for monitoring the process of preparation of financial statements of the Issuer and the Group's subsidiaries, with a focus on the relevance and consistency of accounting methods used. In addition it is responsible for monitoring the effectiveness of internal controls and risk management systems of the Issuer and the Group's subsidiaries, to analyse the need for and relevance of these systems and perform the review of the existing internal control management systems.

Environmental Matters

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

Legal Proceedings

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

ESO and LDT

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

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

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

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

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

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

On 8 November 2016, AB "Amilina" lodged an appeal which was rejected by the Court of Appeal of Lithuania on 27 July 2017, the Court of Appeal of Lithuania upheld the decision of the Vilnius Regional Court of 7 October 2016.

AB "Amilina" lodged a further appeal which was not accepted by the Supreme Court of Lithuania on 23 October 2017.

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

ESO

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

On 18 September 2017, the Vilnius Regional Court dismissed the claim. On 19 October 2017, VE UAB lodged an appeal. The hearing of the appeal at the Court of Appeal of Lithuania is to be scheduled.

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

ESO and NCC

On 8 July 2015, ESO filed a complaint to the Vilnius Regional Administrative Court against the NCC in respect of the Resolution of the NCC No 03-351 "Regarding AB LESTO activities breaking regulatory conditions" of 8 July 2015 demanding the repeal of the Resolution. By this Resolution the NCC stated that ESO was not compliant with the requirements for the estimation of returns on investments and imposed a fine amount of EUR 300,000.00.

On 18 September 2017, the Vilnius Regional Court dismissed the claim. On 19 October 2017, ESO lodged an appeal. The hearing of the appeal at the Supreme Administrative Court of Lithuania is to be scheduled.

ESO and NCC

On 17 November 2014, ESO filed a complaint to the Vilnius Regional Administrative Court against the NCC in respect of the Resolution of the NCC No O3-841 “Regarding the Resolution of the NCC and Prices No O3-253” of 17 October 2014, “Regarding the Establishment of the Public Supply Service Price Cap of AB Rytų Skirstomieji Tinklai, AB VST and AB LESTO for 2011-2014” of 28 October 2010, Resolution No O3-255 “Regarding the Price Cap of AB Rytų Skirstomieji Tinklai, AB VST, and AB LESTO for 2011-2014 for the Distribution through Medium and Low Voltage Networks” (Clauses 2.1 and 2.2) of 29 October 2010 and the Resolution No O3-845 “Regarding the Conversion of Price Caps of AB LESTO for the Distribution through Medium and Low Voltage Networks for 2015” (Clauses 1 and 4) of 17 October 2014. In the complaint ESO claimed that the NCC breached the provisions of the Methodology for Determining the Electricity Transmission and Distribution Prices by adopting its decision to extend the regulatory period and the price cap for electricity for 2015. On 22 December 2015, the Vilnius Regional Administrative Court rejected ESO’s complaint. On 5 January 2016, ESO lodged an appeal.

On 13 March 2018 the Supreme Administrative Court of Lithuania adopted a decision by which ESO’s appeal was partially satisfied. The Supreme Administrative Court of Lithuania stated that the NCC decision to prolong the regulatory period for 2015 was unfounded.

At the moment negotiations with the NCC are being held and ESO believes that as a consequence of the decision of the Supreme Administrative Court of Lithuania there would be approximately EUR 3,500.00.00 – 4,000.000.00 of returning investment in 2019.

SSPC vs ESO and the Republic of Lithuania

On 21 February 2018, UAB “SSPC-Vilnius“ filed a complaint to the Vilnius Regional Court against ESO and the Republic of Lithuania, represented by the Ministry of Energy (“**MoE**”) for damages of EUR 18,692.86 in direct losses and EUR 16,208,000.00 in indirect losses to be awarded jointly.

UAB „SSPC-Vilnius“ has also submitted an alternative claim, in case the court does not award indirect losses, in addition to EUR 18,692.86, an extra EUR 55,220.07 in direct expenses incurred by the claimant in preparatory construction works on a cogeneration power plant.

On 8 May 2018, UAB „SSPC-Vilnius“ submitted a request to waive its claim against the Republic of Lithuania, represented by the MoE and dismiss the case. UAB “SSPC-Vilnius” also wanted to withdraw its claim against ESO. On 17 May 2018, ESO agreed to begin negotiations with the aim of settling the case amicably.

On 21 May 2018, the Vilnius Regional Court passed a ruling whereby it accepted UAB „SSPC-Vilnius“ waiver of its claim against the Republic of Lithuania and respectively dismissed the civil case against the Republic of Lithuania. On 29 May 2018, UAB „SSPC-Vilnius“ and ESO submitted a mutual request for the case to be adjourned until 1 August 2018, due to settlement negotiations between the parties.

On 30 May 2018, the Vilnius Regional Court issued a ruling postponing the proceedings until 1 August 2018. The parties have started the settlement negotiations and review of the required documents.

LITGAS

AB “Achema” filed complaints against the European Commission (i) on 17 November 2016 concerning the Resolution of the NCC dated No O3-369 “On Estimation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer” dated 8 December 2016, (ii) on 22 January 2016 concerning the Resolution of the NCC No. O3-683 “On Estimation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer” dated 23 December 2015 and (iii) on 18 April 2016 concerning the Resolution of the NCC No. O3-83 “On Estimation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer” dated 25 March 2016 and (iv) on 16 June 2017 concerning the Resolution of the NCC No. O3E-145 “On Recalculation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer for year 2017” dated 15 May 2017 and (v) on 28 December 2017 concerning the Resolution of the NCC No. O3-352 “On Estimation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer” dated 24 November 2017 and concerning the Resolution of the NCC No. O3-583 “On changing the NCC resolutions “On Estimation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer” dated 7 December 2017.

The resolutions require all users of the Klaipeda LNG Terminal, including AB “Achema” to pay a proportion of the additional component of the gas tariff which relates to the lease and maintenance of the Klaipeda LNG Terminal. AB “Achema” claims the resolutions to be unlawful on the basis that the Commission exceeded its competence in making the resolutions and that the resolutions contradict the legal acts of the Republic of Lithuania and the E.U. If such complaints are upheld by the court, AB “Achema” and other market participants may bring claims against LITGAS, AB Klaipėdos Nafta and AB Amber Grid and/or the State claiming compensation for amounts already paid.

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

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

Tuuleenergia OÜ ("TOU")

On 13 December 2013, the owner of a property in close proximity to two wind turbines installed by TOU in Tallinn, Estonia filed a complaint against TOU in the Tallinn Administrative Court. He requested that construction permits granted by the Varbla Municipality (Lääneranna parish as of 1 January 2018) allowing TOU to construct the two wind turbines and their operation be withdrawn on the basis that the wind turbines had been constructed too close to nearby residential property and in breach of regulatory requirements. The claim was dismissed by the Tallinn Administrative Court on 16 February 2015. An appeal against this decision was dismissed by the Tallinn Regional Court of Second Instance on 2 November 2015.

A further appeal against this decision was upheld by the Supreme Court of Estonia on 11 October 2016, which withdrew the permits for the operation of the two wind turbines on the basis that the operation of the wind farms was unlawful. However, the Supreme Court of Estonia found that all the arguments related to the positioning of the turbines were not founded and ruled that new proceedings must take place in order to issue lawful permits. Accordingly, TOU considers that, based on the judgement, the turbines can be positioned where they stand at the moment. On 31 May 2018, the permanent use permits were issued to TOU. However the issuance of the permits may be challenged until 30 June 2018.

UAB Vilniaus kogeneracinė jėgainė ("VKJ")

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

On 1 June 2018, VKJ applied for leave to intervene. VKJ is required to submit a response to the EU General Court's questions (in respect of (1) the plea of inadmissibility raised by the European Commission and, more specifically, the issue of significant effect on the competitive position of the applicant Danpower Baltic UAB; and (2) the definition of the relevant market in the contested decision and the impact on that market of the granting of the aid by 13 July 2018).

As per the public statement made, the applicant, Danpower Baltic UAB, and the Republic of Lithuania, represented by the Ministry of Energy, concluded the amicable settlement agreement in various matters, including the case pending at the EU General Court. VKJ is not able to verify or comment on this statement or on the conditions of the settlement agreement since it has not reviewed the settlement agreement.

Anti-corruption Investigation

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

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

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

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

Recent Developments

On 2 May 2018, the Group published its Interim Financial Statements. See "*Overview of Financial Information*" and "*Information Incorporated by Reference*".

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of the Group's material other indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the financial statements. Please also see Note 20 of the 2017 Financial Statements and Note 19 of the 2016 Financial Statements, which are incorporated by reference in this Base Prospectus.

The Group's Indebtedness

The Group's indebtedness consists of borrowings from financial institutions and the inaugural issuance of Notes under the Programme, which was established in 2017. The Group maintains a flexible funding strategy and monitors domestic and foreign financial market conditions as part of its financing activities.

The Issuer and its subsidiaries have signed a variety of loan facilities. These facilities have been used for general corporate purposes, but have also been used as funding for particular projects such as financing for the development of waste to energy power plants in Vilnius and Kaunas cities. As of 31 December 2017 and 31 December 2016, borrowings amounted to EUR 614 million and EUR 494 million, respectively.

Short-Term Indebtedness

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

	As of 31 December	
	2017	**2016**
	(EUR in thousands)	
Current borrowings	—	38,948
Letters of credit	—	—
Bank overdrafts	10,655	—
Accrued interest	3,427	5
Total current borrowings excluding portion of long term borrowings and leases	**14,082**	**38,953**

Total short-term debt (without current portion of long-term debt) as of 31 December 2017 was EUR 14,082 thousand, representing 2.3 per cent. of the Group's total borrowings as of 31 December 2017.

Long-Term Indebtedness

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

	As of 31 December	
	2017	**2016**
	(EUR in thousands)	
Bank loans	305,686	454,965
Bonds issued.	293,981	—
Subtotal	**599,667**	**454,965**
Minus current portion of long term debt	119,599	90,008
Long term debt	**480,068**	**364,957**

On 14 July 2017, the Issuer issued EUR 300 million green bonds under the Programme, which were listed on the Luxembourg Stock Exchange. The bonds mature on 14 July 2027.

The below table sets out how the Group plans to allocate the proceeds of the EUR 300 million green bond issue in July 2017 as at the date of this Base Prospectus:

Project name	Project category	Project description	Project value, in million EUR	Green Bond funds, allocated in million EUR	Green bond funds, untilized, in million EUR	Projected reduction of CO^2 emissions (tonnes per year)	Actual reduction of CO^2 emissions (tonnes per year)
Acquisition of a 25% shareholding in the wind power park in Jurbarkas	Renewable energy projects	The Group acquired a 25% minority shareholding in the wind power park in Jurbarkas operated by Eurakras UAB, as part of its strategy focussing on energy production using renewable energy sources. The wind power park in Rotuliai, Jurbarkas region, operated by Eurakras UAB was launched in August 2016 and it consists of wind turbines with the capacity of 3 MW each. One euro invested over the course of the project's useful lifecycle reduces CO^2 emissions by 0.02 kgCO^2/EUR. 106.05 Kwh/EUR of electricity will be produced over the useful lifecycle. The annual volume of electricity generated by the wind power park will reach 19.75 GWh.	4.3	4.3	4.3	3,752	Actual reduction is allocated to wind parks refinancing project
Renewal of ESO's electricity distribution network	Energy efficiency projects	ESO plans to implement various projects related to the repair, replacement and optimisation of the electricity network. The electricity network renewal plan includes more than 1,700 projects that are going to be implemented in five regions of Lithuania. The projected operational period of individual projects is between 30 and 50 years. Annual energy savings are expected to reach more than 39,600 MWh (more than 1,357,000 MWh over the projected operational period of the projects; 0.008 MWh per EUR 1 of investments over the projected operational period of the projects). The implementation of the mentioned projects are expected to reduce the network's energy losses from 6.14% to 6.04% in 2018. The reduction of losses by 0.1% is equal to slightly more than 1 million KWh.	250.0	166.3	166.3	7,811	4,193* (actual result for 2017 is allocated to first tranche of 100 million EUR investment. The second tranche of 66 million EUR was approved in 2018).
Vilnius Cogeneration Power Plant	Pollution prevention and control projects	The cogeneration power plant in Vilnius that will be put into operation at the end of 2019 will produce about 40% of heat energy supplied to the district heating sector in Vilnius city. Up to 160,000 tonnes of non-recyclable municipal waste that remain after sorting and around 400,000 tonnes of biofuel per year would be used for energy production. The power plant is expected to produce around 0.4 TWh of	375.0	36.6	24.9	430,000	Project not yet completed. Planned to be operational by the end of 2020

		electricity, which is a sufficient volume of electricity to meet the demand of 230 thousand households. It will also contribute to, amongst other things solving waste management problems in the country.					
Kaunas Cogeneration Power Plant	Pollution prevention and control projects	The Group in cooperation with the Fortum Heat Lietuva is implementing the construction of a modern waste and biofuel-fired high-efficiency cogeneration power plant in Kaunas. The power plant will ensure lower heat production prices for consumers in Kaunas city as well as additional production of local electricity at a competitive price and will solve waste management problems. The cogeneration power plant in Kaunas that will be put into operation at the end of 2020 will produce about 40% of the heat energy supplied to the district hearing sector in Kaunas. Heat and electricity will be produced using not only municipal waste remaining after sorting, but also non-hazardous industrial waste and sewage sludge accumulating at waste water treatment plants. These capacities will enable the efficient use of around 200,000 tonnes of waste accumulating in the region and produce around 500 GWh of heat and around 170 GWh of electricity.	150.0	20.0	2.0	114,986	Project not yet completed. Planned to be operational by the end of 2020.
Refinancing of wind power parks in Estonia and Lithuania	Renewable energy projects	At the beginning of 2016, the Group acquired wind power parks in Estonia and Lithuania with the overall capacity of 42 MW. The acquisition of wind power parks was financed using borrowings from commercial banks. To optimise the financing structure of these projects the Group wishes to refinance borrowings using funds raised by green bonds. The wind power parks operating in Estonia and Lithuania produce around 136 GWh of electricity per year.	66.6	66.6	66.6	82,617	79,554
TOTAL:			**845.9**	**293.9**	**264.2**	**638,986**	**83,747**

Total long-term debt as of 31 December 2017 was EUR 599,667 thousand, representing 97.7 per cent. of the total amount of the Group's total borrowings from financial institutions and bonds issued as of 31 December 2017. Long-term borrowings from financial institutions and bonds issued comprised all of the long-term debt as of 31 December 2017.

As of 31 December 2017, approximately half of the Group's long-term debt has floating rates of interest which can expose the Group to interest rate risk. The floating rates are based mainly on EURIBOR or EONIA. For information regarding the repayment schedule of the Issuer and its subsidiary's long-term debt and interest rates for short and long-term debt, please see Note 20 from the 2017 Financial Statements and Note 19 from the 2016 Financial Statements.

Indebtedness at subsidiary level

As at 31 December 2017, the current and non-current borrowings of the Issuer's subsidiaries amounted to EUR 82.3

million, or 3.3 per cent. of the Group's total assets. This accounts for 13.4 per cent. of the Group's total borrowings, which amounted to EUR 614 million.

On 8 November 2017, the Issuer, ESO, and the creditors of ESO, i.e. OP Corporate Bank Plc and SEB Bankas AB, signed trilateral agreements on the transfer of debt and rights and obligations. Under these agreements, the Issuer assumed ESO's entire debt obligation, together with all other rights and obligations under these loan agreements. The Issuer and ESO also signed internal loan agreements to cover the obligations arising from these trilateral agreements.

MANAGEMENT

General Overview

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

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

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

Supervisory Council

On 1 June 2017, the Minister of Finance approved the revised Corporate Governance Guidelines, which changed the formation of the Supervisory Council procedure. As of the date of this Base Prospectus and in accordance with the Issuer's Articles of Association and Corporate Governance Guidelines, the Supervisory Council comprises five members, with two members nominated by the Ministry of Finance and three members being independent members. Additionally, the Chairman of the Supervisory Council is independent and, in the case of equality of votes, has the deciding vote. Accordingly, the Republic cannot make unilateral decisions on the Supervisory Council. All members of the Supervisory Council are elected by the General Meeting of the shareholders for a term of four years. The Shareholder has recently confirmed to the Issuer that the best principles of corporate governance (including the corporate governance principles of the Organisation for Economic Co-operation and Development and the Nasdaq Vilnius Stock Exchange which the Issuer adheres to) were followed in the formation of the new Supervisory Council which was elected on 30 August 2017 and ensured the continuity of the Group's strategy, its results of operations and its management structure and transparency. The Chairman of the Supervisory Council is elected from the members of the Supervisory Council. This model of formation of the Supervisory Council complies with the principles of corporate governance (see "*—Corporate Governance*").

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

- elect and remove members of the Board of Directors;
- supervise the activities of the Board of Directors and the Chief Executive Officer;
- provide comments to the General Meeting of the Issuer's shareholders on the Issuer's strategy, financial statements, appropriation of profit or loss, and the annual report; and
- provide the opinion to the Board of Directors regarding the election of individuals to the management or supervisory bodies of the Issuers subsidiaries.

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

In accordance with the Issuer's Articles of Association, the Supervisory Council meets once a month. In 2017, there were 11 regular and 3 extraordinary meetings. The Board of Directors and the Chairman of the Board of Directors regularly attend the meetings.

None of the members of the Supervisory Council has any ownership interest in the capital of the Issuer or the Group. The business address of each member of the Supervisory Council of the Group is „Lietuvos energija", UAB, Žvejųg. 14, LT-09310, Vilnius, the Republic of Lithuania. As of the date of this Base Prospectus, the below mentioned members of the Supervisory Council of the Group do not have potential conflicts of interest between any duties to the Group and their private interests or other duties.

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

Name	Born	Position	Date of appointment
Darius Daubaras	1973	Chairman and Independent Member of the Supervisory Council	30 August 2017
Daiva Lubinskaitė - Trainauskienė	1970	Independent Member of the Supervisory Council	30 August 2017
Andrius Pranckevičius	1976	Independent Member of the Supervisory Council	22 November 2017
Aušra Vičkačkienė	1974	Member of the Supervisory Council	30 August 2017
Ramūnas Dilba	1981	Member of the Supervisory Council	22 November 2017

Darius Daubaras. Mr. Daubaras is the Chairman of the Supervisory Council and an independent member. He is a member of the Risk Management Supervision and Operational Ethics Committee. He is one of the founders of the Lithuanian City of London Club and an adviser in the Global Lithuanian Leaders organisation. Currently he is working as a senior adviser in the corporate finance and project advisory division in Saudi Aramco's treasury department and is responsible for managing mergers and acquisitions, corporate investments, joint ventures and financing transactions across all businesses and industries that Saudi Aramco operates. Mr Daubaras obtained his Master's degree in international relations from the University of Cambridge, his Master's degree in finance and entrepreneurial management from the Wharton School of Business, University of Pennsylvania and his Bachelor's degree in Finance from the University of Denver.

Daiva Lubinskaitė - Trainauskienė. Ms. Lubinskaitė - Trainauskienė is an independent member of the Supervisory Council. She is also the Chairman of the Nomination and Remuneration Committee. She is director of personnel in UAB Thermo Fisher Scientific Baltics and board member of the Personnel Management Professional Association. Ms. Lubinskaitė - Trainauskienė obtained her diploma and Master's degree from ISM University of Management and Economics, and has completed philology and public relations professional studies at Vilnius University.

Andrius Pranckevičius. Dr. Pranckevičius is an independent member of the Supervisory Council. He is also the chairman of the Risk Management Supervision and Operational Ethics Committee. He is a deputy general manager and member of the board at AB "Linas Agro Group". He is a general manager and chairman of the board at PF "Kekava". Dr. Pranckevičius obtained his Bachelor's degree of business administration and management and a Master's degree in marketing management from Kaunas University of Technology. He has also completed the leadership development programme at Harvard Business School.

Aušra Vičkačkienė. Ms. Vičkačkienė is a member of the Supervisory Council, having been appointed by the Ministry of Finance of the Republic of Lithuania. She is a member of the Audit Committee and a member of the Appointment and Remuneration Committee. She is also a director of the state property management department of the Ministry of Finance. She is a member of the management board of VĮ Turto Bankas and UAB Būsto paskolų draudimas. She graduated from Vilnius University with a Bachelor's degree in management and business administration.

Ramūnas Dilba. Mr. Dilba is a member of the Supervisory Council, having been appointed by the Ministry of Finance of the Republic of Lithuania. He is a member of the Appointment and Remuneration Committee. He is also the head of the European Social Fund Operational Programme management division of the Ministry of Finance. Previously, Mr. Dilba was a manager at the human resources development operations programme at the Ministry of Finance and a senior project manager in the Central Project Management Agency. He obtained his Bachelor's degree in political science and Master's degree in European studies from the Vilnius University Institute of International Relations and Political Science.

Committees of the Supervisory Council

The Supervisory Council has formed three committees:

(i) the Risk Management Supervision and Operational Ethics Committee;

(ii) the Audit Committee; and

(iii) the Appointment and Remuneration Committee.

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

Risk Management Supervision and Operational Ethics Committee

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

(a) to monitor the identification, assessment and management of risks relevant for the accomplishment of goals of the Issuer and the Group companies;

(b) to assess the relevance of internal control procedures and risk management measures with respect to the identified risks;

(c) to assess the status of implementation of risk management measures;

(d) to monitor the implementation of risk management process;

(e) to analyse financial possibilities for the implementation of risk management measures;

(f) to assess the risks and risk management plan of the Issuer and the Group companies;

(g) to assess the regular risk identification and assessment cycle;

(h) to control the establishment of risk registers, analyse their data and provide proposals;

(i) to monitor the drafting of risk management related internal documents;

(j) to assess the adequacy of internal documents regulating the fight against bribery and corruption, and periodically monitor their implementation / compliance;

(k) to periodically monitor the information related to the events of the management of the operation's ethical management and unresolved incidents (including, transparency, bribery prevention, corruption risk management / prevention); and

(l) to perform other functions attributed to the competence of the Committee by the Supervisory Council.

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

Name	**Position**	**Outside role**
Andrius Pranckevičius	Chairman of the Committee, member	Deputy of General Manger and the member of the board at AB "Linas Agro Group". General Manager and the Chairman of the board at PF "Kekava"
Darius Daubaras	Member of the Committee	Senior Adviser in Corporate Finance and Project Advisory Division in Saudi Aramco's Treasury Department
Šarūnas Rameikis	Independent member of the Committee	R. Mištauto and T. Milickio law firm, attorney at law

Audit Committee

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

(a) to monitor the process of preparation of financial statements of the Issuer and the Group companies, with a special focus on the relevance and consistency of accounting methods used;

(b) to monitor the effectiveness of internal controls and risk management systems of the Issuer and the Group companies, to analyse the need for and relevance of these systems and perform the review of the existing internal control management systems;

(c) to monitor the adherence to the principles of independence and objectivity by the certified auditor and audit firm, to provide related recommendations, as well as proposals for the selection of an audit company;

(d) to monitor the audit performance processes of the Issuer and the Group companies, to examine the effectiveness of audit and response of the administration to the recommendations provided in the management letter;

(e) to monitor the effectiveness of the internal audit function of the Issuer and the Group companies, to analyse the need for and relevance of this function, to provide recommendations on the need for, effectiveness of the internal audit function, and on other internal audit related matters;

(f) to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Issuer and the Group companies, appointment and dismissal of the head of a structural unit performing the functions of the internal audit, approval of his (her) job description, imposition of incentives and penalties;

(g) to monitor the compliance of activities of the Issuer and the Group companies with laws and other legal acts of the Republic of Lithuania, relevant Articles of Association and operational strategy;

(h) to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Council; and

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

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

Name	**Position**	**Outside role**
Irena Petruškevičienė	Chair of the Committee and independent member of the Committee	Member of Audit Development Committee of the European Commission
Danielius Merkinas	Independent member of the Committee	Finance Director of Nordnet UAB

Aušra Vičkačkienė	Member of the Committee	Ministry of Finance of the Republic of Lithuania, Director of the Asset Management Department
Šarūnas Radavičius	Independent member of the Committee	Head of Audit at Rödl & Partner

Appointment and Remuneration Committee

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

(a) to assess and provide proposals on the long-term remuneration policy of the Issuer and Group companies (the main fixed part of the remuneration, performance based remuneration, pension insurance, other guarantees and forms of remuneration, compensation, termination benefits and other parts of the remuneration package), principles of compensation for costs related to the individual's performance;

(b) to assess and provide proposals on the policy of bonuses to employees of the Issuer and the Group companies;

(c) to monitor the compliance of the policy of remuneration and bonuses to employees of the Issuer and the Group companies with the international practice and good governance practice recommendations, and provide respective proposals for the improvement of the policy of remunerations and bonuses;

(d) to provide proposals concerning bonuses upon appropriation of profit (losses) to be appropriated of the Issuer and the Group companies in the respective financial year;

(e) to assess the terms and conditions of agreements of the Issuer and the Group companies with members of the management bodies of the Issuer and the Group companies;

(f) to assess the procedures of recruitment and selection of candidates to members of the boards and senior management of the Issuer and the Group companies and establishment of the qualification requirements;

(g) to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Issuer and the Group companies;

(h) to supervise how members of management bodies and employees of the Issuer and Group companies are notified of the professional development possibilities and how to upgrade their skills regularly;

(i) to supervise and assess the implementation of measures ensuring the continuity of operations of the management bodies and employees of the Issuer and the Group companies; and

(j) to perform other functions attributed to the competence of the Committee by the Supervisory Council.

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

Name	Position	Outside role
Daiva Lubinskaitė - Trainauskienė	Chairman and member of the Committee	Director of personnel in UAB Thermo Fisher Scientific Baltics and member of the Board of the Personnel Management Professional Association
Aušra Vičkačkienė	Member of the Committee	Ministry of Finance of the Republic of Lithuania, Director of the Asset Management Department
Lėda Turai - Petrauskienė	Member of the Committee	UAB L-CON Global, a leader in education, a shareholder; ISM University of Management and Economics, Executive MBA Program Leadership Module Manager
Ramūnas Dilba	Member of the Committee	Head of ESF Operational Programme management division of the Ministry of Finance

Board of Directors

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

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

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

The Issuer's Articles of Association provide that the Board of Directors shall comprise five members. The Board of Directors is obliged to meet at least once a fortnight. In practice, however, meetings are held almost weekly and a total of 54 meetings took place in 2017.

None of the members of the Board of Directors has any ownership interest in the capital of the Issuer or the Group. The business address of each member of the Board of Directors of the Group is „Lietuvos energija", UAB, Žvejų g. 14, LT-09310, Vilnius, the Republic of Lithuania. As of the date of this Base Prospectus, the below mentioned members of the Board of Directors of the Group do not have potential conflicts of interest between any duties to the Group and their private interests or other duties.

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

Name	Born	Position	Date of appointment
Darius Maikštėnas	1970	Chairman of the Board of Directors and Chief Executive Officer	1 February 2018
Dr. Živilė Skibarkienė	1976	Member of the Board of Directors and Organisational Development Director	1 February 2018
Darius Kašauskas	1972	Member of the Board of Directors and Finance and Treasury Director	1 February 2018
Vidmantas Salietis	1987	Member of the Board of Directors and Director of Commerce and Services	1 February 2018
Dominykas Tučkus	1981	Member of the Board of Directors and Director of Infrastructure and Development	1 February 2018

Darius Maikštėnas. Mr. Maikštėnas is the Chairman of the Board of Directors and the Chief Executive Officer. He is also a member of the Supervisory Council of Energijos Skirstymo Operatorius AB. He received his Bachelor's degree in business administration at the Kaunas University of Technology before attending the general manager programme at Harvard Business School. He also obtained an executive Master's degree in business administration from the Baltic Management Institute..

Dr. Živilė Skibarkienė. Dr. Skibarkienė is a member of the Board of Directors and the Organisational Development Director. She is also a member of the Supervisory Council of Elektroninių Mokėjimų Agentūra UAB and LEG and Chair of the Boards of Directors of Technologijų ir Inovacijų Centras UAB and VAC. She holds a Master's degree in Law from Vilnius University and a PhD in social science from Mykolas Romeris University.

Darius Kašauskas. Mr. Kašauskas is a member of the Board of Directors and the Finance and Treasury Director. He is Chairman of the Boards of Directors of UAB Duomenų Logistikos Centras, UAB Energetikos paslaugų ir rangos organizacija and the member of the board of directors of the Support Fund and also a member of the Supervisory Council at Energijos skirstymo operatorius AB. He is also a member of the Audit Commission at the 288th DNSB "Vingis". Following his Master's degree in Economics from Vilnius University, he obtained a further Master's degree in Management from ISM University of Management and Economics, and has undertaken doctoral studies in the field of economics at the same university.

Vidmantas Salietis. Mr. Salietis is a member of the Board of Directors and the Strategy and Development Director. He is Chairman of the Boards of Directors of Geton Energy SIA and Geton Energy OU.

He is also a member of the Board of Directors of LITGAS, LDT, Energijos tiekimas and UAB Energijos sprendimų centras. Mr. Salietis obtained his Bachelor's degree in economics and business administration from the Stockholm School of Economics in Riga (SSE Riga).

Dominykas Tučkus. Mr. Tučkus is a member of the Board of Directors and the Director of Commerce and Services. He is also the Chairman of the Board of Directors of LITGAS, LDT, Energijos tiekimas, EURAKRAS, a member of the Supervisory Councils of LEG and a member of the Boards of Directors of Tuuleenergia OU and Vilniaus kogeneracinė jėgainė UAB. He is also a member of the advisory committee at KŪB Smart Energy Fund powered by Lietuvos energija. He obtained his degree in Business Management and Administration and his Master's degree at L. Bocconi University in Italy.

Chief Executive Officer and Division Heads

At the executive employees' level, the Group is managed by the Chief Executive Officer and the Division Heads. The business address of the Chief Executive Officer and Division Heads is Žvejų g. 14, LT-09310, Vilnius, Lithuania.

Neither the Chief Executive nor any of the Division Heads has any ownership interest in the capital of the Issuer or the Group.

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

Set out below are the Division Heads as of the date of this Base Prospectus:

Name	Born	Position	Date of appointment
Darius Maikštėnas	1970	Chief Executive Officer	1 February 2018
Dr. Živilė Skibarkienė	1976	Director of Organisational Development	1 February 2018
Darius Kašauskas	1972	Director of Finance and Treasury	1 February 2018
Vidmantas Salietis	1987	Director of Commerce and Services	1 February 2018
Dominykas Tučkus	1981	Director of Infrastructure and Development	1 February 2018

Darius Maikštėnas. Mr. Maikštėnas is the Chief Executive Officer. For more information on Mr. Maikštėnas, please see "*—Board of Directors*".

Dr. Živilė Skibarkienė. Ms. Skibarkienė is the Director of Organisational Development. For more information on Ms. Skibarkienė, please see "*—Board of Directors*".

Darius Kašauskas. Mr. Kašauskas is the Director of Finance and Treasury. For more information on Mr. Kašauskas, please see "*—Board of Directors*".

Vidmantas Salietis. Mr. Salietis is the Director of Commerce and Services. For more information on Mr. Salietis, please see "—Board of Directors".

Dominykas Tučkus. Mr. Tučkus is the Director of Infrastructure and Development. For more information on Mr. Tučkus, please see "*—Board of Directors*".

Corporate Governance

The aim of the Group, with the Republic of Lithuania as its shareholder, is to ensure effective and transparent operations. In order to achieve this aim, the reorganisation of governance was carried out in 2013, during which the corporate governance of the Group was reorganised and improved.

The new governance structure and model of the Group has been developed on the basis of the most advanced international and national practices, following the recommendations published by the Organisation for Economic Cooperation and Development, having regard to the Corporate Governance Code of companies listed on the Nasdaq Vilnius exchange and Guidelines on the Governance for State-owned Enterprises recommended by the Baltic Institute of Corporate Governance. The corporate governance model of the Group was implemented in observance of the Corporate Governance Guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 with subsequent amendments to it on 1 June 2017 (the Guidelines are available at www.le.lt).

The Governance Coordination Centre recognised the Group as the best managed State capital entity in 2016, 2015, 2014 in 2013. High scores were given for transparency and management.

RELATED PARTY TRANSACTIONS

The relationships between the Group and its related parties, identified according to the principles of International Accounting Standard 24 ("**IAS 24**"), primarily consist of business transactions relating to the sale and purchase of products, goods and services. They fall within the activities carried out by the Group in the ordinary course of its business. Please see Note 14 of the Interim Financial Statements, Note 37 of the 2017 Financial Statements and Note 37 of the 2016 Financial Statements for information on the Group's related party transactions conducted in such respective periods.

The Group's transactions with its related parties are regulated by Lithuanian Law on Companies, Articles of Association and transfer pricing documents, which provides for comprehensive regulation of rules concerning related party transactions and conflicts of interest between a company and members of its Board of Directors or Supervisory Council (and persons close to such members).

As the sole shareholder of the Issuer is the Republic of Lithuania represented by the Lithuanian Ministry of Finance, the Group's related party transactions are transactions with the Republic of Lithuania, associates and all entities controlled by or under significant influence of the Republic of Lithuania, and key management and their close family members.

In the Issuer's opinion, all agreements with related parties are conducted on an arm's length basis and the Issuer believes that all of the transactions between the Group and related parties have taken place at market prices.

REGULATION

Below is a brief summary of the rules and regulations applicable to the Group in the Republic of Lithuania as the Group's principal market. Since Lithuania's accession to the E.U. on 1 May 2004, certain rules and regulations of the E.U. have been adopted and, therefore, a description of the E.U. Legislation as applicable to the Group is also included. The following summary does not purport to be complete and is subject to the regulations of the jurisdictions referred to below.

E.U. Legislation

History of Energy Regulation

As a member of the E.U. (a "**Member State**"), the Republic of Lithuania is required to adhere to E.U. energy legislation which has developed in order to establish a competitive, secure and environmentally sustainable energy market in Europe.

The European Commission (the "**Commission**") began regulating the E.U. energy market by enacting the "First Energy Package" which was comprised of Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity (the "**E.U. First Electricity Directive**") and Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas (the "**E.U. First Gas Directive**"). The E.U. First Electricity Directive and the E.U. First Gas Directive were designed to provide non-active suppliers with access to the internal electricity and gas markets of E.U. Member States and to allow for better competition in these markets. In June 2003, the E.U. Energy Council repealed the E.U. First Electricity Directive and the E.U. First Gas Directive by adopting the "Second Energy Package" comprising of Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity and repealing Directive 96/92/EC (the "**E.U. Second Electricity Directive**") and Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas and repealing Directive 96/92/EC (the "**E.U. Second Gas Directive**").

The E.U. Second Electricity Directive required each E.U. Member State to allow for full competition within its internal commercial and residential electricity markets by 1 July 2004 and 1 July 2007, respectively. The E.U. Second Electricity Directive also set forth general rules for the organisation of the E.U. electricity market, such as the option for Member States to impose certain public service obligations, customer protection measures and provisions for monitoring the security of electricity supply in the E.U.; the establishment of a regulatory body, independent from any interests of the electricity and gas industries, which would be required to ensure non-discriminatory network access, monitor the level of competition and ensuring the efficient functioning of the electricity generation, distribution, and trade market; and the implementation of so-called "legal unbundling" meaning that each transmission and distribution system operator had to be separated, at least in terms of legal form, organisation and decision-making, from other activities in the energy sector not relating to transmission or distribution.

The E.U. Second Electricity Directive further focused on enhancing customer rights by granting household customers the right to be supplied with electricity of a specified quality at reasonable and transparent prices that are easy to compare. Moreover, it required electricity suppliers to provide their end-users with information on the energy sources and kinds of fuel used in the production of supplied electricity and on the environmental impact of the supplier's activities, including the amount of carbon dioxide and radioactive waste produced.

Similar to the E.U. Second Electricity Directive, the E.U. Second Gas Directive, adopted on 26 June 2003, required each Member State to allow for full competition within its internal commercial and residential gas markets by 1 July 2004 and 1 July 2007, respectively. With regard to the establishment of an independent regulatory authority and the process of legal unbundling, the E.U. Second Gas Directive sets forth similar rules as the E.U. Second Electricity Directive.

Current E.U. Energy Regulation

E.U. Energy and Climate Change Legislation

The Commission published its paper entitled "An Energy Policy for the European Union" in December 1995 with a primary focus on market integration. In 2006, this was followed by a green paper on "A European Strategy for Sustainable, Competitive and Secure Energy". This was revised in two communication "packages" in 2007 and 2008. In March 2007, the European Council adopted an Action Plan and the Commission started to propose legislation from September 2007.

In 2007, the Commission published a proposal for the establishment of a new energy policy and a strategy for achieving a more integrated and competitive energy market within the E.U. designed to ensure a stable energy supply and combat climate change, such "E.U. Energy and Climate Change Legislation" set certain targets (known as the 20-20-20 goal), including:

- further liberalisation of electricity markets;
- a reduction of at least 20 per cent. in greenhouse gas emissions by 2020;

- for renewable energies to make up a 20 per cent. share of E.U. energy consumption by 2020; and
- 20 per cent. energy savings by 2020 compared to 2020 projections (1853 million tonnes of oil equivalent) made in 2007.

Subsequently, in 2009 the E.U. adopted the E.U. Energy and Climate Change Legislation "Third Energy Package" which includes (besides the climate change related legislation described below), but is not limited to, Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity and repealing Directive 2003/54/EC (the "**E.U. Third Electricity Directive**"), Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas and repealing Directive 2003/55/EC (the "**E.U. Third Gas Directive**"), Regulation (EC) No. 713/2009 Establishing an Agency for the Cooperation of Energy Regulators, Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-border Exchanges in Electricity and repealing Regulation (EC) No 1228/2003 (the "**E.U. Regulation on Cross-Border Exchanges**") and Regulation (EC) No. 715/2009 on Conditions for Access to the Natural Gas Transmission Networks repealing Regulation (EC) No 1775/2005 (the "**E.U. Natural Gas Transmission Regulation**"). These directives and regulations were collectively designed to complete the liberalisation of the electricity and gas markets within the E.U. In particular, such energy legislation contemplates the further separation of supply and production activities from transmission network operations. To achieve this goal, Member States are able to choose, subject to the respective conditions set forth in the E.U. Third Electricity Directive and the E.U. Third Gas Directive, between the following three options:

- Full ownership unbundling: This option entails vertically integrated undertakings selling their gas and electricity grids to an independent operator, which will carry out all network operations. This option applies to new undertakings;
- Independent System Operator (the "**ISO**"): Under this option, vertically integrated undertakings maintain the ownership of the gas and electricity grids, but they are obliged to designate an independent operator for the management of all network operations. This option may apply to existing undertakings; and
- Independent Transmission Operator (the "**ITO**"). This option is a modification of the ISO option whereby vertically integrated undertakings do not have to designate an ISO, but need to abide by strict rules ensuring separation between supply and transmission. This option may apply to existing undertakings.

Lithuania has chosen to implement the full ownership unbundling model in the electricity and gas sectors with regards to TSOs. Distribution system operators remain under the same shareholders. The provisions of the Third Energy Package were transposed into the Law on Electricity of the Republic of Lithuania, the Law on Natural Gas of the Republic of Lithuania and the Law on LNG Terminal of the Republic of Lithuania in 2011-2012.

The E.U. energy legislation, as aforesaid, also enhanced consumers' rights by establishing the right for consumers to (i) change electricity or gas supplier (the process of switching must be completed within three weeks), and receive the final closure statement at the latest six weeks after the switch; (ii) obtain compensation if quality targets are not met; (iii) receive information on supply terms through bills and company websites; and (iv) see complaints dealt with in an efficient and independent manner.

Finally, the E.U. Energy and Climate Change Legislation provides for the creation of an agency within the E.U. for the coordination of national energy regulators, which will issue non-binding framework guidelines for national agencies. This task was assigned to the Agency for the Cooperation of Energy Regulators. It is expected that this will result in a more harmonised energy regulation environment across the E.U.

2030 E.U. Framework for Climate and Energy Policy

In October 2014, the E.U. Energy Council enacted new targets and the architecture for the E.U. framework for climate and energy in the period from 2020 to 2030. The new targets are:

- a reduction of at least 40 per cent. in greenhouse gas emissions by 2030, compared to 1990 levels (the total greenhouse gas emissions cap will be reduced by 2.2 per cent. each year from 2021, compared with the 1.74 per cent. annual reduction in the period from 2013 to 2020);
- 27 per cent. of E.U. energy consumption by 2030 (resulting in renewable energy sources being used in the generation up to 47 per cent. of electricity consumed in the E.U.);
- to increase in E.U. wide energy efficiency by 27 per cent. (this target is still indicative); and
- to achieve 10 per cent. electricity interconnection by 2020.

In July 2015, the Commission proposed to revise the E.U. Emission Trading Scheme (the "**E.U. ETS**") from 2020. An Innovation Fund and Modernisation Fund will be established to help the power sector meet the innovation and investment challenges of the transition to a low-carbon economy. Free allowances will continue to be available to modernise the power sector in lower-income Member States. In addition, the legislative proposal on a market stability reserve was approved in October 2015. The placing of allowances in the reserve will operate from 1 January 2019.

Cross-Border Trading of Electricity

Besides focusing on the liberalisation of the internal energy markets in every Member State, E.U. energy regulation is also designed to improve the cross-border trade of electricity. Accordingly, the E.U. has also implemented Regulation (EC) No. 1228/2003 ("**Regulation (EC) No. 1228/2003**") on Conditions for Access to the Network for Cross-border Exchanges in Electricity. This Regulation required the establishment of a committee of national experts chaired by the Commission to adopt the guidelines on (i) inter-transmission system operator compensation for electricity transit flows; (ii) the harmonisation of national transmission charges; and (iii) network congestion management. Regulation (EC) No. 1228/2003 established a fund mechanism to cover the costs resulting from cross-border trades, whereby the TSOs contribute to a fund according to their net physical import and export flows. The distribution of the accumulated funds then depends on the transit volume.

Although Regulation (EC) No. 1228/2003 was partially successful, the Commission adopted a subsequent Regulation on Cross-Border Exchanges. The E.U. Regulation on Cross-Border Exchanges repealed Regulation (EC) No. 1228/2003 and established the rules designed to alleviate cross-border exchange difficulties, with a view to improving competition and harmonisation in the internal E.U. electricity market.

The E.U. Regulation on Cross-Border Exchanges created the European Network of Transmission System Operators ("**ENTSO-E**"), which comprises the designated TSO from all Member States, which have a duty to put in place the information exchange mechanisms in order to ensure the security of networks in the context of congestion management.

The costs related to the activities of ENTSO-E are borne by the TSOs which host cross-border flows of electricity on their networks. In return, they receive compensation from the TSOs from which cross-border flows originate. Charges for access to networks are applied by operators as well.

Legislative proposals to implement the new market design were planned for 2016. On 23 February 2017 the Commission adopted the Proposal for a Regulation of the European Parliament and of the Council on the Internal Market for Electricity. The key objectives of the legislation were to better link wholesale and retail markets, strengthen regional cooperation, increase cross-border trade, and develop short-term and long-term markets to send positive signals in relation to investments for modern technologies to both producers and consumers of electricity.

Energy Infrastructure

Gas Infrastructure Legislation

In November 2005, the Commission adopted Regulation (EC) No. 1775/2005 ("**Regulation (EC) No. 1775/2005**)" on Conditions for Access to the Natural Gas Transmission Networks, which covered access to all transmission networks in the E.U. and addressed a number of issues such as: access charges (which reflect the actual costs incurred), third party access services, capacity allocation mechanisms, congestion management, balancing and imbalance charges, secondary markets and information and confidentiality provisions. Regulation(EC)No. 1775/2005 established a committee of national energy experts with the authority to revise the rules annexed to the Regulation. In July 2009, it was replaced by the E.U. Natural Gas Transmission Regulation which was adopted as a part of the E.U. Energy and Climate Change Policy.

Development of Legislation

The E.U. Natural Gas Transmission Regulation complements the E.U. Third Gas Directive and stipulates rules for natural gas transmission networks, gas storage and liquefied natural gas facilities. It concerns access to infrastructure (by determining the establishment of tariffs for access to networks), services to be offered, allocation of capacity, transparency and balancing of the network. It provides for access to maximum network capacity as well as storage and liquefied natural gas facilities for all market participants. Infrastructure operators have a duty to implement and publish non-discriminatory and transparent congestion-management procedures.

In the same way that the E.U. Regulation on Electricity Cross-Border Exchanges created ENTSO, it created the European Network of Transmission System Operators for Gas (the "**ENTSO for Gas**"), comprised of gas transmission network operators from all Member States.

On 30 April 2015, in order to further encourage and facilitate efficient gas trading and transmission across gas transmission systems within the E.U., and thereby to move towards greater internal market integration, the Commission issued Regulation (E.U.) 2015/703 Establishing a Network Code on Interoperability and Data Exchange Rules.

Security of Electricity Supply

In 2006, the E.U. adopted Directive 2005/89/EC concerning measures to safeguard security of electricity supply and infrastructure investment (the "**Directive on the Security of Supply**"), which requires that E.U. Member States ensure a high level of security of electricity supply by taking necessary measures to facilitate a stable investment climate. The Directive on the Security of Supply stipulates that the TSOs set minimum operational rules and obligations for network security, which may then require approval by the relevant authority. Member States must also prepare, in close cooperation with the TSOs, a system adequacy report according to the E.U. reporting requirements. Member States were required to transpose the E.U. Directive on the Security of Supply into national law by 24 February 2008. Lithuania transposed this directive into the Law on Energy from 1 January 2009.

By the end of 2016, the Commission had introduced a new regulation on the security of electricity supply, designed to enhance transparency, ensure a common approach and better address cross-border in relation to the security of electricity supply. This instrument is planned to be fully integrated with the redesign of the electricity market as proposed by the Commission on 23 February 2017 in the Proposal for a Regulation of the European Parliament and of the Council on the E.U. internal market for electricity.

Security of Gas Supply

Following the Russian-Ukrainian gas crisis of January 2009, Regulation (E.U.) No. 994/2010 concerning measures to safeguard the security of gas supply and repealing Council Directive 2004/67/EC (the "**E.U. Gas Supply Directive**") was adopted in order to strengthen the prevention and crisis response mechanisms.

The E.U. Gas Supply Directive imposed a number of new rules designed to prevent or mitigate potential disruption to gas supplies. These included risk assessment mechanisms, preventive action plans and emergency plans, a duty to ensure gas supplies to households for at least 30 days under severe conditions and enhancing flexibility of the gas infrastructure (including enabling bi-directional physical capacity on cross-border interconnections).

On 16 February 2016, the Commission submitted a proposal to the European Parliament for a Regulation of the European Parliament and of the Council concerning Measures to Safeguard the Security of Gas Supply and Repealing Regulation (E.U.) No 994/2010. This draft regulation proposes stronger regional coordination, with certain principles and standards being set at the E.U. level. The proposed approach is that Member States should cooperate closely within their regions when conducting regional risk assessments. To ensure E.U. wide consistency, regional risk assessments have to be conducted on the basis of an E.U.-wide simulation, with common standards and a specific scenario. Risks identified through the regional risk assessments will be addressed in regional preventative action plans and emergency plans, to be peer-reviewed and approved by the Commission. To ensure that risk assessments and plans are comprehensive and consistent with one another, the draft regulation sets out mandatory templates listing aspects that must be taken into account when conducting a risk assessment and drawing up the plans. The draft regulation also improves the application of the supply standard to protected customers (mainly households) and the infrastructure standard (the possibility of supplying gas even if the largest infrastructure is not available). Finally, it enables permanent bi-directional capacity and proposes the introduction of additional transparency measures concerning gas supply contracts. On 25 October 2017, Regulation (E.U.) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (E.U.) No 994/2010 was adopted.

Proposed Changes for Energy Infrastructure

In 2011, the Commission launched a proposal for a Regulation on the Guidelines for Trans-European Energy Infrastructure which should ensure completion of strategic energy networks and storage facilities by 2020. The general objective of this initiative is to ensure the sufficient and timely development of energy infrastructures across the E.U. and neighbouring countries in order to facilitate the continuous and unrestricted cross-border flow of energy.

To this end, the Commission has identified 12 priority corridors and areas covering electricity, gas, oil and CO_2 transport networks. Several of Lithuania's gas and electricity interconnection projects are included in the Baltic Energy Market Interconnection Plan in gas and the Baltic Energy Market Interconnection Plan in electricity.

In October 2013, on the basis of Regulation (E.U.) No. 347/2013, effective from June 2013, the Commission approved a list of approximately 250 key projects in the field of energy infrastructure – the "Projects of common interest". These key projects will benefit from a more expedient permit-granting process and better regulatory conditions and access to financial assistance from the Connecting Europe Facility, with the aim of speeding-up the realisation of such projects and increasing their attractiveness to investors.

Renewable Energy Sources

The E.U. made commitments to reduce greenhouse gas emissions under the Kyoto protocol for reducing greenhouse gas emissions (the "**Kyoto Protocol**"). Under the Kyoto Protocol, promotion of electricity from renewable energy sources, meaning electricity produced from non-fossil renewable energy sources such as wind power, solar power, geothermal power, wave power, tidal power, hydroelectric, biomass and biogas became a priority for the E.U. To this end, in 2009 the E.U. institutions adopted Directive 2009/28/EC on the Promotion of the Use of Energy from Renewable Sources (and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC) (the "**E.U. Renewable Energy Directive**") as a part of the E.U. Energy and Climate Change Legislation.

The E.U. Renewable Energy Directive establishes a target for each the Member State reflecting their different starting points and potential for increasing renewables production based on the contribution of renewable energy to their gross final consumption for 2020. This target is in line with the 20-20-20 goal for the E.U. as a whole.

On 30 November 2013, the Commission launched the Clean Energy package, including a recast of the E.U. Renewable Energy Directive, in order to drive progress in meeting the goals of the 2030 E.U. Climate and Energy Framework, in particular the binding target across the E.U. of a 27 per cent. share of renewable energy sources in final energy consumption by 2030. Interinstitutional trilogue negotiations have now started and it is expected that it will be adopted in 2019 and would enter into force in 2021.

E.U. Emissions Trading Scheme ("E.U. ETS")

The E.U. ETS is a cornerstone of the E.U.'s policy to combat climate change and its key tool for reducing industrial greenhouse gas emissions cost-effectively.

The first, and still by far the biggest, international system for trading greenhouse gas emission allowances, the E.U. ETS covers more than 11,000 power stations and industrial plants in 31 countries, as well as airlines. In 2020, emissions from sectors covered by the E.U. ETS are expected to be 21 per cent. lower than in 2005. Under Commission proposals, by 2030, they would be 43 per cent. lower. Launched in 2005, the E.U. ETS is now in its phase III, running from 2013 to 2020. A major revision approved in 2009 in order to strengthen the system means that phase III is significantly different from phases I and II. It is based on rules that are far more harmonised than those upon which phases I and II were based.

A single E.U. wide cap on emissions applies in place of the previous system of national caps. This cap decreases each year by a linear reduction factor of 1.74% of the average total quantity of allowances issued annually between 2008-2012. Auctioning, not free allocation, is now the default method for allocating allowances. For those allowances still given away for free, the harmonised allocation rules apply and are based on the ambitious E.U.-wide benchmarks for emissions performance.

300 million allowances are set aside in the New Entrants Reserve (the "**NER 300**") to fund the deployment of innovative renewable energy technologies and carbon capture and storage through the NER 300 programme (the largest funding programmes for innovative low-carbon energy demonstration projects.) The system covers emissions of carbon dioxide ("$\mathbf{CO_2}$") from power plants, a wide range of energy-intensive industry sectors and commercial airlines. Nitrous oxide emissions from the production of certain acids and emissions of perfluorocarbons from aluminium production are also included.

In February 2018, the European Parliament and the Council revised the E.U. ETS Directive to adapt to the IV phase which will start in 2021. For phase IV, the overall number of emission allowances will decline at an annual rate of 2.2%

Energy Efficiency Directive

On October 25 2012, the E.U. adopted the Directive 2012/27/EU on Energy Efficiency amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC ("**Directive 2012/27/EU on Energy Efficiency**"), building on the Energy Efficiency Plan 2011. This Directive establishes a common framework of measures for the promotion of energy efficiency within the E.U. in order to achieve the E.U. target for 20 per cent. increase in energy efficiency and to pave the way for further energy efficiency improvements beyond that date. It lays down rules designed to remove barriers in the energy market and overcome market failures that impede efficiency in the supply and use of energy, and provides for the establishment of indicative national energy efficiency targets for 2020.

The Directive 2012/27/EU on Energy Efficiency was transposed in Lithuania's national legislation in stages by adopting or amending the following legal acts:

- The Energy Resource and Efficient Energy Consumption Monitoring Order approved by the Government decision No. 332 dated 30 March 2016. This decision sets the requirements for the long-term strategy for the renovation of the national building stock;
- The Public Building Energy Efficiency Development Programme adopted by the Government decision No. 1328 dated 26 November 2014. The aim of this programme is to increase energy efficiency in public buildings saving 60 GWh of primary energy by the end of 2020. This programme will also ensure renovation of at least 3 per cent. of the total floor area of the public buildings owned by state or local authorities;
- The Energy Efficiency Requirements for Purchasing Organisations When Purchasing Goods, Services or Buildings approved by the Government Decision No. 621 dated 17 June 2015;
- The Law on Increase of Energy Consumption Efficiency, adopted by the Parliament of the Republic of Lithuania, No. XII-2702 dated 11 November 2016. This law introduces an energy efficiency obligation system and combines it with other alternative measures to achieve the energy saving target by 2020; and
- As well as other legal acts, such as the Law on Energy, the Law on Heat Sector, the Law on Electricity and the Law on Natural Gas.

CO_2 Emissions

The European Energy Strategy establishes a number of headline targets for climate change and energy sustainability pertaining to the main targets of a 20 per cent. reduction in E.U. greenhouse gas emissions as compared to 1990 levels until 2020, and a 43 per cent. reduction by 2030.

The Lithuanian National Strategy for Climate Change Management Policy sets out the action plan for its implementation and defines measurable indicators for CO_2 reduction. As indicated above, it estimates the annual reduction of CO_2 equivalent emissions and the total reduction for the year 2020 as short-term climate change mitigation goals and also establishes a target to decrease CO_2 equivalent emissions by 8.53 million tons by 2020 within the sectors participating in the scheme for greenhouse gas emission allowance trading.

Additionally, the Operational Programme for E.U. Structural Funds Investments for 2014-2020 for Lithuania sets goals for the reduction of total annual greenhouse gas emissions, which imposes a target of 400,000 tons of CO_2 equivalent by 2023.

Transparency of Wholesale Electricity, Gas and Emission Allowances Trading

Wholesale gas and electricity prices are highly sensitive to the variations in production and transmission capabilities. Prices may be influenced by (i) the spread of false information on the availability of these capabilities or (ii) a fall in production. To detect and prevent such electricity and gas wholesale manipulations of markets, the E.U. enacted Regulation (EC) No. 1227/2011 on Wholesale Energy Market Integrity and Transparency (the "**REMIT**"), which, *inter alia*:

- prohibits the use of inside information when buying or selling on the wholesale energy markets;
- prohibits manipulative transactions and the spreading of incorrect information that give false or misleading signals about supply, demand, or prices;
- obliges energy traders to report their transaction data to the Agency for the Cooperation of Energy Regulators (the "**ACER**"). These data include the price, volumes, date and time of transactions, the name of the seller, the name of the buyer, and any other beneficiaries; and
- makes the ACER responsible for the independent monitoring of all wholesale energy trades. If market abuse is suspected, the ACER will request national regulators to investigate. It will also coordinate cross-border investigations.

The E.U. also enacted Regulation (EC) No. 596/2014 on market abuse market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (the "**MAR**") to detect and prevent market manipulation and insider dealing on markets with emissions allowances (including public markets and auctions of emission allowances). The MAR introduced the following tools to prevent the aforesaid practices with respect to emission allowances:

- obligation on market participants to publish inside information relating to emissions allowances;
- obligation on market participants to prepare insider lists;
- obligation on market participants to disclose managers' transactions;
- obligation on market operators and investment firms (banks, brokers) to report suspicious transactions with emissions allowances;
- prohibition on the use of inside information when buying or selling emissions allowances at auction or on public markets; and
- Prohibition on manipulative transactions and the spreading of incorrect information that gives false or misleading signals about supply, demand, or prices.

The obligations to publish inside information, prepare insider lists and to disclose managers' transactions will apply solely to market participants emissions allowances above certain aggregate year CO_2 emissions or (ii) rated thermal input thresholds. These thresholds were set by the Commission as follows:

- the minimum threshold of CO_2 equivalent shall be 6 million tonnes a year; and
- the minimum threshold of rated thermal input shall be 2,430 MW.

The above thresholds are applicable at group level and relate to all businesses owned or controlled by the group parent company.

The Commission has prepared a new energy prices and costs report (published in 2016) providing an overview of the cost of energy, taxes, levies and subsidies. This should contribute to a more informed discussion on different energy price levels in Member States, the different components of energy prices, their influence on the competitiveness of European industry and investment in Europe and in their ability to influence consumer behaviour. As a first step, on 18 November 2015, the Commission presented a proposal for a Regulation of the European Parliament and of the Council on European Statistics on Natural Gas and Electricity Prices and repealing Directive 2008/92/EC a procedure to improve the transparency of gas and electricity prices charged to industrial end-users.

Legislation: the Republic of Lithuania

General Overview

The Lithuanian energy sector is governed by a wide range of laws and regulations which also implement the European legislation described above. The key law focusing solely on the energy sector is the Law on Energy of the Republic of Lithuania ("**the Law on Energy**") which was enacted in 1995 (a new version was enacted in 2002) and contains provisions implementing applicable E.U. legislation. The main provisions of the Law on Energy cover general energy-related activities, the basic principles of energy development and management, the effectiveness of energy and energy resources. The main legislative tools used by the Republic of Lithuania in the regulation of the energy market are as follows:

- the Law on Energy from Renewable Sources of the Republic of Lithuania governs the State management, regulation, supervision, and control of activities in the renewable energy sector, as well as designating the energy network operators, renewable energy producers under state regulation, their supervision, and control of their relationship with the performing institutions;
- the Law on Electricity of the Republic of Lithuania establishes the basic principles governing the management, transmission, organisation, control and supply of electricity, regulation of electricity producers, service providers and consumers, and introduces the provisions for the regulation of the State electricity sector, their supervision and control of institutions of mutual relations of electricity generation, transmission, distribution, supply and consumers' legitimate rights and interests;
- the Law on Energy Market Resources of the Republic of Lithuania establishes the basic principles for the organisation, administration, regulation, supervision and control of the Lithuanian energy resources market, governing the trade in biofuels and natural gas and providing auxiliary protection against fluctuations in the price of energy in public relations;
- the Law on Heat Sector of the Republic of Lithuania regulates the State management of heat, the operator's activities, its relationship with consumer's, networking, and responsibility;
- the Law on Financial Instruments for Climate Change Management establishes the persons engaged in economic activities resulting in greenhouse gas emissions, and the rights, duties and responsibilities of public institutions, the competence of the bodies from which these are comprised, as well as key requirements for the issue, suspension of validity, lifting of suspension and revocation of fluorinated greenhouse gases management certificates;
- the Law on Natural Gas of the Republic of Lithuania establishes the natural gas transmission, distribution, storage, liquefaction and supply-related relationships. This law establishes the rules relating to the organisation and functioning of the natural gas sector, natural gas market access, as well as the transmission, distribution, storage, liquefaction and licensing to supply natural gas, as well as licences to engage in market operator activity. This law also establishes the instruments designed to ensure proper supply of natural gas to ensure the reliability level and develop a common market in the E.U.;
- the Law on Liquefied Natural Gas Terminal of the Republic of Lithuania establishes the general principles and requirements for the launch of the liquefied natural gas terminal in the Republic of Lithuania, its performance and operation and the form of legal, financial and organisational conditions for a liquefied natural gas terminal project; and
- various secondary legislation which provides a framework for procedural aspects of the implementation of the Law on Energy and other laws.

Regulatory Authorities

The main regulatory institutions in the Lithuanian energy market are:

- the Government which develops and implements the State policy in the energy sector; approves the State regulated pricing principles; cooperates with foreign institutions in the energy market; represents the Republic of Lithuania in international organisations; and approves the energy market licensing rules;
- the Ministry of Energy which is responsible for the implementation of the National Energy Strategy, drafting energy supply related laws, implementation of the investment policy in the energy sector and developing a renewable energy sector in Lithuania;
- the NCC whose purpose is to ensure effective competition in the energy market and prevent discrimination between different customers and suppliers. The NCC is also responsible for setting the caps for State regulated

energy prices/tariffs and approving the purchase price for electricity generated from renewable energy sources. The NCC's objectives include: (as far as possible within the limits of its prescribed role) to perform the functions of the State regulating district heating, natural gas, centralised supply of liquefied petroleum gas, electricity, renewable energy, drinking water supply and wastewater treatment sectors, to supervise and exercise control over regulated district heating, natural gas, centralised supply of liquefied petroleum gas, electricity, renewable energy, drinking water supply and wastewater treatment undertakings, as well as the proper implementation and upholding of consumer rights, and ensuring fair competition in the energy, drinking water and wastewater treatment sectors;

- the State Energy Inspectorate under the Ministry of Energy of the Republic of Lithuania (the "**Inspectorate**"), which exercises the State control over energy facilities and energy equipment in Lithuania. It's main purpose is to ensure the reliable, efficient and secure generation, supply and use of energy resources and energy. The Inspectorate issues licences for energy market activities, ensures compliance with the requirements for the installation and reconstruction of energy facilities; draws up the certificates granted to new installations; investigates accidents affecting the installations; exercises control over energy facilities, and over safety, performance, power of energy equipment, and reliability and efficiency of energy generation, transmission, distribution and supply; and
- the Ministry of Environment of the Republic of Lithuania is the main managing authority of the Government, which forms the country's State policy of environmental protection, forestry, utilisation of natural resources, geology and hydrometeorology, territorial planning, construction, provision of residents with housing, utilities and housing, as well as coordinates its implementation.

Electricity Sector

Licensing Regime

In the electricity energy sector the following activities are licensed (licences are issued by the NCC): transmission, distribution, and public supply. A public supply of electricity is carried out on the basis of legal obligation, in particular if a consumer has not chosen the electricity supplier or such supplier does not provide services, the electricity supply is guaranteed by the distribution system operator. Currently, this function is performed by the State-owned company ESO which is also the distribution network operator of electricity and natural gas (the "**DSO**"). The licences are issued for an unlimited period of time, except when the TSO is not yet licensed. In such cases a temporary licence for 12 (twelve) months is issued in order to ensure system reliability and stability. Requirements for companies seeking obtain a specific licence are defined in the Licensing rules for activities in electricity sector, adopted on 20 June 2012 by the Government. Persons, wishing to get, change, specify, issue a duplicate, stop or cancel certain licences must submit an application to the NCC and follow other requirements defined in the Licencing rules for activities in the electricity sector. Charges for these services are indicated in the rules approved by the Government.

Electricity Generation

Authorisation to Construct Power Plants

If a company wishes to construct a power plant with an installed electricity generation capacity, it must obtain an authorisation from the Inspectorate. Alongside the request submitted to the Inspectorate, the company should provide an environmental impact assessment report, health impact assessment, and the grid connection conditions received from the TSO or DSO. The procedure is simplified if the capacity of the facility is 10 MW or less. A permit is not necessary if a person intends to construct or develop the power plant facility with a capacity not exceeding 10 MW to produce electricity for private use (i. e. without electricity supply to the electricity grid).

Emission Charges

Lithuania has been successfully implementing its commitments to reduce the emissions of greenhouse gas by 8 per cent. below 1990 level during the period of 2008-2012 under the Kyoto Protocol. By 2010, the greenhouse gas emissions in Lithuania had been reduced by 58 per cent. as compared to 1990. In order to ensure the implementation of the E.U. climate change policy milestones designated for short-term (by 2020), midterm (by 2030 and 2040) and long-term (by 2050) the Strategy for National Climate Change management Policy for 2013-2050 and the Plan of Measures for its Implementation have been adopted by Lithuania.

Emission Limits

Pursuant to Decree No. D1-528 of the Minister of Environment dated 15 July 2013, which implemented E.U. Directive 2010/75/EC on industrial emissions (on Integrated Pollution Prevention and Control) (the "**Industrial Emissions Directive**") requires that Lithuania, as a Member State must impose more stringent NO_X, sulphur dioxide and dust emission limits on large combustion plants. The specific level of such emission limits depends on various factors, including total rated thermal input, the type of fuel used by the combustion plant or the date on which such plant was put into operation (or was granted a permit).

In December 2013, the Commission introduced the "Clean Air Policy Package" to reduce emissions and air pollution within the E.U. The package, *inter alia,* includes proposals for directives on (i) the reduction of national emissions of certain air pollutants by stipulating stricter national emission ceilings in the period from 2020 to 2030, provided that Member States will be obliged to propose the measures to meet these ceilings (the proposal for this directive was withdrawn by the Commission in December 2014); and (ii) the limitation of emissions of certain air pollutants emitted by medium combustion as a supplement to E.U. Directive 2010/75/EC on industrial emissions. The first proposal is still in the legislative process, as the European Parliament returned it for reconsideration to the committee responsible for the proposal, and the second proposal has been enacted as E.U. Directive 2015/2193 and is to be implemented by Member States by 19 December 2017. E.U. Directive 2015/2193 was transposed in Lithuania by Decree No. D1-778 of the Minister of Environment dated 18 September 2017 which foresees gradual increase in emission reduction requirements for medium combustion plants.

Exceptions to the Emission Limits

Directive 2010/75/EC of the European Parliament and of the Council on industrial emissions lays down the rules on integrated prevention and control of pollution arising from industrial activities to prevent or, where that is not practicable, to reduce emissions into the air, water, and land and to prevent the generation of waste. This Directive imposes tighter emissions standards on existing combustion plants with a thermal input greater than 50 MW from 2016. During the period from 1 January 2016 to 30 June 2020, Member States may draw up and implement a transitional national plan covering combustion plants which were granted their first integrated pollution prevention and control permit before 27 November 2002 or the operators of which had submitted a complete application for a permit before that date, provided that the plant was put into operation no later than 27 November 2003. For each combustion plant, the plan must cover the emissions of one or more of the following pollutants: nitrogen oxides, sulphur dioxide, and dust. For gas turbines, only nitrogen oxides emissions are covered by the plan.

The Government, taking into account the reasonable concerns of the companies operating combustion plants, took advantage of the above provisions of the Directive allowing the submission of a transitional national plan to the Commission. This step was aimed at postponing the implementation of emissions standards until 30 June 2020 with respect to combustion plants included in the plan. This postponement is necessary to allow market participants to plan and allocate necessary investments without causing significant disproportionate price increase for consumers.

The following combustion plants are included in the plan submitted to the Commission: Kaunas Combined Heat and Power Plant, Vilnius Combined Heat and Power Plant No. 2 , Vilnius Combined Heat and Power Plant No. 3, Vilnius Ateities District Boiler House No. 8, Alytus District Boiler House and Marijampolė District Boiler House of Marijampolės Šiluma.

The Commission evaluated Lithuania's plan according to the established rules and approved it on 11 December 2013. The air pollution abatement measures listed in the plan must be implemented between 1 January 2016 and 30 June 2020 thereby ensuring the compliance with the annual thresholds of emissions of sulphur dioxide, nitrogen oxide and particulate matter specified in the plan for that period.

Since the plan is applicable to Lithuania, the requirements for each combustion plant laid down in the plan will be incorporated in the terms of the integrated pollution prevention and control permit issued to the particular plant. These permits are issued by the Ministry of Environment pursuant to the order approved by the Minister of Environment.

Carbon Compliance (Emission allowances)

History of Carbon Compliance Phase II

There are two sets of targets to evaluate: (1) the Kyoto Protocol targets for the period 2008-2012 (which has just ended) and (2) the 2020 targets for emissions not covered by the E.U. ETS.

Under the Kyoto Protocol, the emission reduction target for Lithuania for the period 2008-2012 were set at minus 8 per cent. based on 1990 levels of CO_2, CH_4 and N_2O. Lithuania successfully fulfilled these commitments. According to the National Greenhouse Gas Inventory Report 2012, greenhouse gas emissions amounted to 20.809 million tons of $CO_2$2 (excluding the land use, land use change and forestry sectors) in 2010, which is 58 per cent. less than the level of the greenhouse gas emissions produced in 1990, which equalled 49.430 million tons of CO_2.

Current Carbon Compliance—Phase III

Directive 2009/29/EC amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community dated 23 April 2009, set out the basis for Phase III to the E.U. ETS, which began on 1 January 2013. Phase III introduced significant changes of the E.U. ETS, including (i) auctioning as the default method for allocation of emission allowances, (ii) a longer trading period (8 years, compared to 5 years under Phase II) and (iii) a greater harmonisation of the rules relating to the emissions allowances allocation. In addition, E.U. Member States no longer submit their national allocation plans for approval. In their place, the Commission set a single E.U. wide cap for available emission allowances. The cap for the year 2013 was 2.08 billion per annum; from 2013 until 2020, the cap is decreased each year by 1.74 per cent. of the average annual total quantity of emissions allowances issued by Member States between 2008 and 2012, which, in absolute terms, is an annual reduction of approximately 38.3 million emission allowances.

Allocation of Emissions Allowances During Phase III

With effect from 1 January 2013, Phase III rules prohibit the allocation of emissions allowances for free to electricity producers. In general, the electricity producers have to buy emissions allowances at auction or on the E.U. ETS market. From 2013, more than 40 per cent. of the emissions allowances are to be sold through auctions and this proportion will progressively increase in the following years.

There is an option for 10 E.U. Member States to provide electricity producers with transitional allocations of emissions allowances for free, if the conditions under Article 10(c) of the E.U. Directive 2003/87/EC, Establishing a Scheme for Greenhouse Gas Emission Allowance Trading within the Community and amending Council Directive 96/61/EC (the "**E.U. Directive 2003/87/EC**") are satisfied (the "**Derogation**"). The E.U. legislation requires electricity producers which benefit from this exemption, to invest in the modernisation of their power plants. The value of these investments must mirror at least the value of the allocation of emissions allowances allocated for free. The transitional period will continue further into the phase IV, after 2020, pursuant to Directive 2018/410 amendments.

To strengthen the functioning of the emission allowances market in the period from 2013 to 2020, the Commission has the power to amend the timetable of emissions allowances auctions (the back-loading of emissions allowances). To mitigate the negative impacts of an imbalance between supply of and demand for emission allowances on the E.U. ETS market, the Commission decided, in February 2014, to decrease the amount of the emissions allowance that were supposed to be auctioned in 2014, 2015 and 2016 by 400, 300 and 200 million of the emissions allowances, respectively. According to E.U. decision of the European Parliament and of the Council in October 2015, allowances which have not been auctioned in 2014, 2015 and 2016 were transferred to a market stability reserve that shall operate from January 2019. The reserve should address both the surplus of emission allowances and improve the system's resilience to major shocks by adjusting the supply of allowances to be auctioned. The effectiveness of the market stability reserve will depend on the terms of a compromise reached among the European Parliament, the European Council and the Commission. Discussions are currently being held in the European Parliament and the Council on temporarily doubling the rate at which allowances will be placed in the reserve. On 15 May 2018, the Commission reduced emission allowances to be auctioned by 265 million for the first 8 months of 2019. Next publication of the total number of allowances in circulation will take place by 15 May 2019. On this date the Commission will determine the reserve feeds taking place for the remainder of 2019 and the first 8 months of 2020, i.e. from 1 September 2019 until 31 August 2020.

Renewable Energy Sources

History of Renewable Energy Sources

On 10 January 2007, the Commission launched its Climate and Energy Package for the E.U. to achieve a 20 per cent. reduction in greenhouse gas emissions by 2020. Based on the E.U. Renewable Energy Directive, Lithuania has undertaken to increase the share of renewable energy sources (the "**RES**") in national energy consumption by up to 23 per cent. by 2020 and to increase the share of the RES in all modes of transport by up to at least 10 per cent. of consumption in the transport sector. The Law on Energy from Renewable Sources contains sectoral objectives: to increase the share of electricity produced from RES by up to at least 20 per cent. of national consumption, to increase the share of centrally supplied heat energy produced from RES by up to at least 60 per cent. of the heat energy balance, and to increase the share of RES used in households by up to at least 80 per cent. of the total energy consumption balance.

It should be noted that on 12 May 2011, the Law on Renewable Energy Resources of the Republic of Lithuania came into force, which listed as its the key objective to reach the stage where a minimum of 23 per cent. of the country's overall final energy consumption is met by the use of RES. Under this law, the NCC was granted powers of regulation, surveillance and control over RES. In accordance with its new powers, the NCC passed and amended multiple legal acts.

Current Legislation

The main Lithuanian provisions relating to RES are set out in the Law on Renewable Energy Sources of the Republic of Lithuania. This legislation sets out how electricity from renewable sources is to be promoted mainly through a sliding feed-in tariff. The RES plants with installed capacity exceeding 10 kW acquire the guaranteed tariff rates through tenders. The producers of renewable electricity may also be eligible to apply for subsidies and loans from the Lithuanian Environmental Investment Fund and the Climate Change Special Programme, and are exempt from excise duty.

Renewable electricity generation in Lithuania is mostly supported by the feed-in tariff. A feed-in tariff is a minimum guaranteed unit price for electricity paid to the generators of electricity from RES which goes to supply public electricity grids. All electricity produced by renewable energy plants whose total installed capacity does not exceed

10 kW must be purchased at the tariff set by the NCC. Tariff rates are set by the NCC on a quarterly basis. Except for electricity generated from geothermal power, all forms of renewable electricity generation are eligible for this support scheme. In 2011, the Law on Energy from Renewable Sources introduced a cap on feed-in tariff payments for each eligible form of renewable electricity generation. This means that only a limited amount of electricity produced with a particular form of renewable electricity generation will be supported through the feed-in tariff scheme.

Guaranteed tariffs for renewable energy plants with a total installed capacity of more than 10 kW are awarded in auctions organised by the NCC. Each quarter the NCC sets the maximum tariff for the subsequent tender procedures.

Amendments to the Law on Renewable Energy Resources of the Republic of Lithuania came into force on 1 February 2013. As part of these, the NCC approved amendments to the Methodology for Setting the Tariffs of Electricity Produced by Using Renewable Energy Resources (approved on 22 February 2013, No. O3-41). The most important changes include the following:

- the tariffs must be recalculated four times per year. Originally, the tariffs for electricity produced by using RES were set for a year. The definition of a small power plant was changed: the installed capacity of a small power plant was limited to a maximum of 10 kW;
- the tariffs for excess electricity are to be applied to small power plants, and they must not be approved more often than 4 times per year. Before the amendments, the fixed tariffs were applied;
- the installed capacity of the connected facilities has been changed; and
- with regard to the fast improving technologies, the increase of their efficiency was replaced by the technological capacity ratios.

In 2016, the share of RES in the total energy balance of the country reached up to 25.77 per cent.

At the moment no auctions are organised by the NCC, as the quota for renewable energy sources are already allocated for all market participants. However, discussions concerning Lithuania's new National Energy Independence Strategyare ongoing and it is planned that in late 2018 new quotas for RES will be confirmed (and it is expected to approve quotas for at least 250 MW power generation capacities through technology neutral RES auctions).

Transmission and Distribution of Electricity

History

A special purpose joint stock company Lietuvos energija was established in 1995. In 2001, the shareholders resolved to restructure Lietuvos energija, which was divided into a number of separate independent companies: Lietuvos Elektrinė, AB; Mažeikių Elektrinė, AB; Rytų Skirstomieji Tinklai, AB; Vakarų Skirstomieji Tinklai, AB. Lietuvos energija, UAB continued to operate as a transmission network operator and market operator. Liberalisation of the electricity sector in Lithuania began with the implementation of the Law on Electricity of the Republic of Lithuania in 2002. The vertically integrated company Lietuvos energija, UAB was divided into a separate transmission company, two distribution companies and two generation companies. Regulated third party access to the grid was ensured pursuant to the requirements of the Third Energy Package. The Law on Electricity of the Republic of Lithuania was amended in 2004 in order to ensure compliance with the requirements of the E.U. Second Electricity Directive that all commercial consumers would be free to choose a supplier. In 2009, Litgrid, AB was established as a new subsidiary of Lietuvos energija. The company was mainly responsible for electricity transmission. In the electricity sector, the ownership unbundling model was chosen by Lithuania to unbundle the State-owned TSO Litgrid, AB. Lithuania, thus, made use of the possibility provided for in Article 9(6) of the Electricity Directive to implement the ownership unbundling model by means of separate public bodies within the State.

Current Structure

Currently, following the implementation of the Third Energy Package in the electricity sector, Lithuanian transmission and distribution systems in the electricity sector are structured as follows:

- The TSO Litgrid, AB is a subsidiary of the State holding company EPSO-G, UAB which owns 97.5 per cent. of the shares in Litgrid AB, with the remaining 2.7 per cent. of shares owned by minority shareholders. EPSO-G, UAB is controlled by the Ministry of Energy of the Republic of Lithuania.
- The distribution system operator ESO is a subsidiary of the Issuer, which owns 94.98 per cent. of the shares in ESO, with the remaining 5.02 per cent. of shares owned by minor shareholders. The full ownership unbundling model has been implemented in the electricity transmission system.
- The management, accounting and legal unbundling models have been implemented in the distribution system.
- The Law on Electricity provides that all customers be given the option to choose an independent electricity supplier. The customer's choice is unrestricted except in instances where a customer's facility corresponds only to a particular category of capacity. With effect from 1 January 2015, customers have been free to choose

(and change) electricity supplier and this market is fully liberalised.

- Public electricity supply, which is provided by the distribution system operator ESO, AB, ensures a guaranteed supply of electricity to customers that have not chosen an independent electricity supplier or whose chosen supplier fails to fulfil its obligations.

Participants

As per the above, the following categories of electricity market participants now operate in Lithuania:

- electricity generators (producers);
- the transmission grid operator (Litgrid, AB);
- the distribution system operator (ESO);
- electricity traders; and
- end-consumers.

Price of Electricity

The public electricity price and tariffs are set by the public supplier and approved by the NCC for six calendar months. Electricity is supplied to customers by both public and independent suppliers.

The electricity price currently consists of the following elements: the electricity purchase price; the transmission price; the PSO fee; distribution costs; the difference between the public supply price and the actual electricity purchase price, on the one hand, and the estimated electricity price in the previous period. The electricity purchase price is market based. By contrast, the transmission price is regulated by the NCC which sets upper price caps. The actual price (not to exceed the cap set by the NCC) is determined by the electricity TSO Litgrid, AB.

The PSO fee is paid for services which are in the public interest, as designed by the Government. According to the Law on Electricity of the Republic of Lithuania in order to implement the strategic goals of the national energy, economic and environmental policies and guarantee services which are on the public interest, the Government, in accordance with the provisions of the laws regulating the legal framework governing the operation of this and other energy sectors, may determine that the services which are in the public interest include:

- the generation of electricity from RES;
- the generation of electricity in a co-generation mode in combined power and heat generation plants where these plants supply heat to the heat systems and amount of energy saved is such that the combined heat and power generation may be considered cost effective;
- the production of electricity in plants whose electricity generation is deemed necessary to ensure the security of the energy supply;
- ensuring that a reserve of electricity system is maintained in plants whose operation is deemed necessary to ensure the energy security of the State;
- the development of electricity generation capacities that are strategically important for ensuring the security and reliability of the electricity system or energy independence of the State;
- the implementation of strategic electricity sector projects related to improving energy security by constructing new interconnectors with the electricity systems of other countries and/or connecting the electricity system of the Republic of Lithuania with the electricity systems of other Member States;
- operations to ensure the safe operation of technical instruments and the management of radioactive waste;
- distribution costs which are regulated by the NCC setting maximum price caps. Particular prices not exceeding the caps are determined by the electricity distributions system operator ESO; and
- public supply pricing which is regulated by the NCC setting maximum price caps. Particular prices not exceeding the caps are determined by the service providers.

The sale prices and reserve prices of the electricity producers and independent suppliers are not regulated except for cases when the NCC, after investigation, determines that such producer or independent supplier exercises a significant enough market power that it may affect competition. For these market participants the NCC could impose certain obligations. In 2012 the NCC has decided that LEG exercises a significant market power and determined price caps for reserve prices.

The NCC supervises the energy sector on behalf of the State, publishes the public electricity price and tariffs and lists of public and independent suppliers.

The NCC, in accordance with the Methodology on the Rate of Return on Investments, approved by the Commission Resolution No. O3-510 as of 22 September 2015, publishes data on the calculation of the rate of return on investments (the "**WACC**"). This Resolution applies to electricity, natural gas, heat and hot water supply sectors where state regulated prices are applicable. The data is to be used by electricity companies for setting the price caps for the regulatory period of 2017-2021. For the calculation of the WACC, the following factors are taken into consideration: capped debt servicing costs expressed as a percentage, return on equity expressed as a percentage, share of equity capital (optimal capital structure), share of debt capital (optimal capital structure), and tax rate.

Trading

Wholesale trade in the domestic market for electricity is conducted using two methods: trading under bilateral agreements and trading on the electricity exchange. The aim is to make trading on the exchange the main method by which wholesale electricity is supplied. Since 18 June 2012, wholesale trading on the Lithuanian Electricity Exchange has been administered by Nord Pool Spot AS, an operator of the Nordic and Baltic electricity exchanges. It should be noted that on 31 May 2018 the NCC approved the offer received from the Baltic States transmission operators for operation of more than one electricity exchange operator in the Baltic States. Therefore, it opened the way for Epex Spot (which previously expressed its interest) and other power exchanges to enter the Lithuanian market.

Heating Energy Sector

The main legal acts regulating the heating energy sector are the Law on Heat Sector of the Republic of Lithuania and the National Heat Sector Development Programme for 2015-2021 (the "**Heat Programme**") approved by the Government on 18 March 2015. The Heat Programme aims to assess and identify the primary objectives of the heating sector and the ways in which they can be implemented, taking into consideration domestic and international trends in the environmental and energy sectors as well as economic conditions. Lithuania's primary strategic goal in the heating industry is to increase the efficiency of heat generation, transmission and consumption, as well as (where economically reasonable), to replace imported natural gas used for the production of heat with sustainable local and renewable energy sources in order to reduce the costs of heat.

The Law on Heat Sector of the Republic of Lithuania requires the creation of effective competition in the heat sector. Therefore, it stipulates that heat suppliers must purchase from independent heat producers heat energy produced from renewable sources, as well as waste incineration and fossil fuel that fulfils environmental quality and reliability of supply requirements. The NCC sets rules and conditions for the purchase of heat from independent heat producers. In all cases, the price of heat energy purchased from independent heat producers cannot be higher than the comparative heat production costs of the heat supplier.

Lithuanian legislation provides that the activities of all heat suppliers are regulated by the energy market regulator, i.e. the NCC. The NCC approves the maximum prices of heat suppliers. There are two types of heat producers:

- regulated heat producers which own or control heat production or cogeneration facilities that are financed either by E.U. funds, national financing sources for renewable energy, a state or municipal grant or subsidy, or have received feed-in tariffs for electricity production and independent heat producers or a group of independent heat producers producing more than 1/3 of district heating per year;
- non-regulated independent heat producers which are not subject to the control of the NCC and may set heat prices at their own discretion.

The following requirements apply in respect of regulated independent heat producers:

- the separation and allocation of costs, and heat pricing determined by the NCC;
- that heat prices be based on essential (State-regulated) costs of production; and
- costs of heat are controlled by the NCC which sets the maximum price regulated that independent heat producers can charge.

The NCC is engaged in the regulation of heat energy suppliers producing over 10 GWh of heat energy per year, while smaller heat suppliers are regulated by municipalities. A heat supplier and/or a regulated independent heat producer must provide the NCC with a justification for their prices, which are to be approved by the NCC.

New heat producers are entitled to enter the district heating market (as independent heat producers regardless of whether they are regulated or not) if they get access to the district heating system. In this case, they must submit an application to the district heating supplier in order get a connection between a heat production facility and the district heating system. The application must show that such a connection is feasible and complies with the economic and technical requirements of the district heating supplier.

A decision to refuse to provide a connection may be appealed to the NCC. In many cases, the NCC has overturned decisions by district heating suppliers and granted the requests of potential independent heat producers. Therefore, entering the district heating production market should be seen as a realistic opportunity.

Licensing requirements

Heat suppliers must hold a licence for the supply of heat. The NCC issues licences to those supplying at least 10

GWh of heat per year, taking into account recommendations provided by municipal authorities. It also has the power to suspend licences, and exercise control over licensed activities. The licences for suppliers of heat who provide less than 10 GWh of heat per year can be issued, suspended or cancelled by the city municipality. If a heat producer sells heat to a heat supplier, requirement to hold a licence is not applicable, but if a heat producer sells heat directly to consumers, the producer must have a heat supply licence. Meanwhile, a permit granted by a municipality is required in order to sell electricity produced by a combined heat and power plant.

Participants

As per the above, the following categories of heat market participants operate in Lithuania:

- suppliers of district heating;
- non-regulated independent heat producers;
- regulated independent heat producers; and
- end-consumers.

Heat Auctions

From 1 December 2018 new rules on heat auctions will come into effect. According to the new rules, the amount of heat purchased from independent heat producers and (or) generated by heat facilities of the heat suppliers are determined under the heat auction organised by the energy exchange operator.

Heat suppliers and independent heat producers participate in the heat auction organised by the energy exchange operator and submit proposals for the heat production and (or) purchase and, having won the auction, in accordance with the auction results produce and (or) sell the amount of heat at the price indicated in the offer. The lack of heat that was not purchased through the heat auction, the heat supplier produces by available heat production facilities.

In all cases, heat is produced and / or purchased at a price not higher than the comparable heat production costs of the heat supplier calculated under the requirements set by the NCC.

Gas Sector

The natural gas sector is governed by the E.U. Energy Regulation and, in particular, by the Third Energy Package which has been transposed into the Law on Natural Gas of the Republic of Lithuania and the Law on the LNG Terminal of the Republic of Lithuania. Lithuania has chosen to implement the full ownership unbundling model in the natural gas sector pursuant to the requirements of the respective Directives.

Licensing Regime

The following activities are licensed in the natural gas sector (licences are issued by the NCC):

- transmission;
- liquefaction;
- storage;
- distribution; and
- system operator activities.

The licences are issued for an unlimited period of time. The NCC issues licences pursuant to the same security, reliability and non-discriminatory principles as applicable to the licensing regime for the electricity sector (please see "*—Electricity Sector—Licensing Regime*"). On 1 January 2018 amendments to the Law on Natural Gas of the Republic of Lithuania came into effect and from 1 January 2018 the activity of natural gas supply (except trading in natural gas exchange and gas stations) were considered to be regulated by permissions, instead of being a licensed activity. Trading in natural gas exchange and gas stations is not regulated by permissions or licenses.

Transmission and Distribution of Gas History

The Lithuanian natural gas market is not integrated with other E.U. Member States. Lithuania has the only connection with Belarus which is used for constant supplies. The connection with Latvia is meant only for emergency cases,

i.e. ensuring uninterrupted gas supply in the event of a supply failure in the sole gas connection with Belarus. It is therefore not used for common gas supply activities. The existing gas connection with Belarus has sufficient technical capacities to meet customer needs, but dependency on the single connection is not ideal.

Lithuania does not have its own natural gas resources. Gas used to be imported to Lithuania by a single importer, OAO Gazprom, and supplied mainly by Lietuvos Dujos, AB and Dujotekana, UAB. The wholesale sector of the natural gas market did not see any significant changes until the liberalisation of the market in 2012 by the adoption of the Law on the LNG Terminal of the Republic of Lithuania and amendments to the Law on Natural Gas of the

Republic of Lithuania.

The situation in the distribution market was similar to the one described above. Lietuvos dujos, AB had a 99 per cent. share of the distribution market. Six other companies were entitled to engage in distribution activities but provided distribution services only in individual regions, and their total share of the overall distribution market made up only 1 per cent.

On 10 April 2015, the NCC issued a statement that the gas transmission business ownership unbundling model of Amber Grid, AB was broadly consistent with the applicable provisions of the E.U. Third Energy Package and the Law on Natural Gas of the Republic of Lithuania. Amber Grid, AB was issued an open-ended gas transmission business licence and was designated as a TSO.

Lietuvos energija, UAB signed agreements with German company E.ON Ruhrgas International to acquire 38.9 per cent. of the shares in Lietuvos Dujos, AB and 11.76 per cent. of the shares in LESTO, AB. Lietuvos energija, UAB has since acquired a further 40.03 per cent. of the shares in Lietuvos Dujos through a tender procedure and now owns 96.63 per cent. of the shares in Lietuvos Dujos, AB.

ESO (the distribution system operator) was established in accordance with the terms of reorganisation approved by the extraordinary meeting of shareholders of LESTO, AB and Lietuvos Dujos, AB on 3 December 2015 pursuant to which a contract was signed on 31 December 2015. On the basis of this contract, ESO took over all the assets, rights and obligations of LESTO, AB and Lietuvos Dujos, AB. ESO's core line of business is electricity supply and electricity and gas distribution.

Pursuant to the Regulation (E.U.) No. 994/2010 Concerning Measures to Safeguard the Security of Gas Supply and Repealing Council Directive 2004/67/EC, Member States were required to ensure that measures were taken by no later than 3 December 2014, to ensure that in the event of disruption of the single largest gas infrastructure, the capacity of the remaining infrastructure would be able to satisfy the total gas demand of the calculated area during a day of exceptionally high gas demand.

The Law on the LNG Terminal of the Republic of Lithuania was enacted in June 2012 and amended in June 2013 and November 2015. The Law on the LNG Terminal sets forth the general principles and requirements for the construction of the LNG Terminal in the territory of the Republic of Lithuania, its activities and operation, and establishing the legal, financial and organisational conditions for the implementation of the LNG Terminal project. The LNG Terminal has enabled the diversification of Lithuania's natural gas supply, increasing the security and reliability of this supply. The amendment to the Law on the LNG Terminal made in June 2013 provided that the building costs of the LNG Terminal, its infrastructure and the connection, which cannot be financed from other sources available to Klaipėdos Nafta, AB, as well as all the fixed operating costs of the LNG Terminal, its infrastructure and connection are included in the natural gas transmission price in accordance with the procedure established by the NCC as a supplemental element of natural gas supply security. The supplemental element is collected, administered and paid out to the LNG Terminal Operator or Klaipėdos Nafta, AB and designated supplier (LITGAS) by the natural gas TSO – Amber Grid, AB.

According to the amendment of the Law on the LNG Terminal of November 2015 reasonable costs incurred in supplying the required quantity of gas from the LNG Terminal are also included in the natural gas transmission price.

After the construction of the LNG Terminal in Klaipeda was finished, negotiations with Norwegian energy company Statoil ASA were completed and a five-year LNG supply contract was signed by LITGAS, the designated supplier, in August 2014. Statoil ASA is viewed as a reliable partner for alternative gas supply to Lithuania, providing Lithuania's gas market participants with an opportunity to choose alternative gas suppliers. Moreover, in 2016, other market participants – Achema, AB and LDT – concluded gas supply contracts with Statoil ASA.

Current Structure

Following the implementation of the applicable E.U. legislation and the transposition of the Third Energy Package, the Lithuanian transmission and distribution systems are structured as follows:

- in October 2014, natural gas transmission activities were completely separated from vertically integrated company Lietuvos Dujos, AB which was controlled by OAO Gazprom, E.ON Ruhrgas International and the Republic of Lithuania, and were transferred to a new company, Amber Grid, AB;
- Amber Grid, AB is the operator of Lithuania's natural gas transmission system and is in charge of the transmission of natural gas (transportation of natural gas through high-pressure pipelines) to system users, and the operation, maintenance and development of the natural gas transmission system. Amber Grid, AB is owned by UAB EPSO-G which holds 96.58 per cent. of its shares, with minority shareholders holding 3.42 per cent. of the shares;
- natural gas supply services were transferred to a new company, LDT, which has been ensuring the supply of natural gas to household customers, non-household customers and other consumers since 1 November 2014;

- natural gas distribution activities are carried out by ESO which was established by way of a merger between LESTO AB (which performed electricity distribution activities) and Lietuvos Dujos, AB (which acted as the natural gas distribution system operator). ESO is controlled by the Issuer which holds 94.98 per cent. of its shares, with minority shareholders holding the remaining 5.02 per cent.;
- on 27 November 2014, Klaipėdos Nafta, AB, which implemented the LNG Terminal project, received a natural gas liquefaction licence and undertook the activities of the LNG Terminal operator in 2015;
- management, accounting and legal separation has been implemented in respect of the distribution systems; and
- GET Baltic, UAB was the only company holding a natural gas market operator's licence in 2015. The main functions of the market operator include the organisation of secondary trading of natural gas on the natural gas exchange.

Price of Gas

Prices in the gas sector are either State-regulated or non-regulated. Prices are regulated by the setting of price caps by the NCC. In the natural gas sector, prices are regulated by setting price caps for transmission, liquefaction, storage, distribution, and guaranteed supply. By setting the exact service prices in the natural gas sector, the NCC regulates natural gas system balancing prices as well as the prices for the connection of new customers to the gas system. The NCC sets the price caps for a five-year term. The prices may be adjusted by the NCC, but no more than once per year except in cases provided for by the Law on Natural Gas of the Republic of Lithuania. The law stipulates that gas undertakings must set their specific gas tariffs for household customers for a period of six months.

The gas tariff per cubic metre consists of the price of imported gas, the costs associated with gas delivery to the customer (transmission and distribution), funds required to ensure security and reliability, the profit margin set for the supplier, and taxes.

The total price paid by the end customer consists of a variable tariff component calculated on the basis of consumed gas and fixed tariff component paid on a monthly basis in order to maintain the working capacity of the system and to ensure a reserve of power in the transmission pipelines, as each customer must be guaranteed to receive a quality service at any time. The fixed tariff includes expenditures on accounting and on the conclusion of contracts (price of supply). The structure of the fixed gas tariff consists of the fixed component of the gas supply price, the fixed component of the gas transmission price, and VAT.

Pursuant to the Methodology for Setting State-Regulated Prices in the Natural Gas Sector approved by Resolution No. O3-367 of the NCC of 13 September 2013, a price cap per capacity unit has been set and adjusted for transmission activities and the pricing model of entry-exit points has been applied since 2015.

The NCC also sets the regulatory mechanism for the calculation of the additional natural gas supply security component of the transmission price covering the fixed LNG Terminal operation costs, the supply costs of the designated supplier, the difference between the price of acquisition of the minimum annual gasified natural gas volume to ensure the mandatory activities of the LNG Terminal, the price of the sale thereof, and the administration costs of the LNG Terminal fund administrator. The security component is applied to natural gas system users and/or natural gas consumers for the natural gas consumption capacities necessary for ensuring their maximum daily needs of natural gas at the delivery points.

Material Environmental and other Related Regulation

The Law on Environmental Protection of the Republic of Lithuania sets out the main rights and duties of legal and natural persons in preserving biodiversity, ecosystems and the landscapes of the Republic of Lithuania to ensure a healthy and clean environment, the rational use of natural resources in the Republic of Lithuania, its territorial waters, continental shelf and economic zone, as well as liability and economic sanctions for legal persons committing environmental violations.

Integrated Pollution Prevention and Control

Directive 2008/1/EC of the European Parliament and of the Council Concerning Integrated Pollution Prevention and Control was adopted on 15 January 2008. In addition, Directive 2010/75/EU on Industrial Emissions (Integrated Pollution Prevention and Control) (the "**Industrial Emissions Directive**") was adopted in 2010. The Industrial Emissions Directive, among other things, provides that Member States must set up a system of environmental inspections of the installations concerned and sets out the best techniques. Member States were required to transpose the Industrial Emissions Directive into their national law by 7 January 2013. Order No. D1-528 of the Minister of Environment of the Republic of Lithuania "Regarding the Issuance and Withdrawal of Integrated Pollution Prevention and Control Permits" (the "**IPPC Act**") has implemented the Industrial Emissions Directive.

This IPPC Act also lays down rules designed to prevent or, where that is not practicable, reduce emissions into the air, water, and land and to prevent the generation of unnecessary waste, in order to achieve a high level of protection of the environment taken as a whole.

It should be noted that there are numerous other legal acts, such as the order of the Minister of Environment on the

Issuance of Pollution Permits, the order of the Minister of Environment on the Waste Management Rules, etc. which implement the requirements for integrated pollution prevention and control.

General Liability

Under the legislation of the Republic of Lithuania and the E.U., liability can be administrative, criminal and civil depending on the damage to the environment. Liability for environmental damage can also be incurred under E.U. environmental law. In the Republic of Lithuania, liability for environmental damage is governed by the Law on Environmental Protection, the Code of Administrative Violations of Law, the Criminal Code and other legal acts.

The "Polluter Pays" Principle

The Lithuanian Law on Environmental Protection has transposed E.U. Directive 2001/42/EC of the European Parliament into the legal system of the Republic of Lithuania for the assessment of the effects of certain plans and programmes on the environment.

In addition, the Law on Environmental Protection has implemented E.U. Directive 2004/35/CE on Environmental Liability with regard to the Prevention and Remedying of Environmental Damage. The purpose of this Directive is to establish a framework of environmental liability based on the "polluter pays" principle, to prevent and remedy environmental damage.

One of the main legal acts of the Republic of Lithuania implementing the "polluter pays" principle is the Law of the Republic of Lithuania on Pollution Tax. It stipulates that the taxes relating to environmental pollution from mobile and stationary polluting sources must be paid by natural and legal persons that pollute the environment as a result of their economic and/or commercial activities.

The "polluter pays" principle is also laid down in other legal acts of the Republic of Lithuania, such as the Law on Waste Management, the Law on the Management of Packaging Waste, and in other legal acts.

The National Sustainable Development Strategy of the Republic of Lithuania provides that one of the main visions of the State is to gradually transform the principles applied in the tax policy to comply with the "polluter pays" principle. Therefore, this principle is fully and properly implemented in the Republic of Lithuania.

Criminal Liability Towards the State

The Criminal Code of the Republic of Lithuania specifies crimes and criminal offences against the environment and human health and provides for criminal liability of legal persons as well as natural ones. Offenders can be punished by community service, a fine, restriction of liberty, arrest, or imprisonment for a term of up to three years or up to eight years for more serious crimes. The Criminal Code of the Republic of Lithuania provides for liability only for the most dangerous crimes against the environment (e.g. illegal possession of ozone-depleting substances or marine pollution from ships). As previously mentioned, criminal liability applies to both natural and legal persons.

Civil Liability Towards a Third Party

As mentioned above, E.U. Directive 2004/35/CE has been implemented by the Lithuanian Law on Environmental Protection. In addition, this Directive has implemented a strict liability doctrine under which civil liability for environmental offences is imposed on legal persons. The Lithuanian Law on Environmental Protection also provides that civil liability is imposed regardless of the fault of legal persons for environmental damage, except in cases where damage to the environment is deemed negligible, i.e. the damage is insignificant.

Civil liability for environmental offenses may be applicable in conjunction with other forms of legal liability, i.e. criminal or administrative liability. Offenders found to be administratively or criminally liable are usually also required to pay compensation for damage to the environment caused by unlawful acts.

Administrative Liability Towards the State

Administrative liability is an independent type of legal responsibility that applies to natural and legal persons that have committed administrative violations. Administrative liability also entails statutory administrative sanctions to ensure compliance with the requirements of environmental law, to deal with environmental offences, and to enforce environmental law.

The Lithuanian Law on Environmental Protection specifies the cases in which administrative liability for environmental damage is imposed on legal persons, including legal persons from other countries and other organisations and their subsidiaries. Such liability under the Lithuanian Law on Environmental Protection is imposed where offences do not result in criminal liability of legal persons. The main purpose of administrative liability is to impose economic sanctions on legal persons for such breaches of environmental law.

The Code of Administrative Violations of Law of the Republic of Lithuania contains the highest number of provisions related to environmental protection and liability for breaches. It is mainly applied to natural persons. However, there are several offences for which legal persons are penalised under this legal act (in cases where the Criminal Code and/or the Lithuanian Law on Environmental Protection do not provide for liability). Breaches of the Code of Administrative Violations of Law may result in fines ranging from EUR 10 to EUR 6,000. It should be noted that liability for administrative offences may be imposed in the form of a prohibition to engage in certain activities which impact upon the environmental or confiscation of certain tools. The Code of Administrative Violations of Law also provides for the forfeit of assets as well as restriction or suspension of the licences required to pursue some economic activities which have an environmental impact in Lithuania.

Directive on the Deployment of Alternative Fuels Infrastructure

In January 2013, the Commission proposed a directive requiring Member States to adopt national policy frameworks for developing the market for alternative fuels and to ensure that minimum infrastructure is set up for their supply in road and water-borne transport. Each Member State should ensure the establishment of a defined minimum number of recharging points for electric vehicles by the end of 2020 (at least 10 per cent. of them publicly accessible). Ports should be equipped with shore-side electricity supply for vessels by the end of 2015. A sufficient number of hydrogen refuelling points should be set up (no further than 300 km apart) to allow hydrogen vehicles to move throughout the territory (by 2020 in Member States where this technology has already been introduced). The supply of LNG should be available for navigation along the core Trans-European Transport ("**TEN-T**") network in maritime ports (2020) and inland ports (2025), and LNG refuelling points should sustain heavy-vehicle road transport along the TEN-T core network (refuelling points at least every 400 km by 2020). By the end of 2020, Member States should ensure that a sufficient number of natural gas (including bio-methane in gaseous form ("**CNG**")) refuelling points are set up (at least every 150 km) to support CNG vehicles across the E.U. This Directive also requires harmonisation of technical specifications for alternative fuels, and common standards for refuelling and electric charging systems, and more information to consumers on the compatibility of fuels and vehicles.

The Directive requires Member States to develop national policy frameworks for the market development of alternative fuels and their infrastructure. It also provides for the use of common technical specifications for recharging and refuelling stations. Member States had to transpose the Directive into their national law and to submit their national policy frameworks by 18 November 2016.

In Lithuania, the Directive has not been transposed into national law yet. However, the transposition procedures are in progress. On 1 February 2017, the Government adopted Resolution No. 87 "Regarding the Implementation of Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 on the Deployment of Alternative Fuels Infrastructure". This Resolution sets out the responsibilities of the ministries involved and actions to be taken in order to ensure the proper transposition of the Directive.

Waste Management

Directive 31/1999 on the Landfill of Waste stipulates that Member States are obliged to reduce the amount of biodegradable municipal waste going to landfills to 35 per cent. of the total produced by 16 July 2016. In addition, the recently announced Circular Economy Strategy sets a binding landfill target to reduce landfill waste to a maximum of 10 per cent. of municipal waste by 2030. Scandinavian practice is even more ambitious than that – zero waste to landfill. In 2014, Lithuania landfilled 60 per cent. of municipal waste. The average landfilling rate in the E.U. was only 27.5 per cent. in 2014.

The objective of Lithuania is to decrease landfilled biodegradable municipal waste to 35 per cent. in 2020 and to 30 per cent. in 2023. In this context, Lithuania needs to develop and manage the necessary infrastructure for the public interests in order to attain the E.U. waste management goals and avoid possible liability of the State for failure to achieve the predefined reduction targets. The Commission promotes energy recovery from proper waste management and contribution to the E.U. strategy for smart, sustainable and inclusive growth. For the purpose of environmental protection, waste management must be carried out in accordance with a number of waste prevention and management priorities.

Waste Hierarchy Principle

The Law of the Republic of Lithuania on Waste Management provides the basic terms and definitions related to waste management, such as the definitions of waste, recycling and recovery. It explains when waste ceases to be waste and becomes a secondary raw material (the so-called end-of-waste criteria), and how to distinguish between waste and by-products. In addition, the State Waste Management Plan for 2014 – 2020 adopted by the Government, establishes strategic state and municipal waste management objectives, tasks and tools, as well as the principal direction of national and EU level subsidies.

Making the avoidance and reduction of waste generation a high priority encourages the community, industry, and government to reduce the number of virgin materials extracted and used. The goal is to maximise efficiency and avoid unnecessary consumption through behaviours such as: selecting items with the least packaging or that require the fewest resources to produce, avoiding disposable goods or single-use materials, buying products that are recycled, recyclable, repairable, refillable, reusable or biodegradable and using leftover food rather than throwing it away.

The second priority according to the waste hierarchy principle is resource recovery, which maximises the options for re-use, recycling, reprocessing and energy recovery. Where avoiding and reducing waste is not possible, the next most preferred option is to re-use the materials without further processing, avoiding the costs of energy and other resources required for recycling. Re-use (without further processing) and recycling (processing waste materials to make the same or different products) keeps materials in the productive economy and benefits the environment by decreasing the need for new materials and waste absorption. Where further recycling is not feasible, it may be possible to recover energy from the material and feed that back into the economy where this is acceptable to the community. According to the waste management hierarchy, landfilling is the least preferable option and should be limited to the necessary minimum.

Requirements and Limitations for Waste-fired Power Plants

On 31 January 2014, the Law on Waste Management was amended and supplemented with provisions stating that only objects of national significance may use or plan to use municipal waste (which remains after the sorting of waste containing energy value and which is unsuitable for processing) for power generation purposes. The law also specifies the competence and discretion of the Government to set the criteria for acknowledging waste management facilities to be projects of national significance.

The requirement regarding the ownership of shares in waste management facilities of national significance was established by the Government Resolution of 19 February 2014 amending the Provisions of Establishment and Acknowledgement of Waste Managing Objects of National Significance. New cumulative criteria were established by the Resolution for newly developed waste management facilities to be acknowledged as projects of national significance:

- the facility manages or is intended to manage the municipal waste of more than one municipal waste management region;
- at least 51 per cent. of shares or voting rights attached to the shares of the company(-ies) intending to establish such a facility are held by the State or a State-owned company;
- the facility uses or intends to use municipal waste (which remains after the sorting of waste containing energy value and which unsuitable for processing) for combined power and heat generation (cogeneration));
- the facility is implementing the goals and objectives set out in the National Energy Independence Strategy approved by Resolution No. XI-2133 of the Parliament of the Republic of Lithuania, and these measures are considered to be implementing the National Heat Sector Development Programme; and
- the facility complies with the provisions of the National Waste Management Plan related to the use of municipal waste (which remains after the sorting of waste containing energy value and which is unsuitable for processing) as fuel for energy production.

In May 2014, the Government acknowledged that Vilnius and Kaunas CHP waste incineration projects developed by Group companies have national economic significance to the Republic of Lithuania.

TAXATION

The following is a general description, inter alia, of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

The Republic of Lithuania Taxation

The following is a summary of certain Lithuanian tax consequences of ownership and disposition of Notes to a resident individual or a non-resident individual acting through a fixed base in Lithuania or a resident entity or a non-resident entity acting through a permanent establishment in Lithuania (the "**Lithuanian Holder**") or a non- resident individual who is not acting through a fixed base in Lithuania or non-resident entity which is not acting through a permanent establishment in Lithuania that holds such Notes (the "**Non-Lithuanian Holder**"). The information contained within this section is limited to Lithuanian withholding and income tax issues and prospective purchasers of Notes are advised to consult their own tax advisers concerning the overall Lithuanian tax consequences of the ownership of Notes.

As used in the preceding sentence, a "**resident individual**" means an individual whose permanent place of residence is in Lithuania, or whose personal, social or economic interests are located in Lithuania or who is present in Lithuania for more than 183 days in the relevant tax period or more than 280 days in two consecutive tax periods, and a "**resident entity**" means an entity which is legally established in Lithuania, and a "**non-resident individual**" means an individual whose permanent place of residence is outside Lithuania, whose personal, social or economic interests are located outside Lithuania and who is present in Lithuania for less than 183 days in the relevant tax period and less than 280 days in two consecutive tax periods, and a "**non-resident entity**" means an entity which is not legally established in Lithuania. Taxation of interest income and capital gains received by non-resident entities acting through a permanent establishment in Lithuania is the same as that of resident entities defined above, therefore, it is not separately outlined in the further sections of this Base Prospectus. For relevant details on the taxation of Lithuanian permanent establishments as Noteholders, please refer to the taxation of resident entities

Withholding Tax, Income Tax

Taxation of interest

Payments to Lithuanian Holders

Payments in respect of interest on the Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) to a resident individual will be subject to 15 per cent. personal income tax. The total amount of interest (including interest on the Notes) received during the calendar year not exceeding EUR 500 will not be subject to personal income tax.

Payments in respect of interest on the Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) to a resident entity will be included into calculation of its taxable profit. Taxable profit will be subject to 15 per cent. corporate income tax.

Payments to Non-Lithuanian Holders

Payments in respect of interest on the Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) to a non-resident individual will be subject to 15 per cent. withholding tax in Lithuania (unless a double tax treaty with the Republic of Lithuania provides for a lower tax rate).

Payments in respect of interest on the Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) to a non-resident entity which is registered or otherwise organised in a state of the European Economic Area or in a state with which the Republic of Lithuania has concluded and brought into effect double tax treaty, will not be subject to withholding tax in Lithuania. Payments in respect of interest on the Notes to a non-resident entity other than listed above will be subject to 10 per cent. withholding tax. However, if the Issuer is unable to identify the Holder of a Note and determine such Holder's eligibility for exemption from withholding tax, payments of interest in respect of the Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) will be subject to 15 per cent. withholding tax to be withheld and paid to the budget of the Republic of Lithuania by the Issuer.

Taxation on Disposition of Notes

Payments to Lithuanian Holders

Capital gains (i.e. the difference between the sale price and acquisition costs) on disposal of the Notes received by a resident individual will be subject to 15 per cent. personal income tax. Any capital gains received from the sale of securities (including the Notes) during the calendar year not exceeding EUR 500 will not be subject to personal income tax. The tax relief will not apply if the sale proceeds are received from entities established in a tax haven or from individuals whose permanent place of residence is in a tax haven.

Capital gains (i.e. the difference between the sale price and acquisition costs) on disposal of the Notes received by a resident entity will be included into calculation of its taxable profit. Taxable profit will be subject to 15 per cent. corporate income tax.

Payments to Non-Lithuanian Holders

The disposition of Notes by the Non-Lithuanian Holder will not be subject to any Lithuanian income or capital gains tax.

Registration and Stamp Duty

Transfers of Notes will not be subject to any registration or stamp duty in Lithuania.

Luxembourg Taxation

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisors as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject. Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax, Income Tax

Taxation of interest

There is no withholding tax for Luxembourg residents and non-residents on payments of interest in respect of the Notes, nor is any Luxembourg withholding tax payable on payments received upon repayment of the principal or upon an exchange of Notes except that in certain circumstances a withholding tax may be required to be paid on interest pursuant to the law of 23 December 2005, as amended (the "***Relibi Law***").

Under the Relibi Law, a withholding tax of 20 per cent. applies on savings income in the form of interest paid or secured by a Luxembourg paying agent to the benefit of beneficial owners, who are individuals, resident in Luxembourg. For an individual Holder of the Notes who is a resident of Luxembourg and who acts in the course of the management of his/her private wealth, the 20 per cent. withholding tax is a final levy.

Furthermore, a Luxembourg resident individual who acts in the course of the management is his/her private wealth and who is the beneficial owner of an interest payment made by a paying agent established outside Luxembourg in an EU Member State or in a member of the European Economic Area may also, in accordance with the Relibi Law, opt for a final 20 per cent. levy (the "**20 *per cent. Levy***"). In such case, the 20 per cent. Levy is calculated on the same amounts as for the payments made by Luxembourg resident paying agents.

A Holder of Notes is subject to Luxembourg income tax in respect of the interest paid or accrued on the Notes only if such Holder (i) is or is deemed to be a resident of Luxembourg for tax purposes and the interest falls within the scope of the 20 per cent. Levy but the holder has not opted for the application of the 20 per cent. Levy, (ii) is or is deemed to be a resident of Luxembourg for tax purposes and the interest has not been received by him/her in the course of the management of his/her private wealth, or (iii) such income is attributable to an enterprise or part thereof, which is carried on through a fixed place of business, a permanent establishment or a permanent representative in Luxembourg.

Responsibility for the withholding of tax in application of the Relibi Law is assumed by the Luxembourg paying agent (within the meaning of the Relibi Law).

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary' market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which, remains unclear. Additional E.U. Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the Republic of Lithuania) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes that are treated as debt for U.S. federal income purposes and that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of BNP Paribas, J.P. Morgan Securities plc and AB SEB Bankas (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and subscribed by, Dealers are set out in a Dealer Agreement dated 21 June 2018 (the "**Dealer Agreement**") and made between the Issuer and the Dealers. If in the case of any Tranche of Notes the method of distribution is an agreement between the Issuer and a single Dealer for that Tranche to be issued by the Issuer and subscribed by that Dealer, the method of distribution will be described in the relevant Final Terms as "Non-Syndicated" and the name of that Dealer and any other interest of that Dealer which is material to the issue of that Tranche beyond the fact of the appointment of that Dealer will be set out in the relevant Final Terms. If in the case of any Tranche of Notes the method of distribution is an agreement between the Issuer and more than one Dealer for that Tranche to be issued by the Issuer and subscribed by those Dealers, the method of distribution will be described in the relevant Final Terms as "Syndicated", the obligations of those Dealers to subscribe the relevant Notes will be joint and several and the names and addresses of those Dealers and any other interests of any of those Dealers which is material to the issue of that Tranche beyond the fact of the appointment of those Dealers (including whether any of those Dealers has also been appointed to act as Stabilising Manager in relation to that Tranche) will be set out in the relevant Final Terms.

Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be subscribed by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America

Regulation S Category 1; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States or to U.S. persons.

In addition, until 40 days after the commencement of any offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Dealer has represented, warranted and agreed, and each future Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) ***No deposit-taking***: in relation to any Notes having a maturity of less than one year:

   (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:

   (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

      (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

      (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) ***Financial promotion***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression **retail investor** means a person who is one or more of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or

  (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Republic of Lithuania

Each Dealer has represented, warranted and agreed not to offer or sell any Notes in the Republic of Lithuania other than in compliance with the Law on Securities of the Republic of Lithuania and any other laws applicable in the Republic of Lithuania governing the issue, offering and sale of Notes.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, (the "**FIEA**")). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

General

Each Dealer has represented, warranted and agreed, and each future Dealer appointed under the Programme will be required to represent, warrant and agree that, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Base Prospectus.

GLOSSARY

Cross-border interconnection point	Refers to the location in the transmission system, on the border between two countries or territories, where natural gas is transferred from the transmission system of one country or territory to the transmission system of another country or territory.
Customers of independent suppliers	Electricity distribution to corporate customers.
EA	Emission allowances.
NCC	National Control Commission for Prices and Energy.
Public and guaranteed supply	Electricity distribution to household customers.
Regulation power	Increasing or decreasing levels of electricity generation in accordance with TSO instructions when there is a deficit or surplus in the electricity system, respectively.
ROCE	Return on capital employed, which is equal to operating profit/(average amount of equity during the reporting period + average amount of borrowings during the reporting period).
ROE	Return on equity, which is equal to net comparable profit (loss) of a respective reporting period restated at annual value/average amount of equity during the reporting period.
SAIDI	Average duration of unplanned interruptions in electricity or gas transmission.
SAIFI	Average number of unplanned long interruptions per customer.
State-Aid	Any intervention by a State or through State resources which (1) gives the recipient an advantage on a selective basis (2) will or may distort competition and (3) is likely to affect trade between E.U. Member States.
Virtual trading point	Refers to the location in the transmission system where transfer of title to natural gas occurs (without the obligation to transfer natural gas to a physical location).

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme was authorised by resolutions of the Board of Directors of the Issuer passed on 31 May 2018 and 21 June 2018. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Legal and Arbitration Proceedings

2. Save as disclosed in "*Description of the Group—Legal Proceedings*" set out on pages 98 to 100 herein, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries (together, the "**Group**").

Significant/Material Change

3. Since 31 December 2017 there has been no material adverse change in the prospects of the Issuer or the Group. Since 31 March 2018 there has there been no significant change in the financial or trading position of the Issuer or the Group.

Auditors

4. UAB PricewaterhouseCoopers, which is registered on the list of authorised Lithuanian audit companies, administered by the Lithuanian Chamber of Auditors, under certificate No. 001273 with its registered office in Vilnius (J.Jasinskio 16B, LT—03163 Vilnius), audited the 2017 Financial Statements and the 2016 Financial Statements and issued an unqualified auditors' reports on the aforementioned financial statements.

   UAB PricewaterhouseCoopers, independent auditors, holds audit company licence No. 001273. On behalf of PwC, the auditors' report on the 2016 Financial Statements was signed by Vytenis Lazauskas, holding auditor's certificate No. No.000536. The auditors' report on the 2017 Financial Statements was signed by Rasa Radzevičienė, holding auditor's certificate No. No. 000377.

Documents on Display

5. Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the offices of the Issuer at Žvejų g. 14, LT-09310, Vilnius, Lithuania for 12 months from the date of this Base Prospectus:

   (a) the constitutive documents of the Issuer;

   (b) the 2017 and 2016 consolidated and standalone audited annual financial statements of the Group for the year ended 31 December and the 2018 unaudited condensed consolidated and standalone interim consolidated and standalone financial statements of the Group as at and for the three month period ended 31 March 2018 (with a direct and accurate English translation thereof), in each case together with any audit or review reports prepared in connection therewith;

   (c) the Agency Agreement;

   (d) the Deed of Covenant;

   (e) the Programme Manual (which contains the forms of the Notes in global and definitive form); and

   (f) the Issuer-ICSDs Agreement (which is entered into between the Issuer and Euroclear and/or Clearstream, Luxembourg with respect to the settlement in Euroclear and/or Clearstream, Luxembourg of Notes in New Global Note or NSS form).

Clearing of the Notes

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code, the International Securities Identification Number (ISIN), Financial Instruments Short Name (FISN) and/or Classification of Financial Instruments (CFI) code (as applicable) in relation to the Notes of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

   The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Issue Price and Yield

7. Notes may be issued at any price. The issue price of each Tranche of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions and the issue price of the relevant Notes or the method of determining the price and the process for its disclosure will be set out in the applicable Final Terms. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

   The yield of each Tranche of Notes set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

Passporting

8. In addition to the applications already described in this Base Prospectus, the Issuer may, on or after the date of this Base Prospectus, make applications for one or more further certificates of approval under Article 18 of the Prospectus Directive as implemented in Luxembourg to be issued by the CSSF to the competent authority in any Member State.

Dealers transacting with the Issuer

9. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Legal Entity Identifier

10. The Legal Entity Identifier (LEI) code of the Issuer is 5493005RZJHJT5PNHY10.

REGISTERED OFFICE OF THE ISSUER
„Lietuvos energija", UAB
Žvejų g. 14, LT-09310
Vilnius
The Republic of Lithuania

ARRANGERS

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
London E14 5JP
United Kingdom

DEALERS

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
London E14 5JP
United Kingdom

AB SEB Bankas
Gedimino Ave. 12
LT-01103 Vilnius
The Republic of Lithuania

FISCAL AGENT, PAYING AGENT AND TRANSFER AGENT
The Bank of New York Mellon
One Canada Square
London
E14 SAL
United Kingdom

REGISTRAR AND LUXEMBOURG LISTING AGENT
The Bank of New York Mellon SA/NV, Luxembourg Branch
Vertigo Building—Polaris
2-4 rue Eugène Ruppert L-2453, Luxembourg

LEGAL ADVISERS

To the Issuer as to English law:

Dentons UK and the Middle East LLP
One Fleet Place
London EC4M 7WS
United Kingdom

To the Issuer as to Lithuanian law:

TGS Baltic
Konstitucijos Ave. 21A
LT-08130 Vilnius
Lithuania

To the Dealers as to English law:

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

To the Dealers as to Lithuanian law:

Law Firm Ellex Valiūnas ir partneriai
Jogailos 9
LT-01116 Vilnius
The Republic of Lithuania

AUDITORS
UAB „PricewaterhouseCoopers"
J.Jasinskio 16B LT—03163 Vilnius
The Republic of Lithuania