

# INTER RAO Lietuva AB

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR  
THE YEAR ENDED 31 DECEMBER 2013, PREPARED IN  
ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING  
STANDARDS AS ADOPTED BY THE EUROPEAN UNION  
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S  
REPORT AND ANNUAL REPORT FOR THE YEAR 2013

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Code of legal entity 110878442  
VAT payer code LT108784411  
Register of Legal Entities

## Independent auditor's report to the shareholders of AB INTER RAO Lietuva

### Report on Financial Statements

We have audited the accompanying financial statements of AB INTER RAO Lietuva, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB INTER RAO Lietuva and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

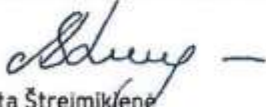
#### *Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying consolidated Annual Report for the year ended 31 December 2013 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2013.

UAB ERNST & YOUNG BALTIC  
Audit company's licence No. 001335

  
Asta Štreimikienė  
Auditor's licence No. 000382

The audit was completed on 20 February 2014.

## FINANCIAL REPORT

### Statement of financial position

	Notes	Group		Company	
		As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets					
Goodwill		5,926	6,926	-	-
Operating license		29,247	33,430	-	-
Other intangible assets		88	-	88	-
<b>Total intangible assets</b>	4	<b>35,261</b>	<b>40,356</b>	<b>88</b>	<b>-</b>
Property, plant and equipment					
Land		2,687	2,829	-	-
Buildings and structures		11,713	12,304	-	-
Office premises		3,451	3,711	3,451	3,711
Machinery and equipment		65,486	68,653	2	10
Other property, plant and equipment		343	229	300	181
<b>Total property, plant and equipment</b>	5	<b>83,680</b>	<b>87,726</b>	<b>3,753</b>	<b>3,902</b>
Investment property		584	623	584	623
Interest in a joint venture and subsidiaries	1, 6	944	1,707	40,301	33,725
Other non-current financial assets	7	1,905	3,555	119	102
Deferred tax asset	23	-	291	-	-
<b>Total non-current assets</b>		<b>122,374</b>	<b>134,258</b>	<b>44,845</b>	<b>38,352</b>
<b>Current assets</b>					
Inventories and prepayments	8	449	358	10,300	294
Accounts receivable					
Trade receivables	9	50,099	60,084	45,253	57,315
Receivables from subsidiaries and joint venture	28	-	-	6	578
Other receivables	10	4,599	1,026	13	6
<b>Total accounts receivable</b>		<b>54,698</b>	<b>61,110</b>	<b>45,272</b>	<b>57,899</b>
Prepaid income tax		8,778	1,118	8,310	1,118
Other current assets		1,106	855	714	731
Cash and cash equivalents	11	15,202	11,218	3,418	5,345
<b>Total current assets</b>		<b>80,233</b>	<b>74,659</b>	<b>68,014</b>	<b>65,387</b>
<b>Total assets</b>		<b>202,607</b>	<b>208,917</b>	<b>112,859</b>	<b>103,739</b>

(cont'd on the next page)

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

**Statement of financial position (cont'd)**

	Notes	Group		Company	
		As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	1	20,000	20,000	20,000	20,000
Legal reserves	12	2,000	100	2,000	100
Cash flow hedge reserve	12	(693)	(1,651)	-	-
Currency translation reserve		62	-	-	-
Retained earnings		11,925	38,141	13,096	37,925
<b>Total equity</b>		<b>33,294</b>	<b>56,590</b>	<b>35,096</b>	<b>58,025</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Non-current borrowings	13	70,264	43,121	-	-
Financial lease obligations	14	2,587	42,878	-	-
Derivative financial instruments	15	385	1,647	-	-
Deferred income tax liability	23	2,676	8,131	-	-
<b>Total non-current liabilities</b>		<b>75,912</b>	<b>95,777</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>					
Current portion of non-current borrowings	13	11,746	-	-	-
Other financial debts	13	17,182	-	17,182	-
Current portion of financial lease obligations	14	237	8,423	-	-
Derivative financial instruments	15	1,141	880	-	-
Trade payables	16	48,776	39,164	48,387	39,065
Income tax payable		-	588	-	-
Advances received	17	3,429	334	3,418	331
Other current liabilities	18	10,890	7,161	8,776	6,318
<b>Total current liabilities</b>		<b>93,401</b>	<b>56,550</b>	<b>77,763</b>	<b>45,714</b>
<b>Total equity and liabilities</b>		<b>202,607</b>	<b>208,917</b>	<b>112,859</b>	<b>103,739</b>

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

General Manager	Gedrius Balčiūnas		20 February 2014
Economic Director	Paulius Vazniokas		20 February 2014



## Statement of comprehensive income

	Notes	Group		Company	
		2013	2012	2013	2012
Sales	3,19	757,882	897,435	710,514	877,301
Cost of sales	20	(732,076)	(800,738)	(691,657)	(794,442)
<b>Gross profit</b>		<b>25,806</b>	<b>96,697</b>	<b>18,857</b>	<b>82,859</b>
General and administrative expenses	21	(23,347)	(23,568)	(15,362)	(17,671)
<b>Profit from operations</b>		<b>2,459</b>	<b>73,129</b>	<b>3,495</b>	<b>65,188</b>
Income from other activities		38	-	58	-
Finance income	22	210	296	1,567	903
Finance expenses	22	(4,286)	(5,127)	(200)	(13)
Share of result of joint venture	6	(13)	(173)	-	-
<b>(Loss) profit before tax</b>		<b>(1,592)</b>	<b>68,125</b>	<b>4,920</b>	<b>66,078</b>
Income tax	23	4,276	(10,011)	(849)	(9,153)
<b>Net profit</b>		<b>2,684</b>	<b>58,114</b>	<b>4,071</b>	<b>56,925</b>
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Net result on cash flow hedges		1,127	(1,942)	-	-
Income tax effect		(169)	291	-	-
Effect of currency exchange		62	-	-	-
<b>Total other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax</b>		<b>1,020</b>	<b>(1,651)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>3,704</b>	<b>56,463</b>	<b>4,071</b>	<b>56,925</b>
Basic and diluted earnings per share (LTL)	24	0.13	12.51		

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

General Manager	Giedrius Balčiūnas		20 February 2014
Economic Director	Paulius Vazniokas		20 February 2014

## Statement of changes in equity



### Group

Notes	Equity attributable to equity holders of the parent					Total
	Share capital	Currency translation reserve	Legal reserve	Cash flow hedge reserve	Retained earnings	
<b>Balance as at 31 December 2011</b>	<b>1,000</b>	-	<b>100</b>	-	<b>63,050</b>	<b>64,150</b>
Increase in share capital	1	19,000	-	-	(19,000)	-
Net profit for the year		-	-	-	58,114	58,114
Other comprehensive income, net of tax	15	-	-	(1,651)	-	(1,651)
<b>Total comprehensive income</b>		-	-	<b>(1,651)</b>	<b>58,114</b>	<b>56,463</b>
Dividends declared	25	-	-	-	(64,023)	(64,023)
<b>Balance as at 31 December 2012</b>	<b>20,000</b>	-	<b>100</b>	<b>(1,651)</b>	<b>38,141</b>	<b>56,590</b>
Transfer to reserves	1	-	-	1,900	(1,900)	-
Net profit for the year		-	-	-	2,684	2,684
Other comprehensive income, net of tax	15	-	62	-	958	1,020
<b>Total comprehensive income</b>		-	<b>62</b>	<b>958</b>	<b>2,684</b>	<b>3,704</b>
Dividends declared	25	-	-	-	(27,000)	(27,000)
<b>Balance as at 31 December 2013</b>	<b>20,000</b>	<b>62</b>	<b>2,000</b>	<b>(693)</b>	<b>11,925</b>	<b>33,294</b>

### Company

Notes	Share capital	Legal reserve	Retained earnings	Total
<b>Balance as at 31 December 2011</b>	<b>1,000</b>	<b>100</b>	<b>64,023</b>	<b>65,123</b>
Increase in share capital	1	19,000	-	(19,000)
Net profit for the year		-	-	56,925
<b>Total comprehensive income</b>		-	-	<b>56,925</b>
Dividends declared	25	-	-	(64,023)
<b>Balance as at 31 December 2012</b>	<b>20,000</b>	<b>100</b>	<b>37,925</b>	<b>58,025</b>
Transfer to reserves		-	1,900	(1,900)
Net profit for the year		-	-	4,071
<b>Total comprehensive income</b>		-	-	<b>4,071</b>
Dividends declared	25	-	-	(27,000)
<b>Balance as at 31 December 2013</b>	<b>20,000</b>	<b>2,000</b>	<b>13,096</b>	<b>35,096</b>

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

General Manager	Giedrius Balčiūnas		20 February 2014
Economic Director	Paulius Vazniokas		20 February 2014

## Statement of cash flows

	Notes	Group		Company	
		2013	2012	2013	2012
<b>Cash flows from (to) operating activities</b>					
Net profit		2,684	58,114	4,071	56,925
<b>Adjustments for non-cash items:</b>					
Income tax (benefit) expenses	23	(4,276)	10,011	849	9,153
Depreciation and amortisation	4, 5	8,541	8,784	461	396
Impairment of goodwill	4	1,000	-	-	-
Currency translation reserve		62	-	-	-
Allowance for doubtful accounts receivable		4	-	4	-
Result of non-current assets sold		-	(24)	-	(25)
Share of net profit of joint venture	6	13	173	-	-
Dividend (income)		-	-	(1,460)	(768)
Interest (income) expenses	22	3,947	4,135	175	(135)
		11,975	81,193	4,100	65,546
<b>Changes in working capital:</b>					
(Increase) decrease in inventories and prepayments		(91)	6,365	(10,006)	6,353
Decrease (increase) in accounts receivable and other current assets		6,158	(16,524)	12,641	(17,332)
Decrease (increase) in other non-current assets		1,650	12	(17)	12
Increase in trade payables		9,612	7,367	9,322	7,545
Income tax (paid)		(9,158)	(17,123)	(8,041)	(16,352)
Increase (decrease) in other current liabilities		6,806	(2,985)	5,554	(2,996)
<b>Net cash flows from operating activities</b>		<b>26,952</b>	<b>58,305</b>	<b>13,553</b>	<b>42,776</b>
<b>Cash flows from (to) investing activities</b>					
(Acquisition) of non-current assets		(362)	(4,305)	(362)	(4,004)
Proceeds from sale of non-current assets		-	30	-	30
(Incorporation) and (increase) in share capital of subsidiaries		-	-	(6,576)	(1,684)
Interest received		121	1,029	18	135
Dividends received		750	768	1,460	768
Loans repaid		-	6	-	6
<b>Net cash flows from (to) investing activities</b>		<b>509</b>	<b>(2,472)</b>	<b>(5,460)</b>	<b>(4,749)</b>

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



**Statement of cash flows (cont'd)**

	Group		Company	
	2013	2012	2013	2012
<b>Cash flows from (to) financing activities</b>				
Dividends (paid) 29	(10,000)	(64,023)	(10,000)	(64,023)
Loans repaid	(857)	-	-	-
Interest (paid)	(3,889)	(4,679)	(20)	-
Financial lease (payments)	(8,731)	(9,798)	-	-
<b>Net cash flows (to) financing activities</b>	<b>(23,477)</b>	<b>(78,500)</b>	<b>(10,020)</b>	<b>(64,023)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,984</b>	<b>(22,667)</b>	<b>(1,927)</b>	<b>(25,996)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>11,218</b>	<b>33,885</b>	<b>5,345</b>	<b>31,341</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>15,202</b>	<b>11,218</b>	<b>3,418</b>	<b>5,345</b>

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

General Manager	Giedrius Balčiūnas		20 February 2014
Economic Director	Paulius Vazniokas		20 February 2014

## Notes to the financial statements

### 1 General information

AB INTER RAO Lietuva (hereinafter, "the Company") is a private limited liability company registered in the Republic of Lithuania. Its registered office is located at:

A. Tumėno str. 4, Vilnius  
Lithuania

The Company was registered on 21 December 2002. On 22 October 2012 the Company changed its legal status from private limited liability company to public limited liability entity due to the listing on the Warsaw stock exchange. Since 18 December 2012 the Company's shares are traded on the Warsaw Stock Exchange on the Main trade list.

The Company's core line of business is supply of electricity. The Company holds the following licenses and permissions:

- 1) A license No. L1-NET-14 of an independent electricity supplier entitling to supply electricity in Lithuania;
- 2) Unlimited-term permission No. LE-0004 for electricity export in Lithuania;
- 3) Unlimited-term permission No. LI-0002 for electricity import in Lithuania;
- 4) Unlimited-term permission No. LE-0020 for electricity export to Russia and Belarus;
- 5) Unlimited-term permission No. LI-0030 for electricity import from Russia and Belarus to Lithuania.

In 2013 the Company expanded the electricity supply activities to retail customers.

The subsidiary SIA INTER RAO Latvia holds a license No. E14036 of an independent electricity supplier in Latvia, which is valid until 28 February 2015. The subsidiary OU INTER RAO Eesti holds a termless license No. 7.2-3/12-042 of an independent electricity supplier in Estonia. The subsidiary Vydmantai wind park UAB holds a termless permit to produce electricity No. LG - 0238.

As at 31 December 2013 and 2012 the shareholders of the Company were as follows:

	31 December 2013		31 December 2012	
	Number of shares held	Interest held	Number of shares held	Interest held
RAO Nordic Oy, company code 1784937-7, Tammasaarekatu 1, Helsinki, Finland	10,200,000	51%	10,200,000	51%
UAB Scaent Baltic, company code 300661378, Jogailos str. 9, Vilnius, Lithuania	5,800,000	29%	5,800,000	29%
Other shareholders	4,000,000	20%	4,000,000	20%
<b>Total</b>	<b>20,000,000</b>	<b>100%</b>	<b>20,000,000</b>	<b>100%</b>

The ultimate parent company is OJSC INTER RAO UES, company code 2320109650, address Bolshaya Pirogovskaya st. 27, building 3, Moscow 119435, Russian Federation.

As at 31 December 2011 the Company's share capital was comprised of 1,000 ordinary shares with the par value of LTL 1,000 each. On 20 July 2012, the General Shareholders Meeting adopted a resolution to increase the share capital from LTL 1,000,000 to LTL 20,000,000, and to divide the share capital into 20,000,000 ordinary registered shares with a nominal value of LTL 1 each. Such an increase in share capital was made by converting 1,000 ordinary registered shares of the Company with a nominal value of LTL 1,000 into 1,000,000 ordinary registered shares with a nominal value of LTL 1 each, and by issuing 19,000,000 new ordinary registered shares using the retained earnings of the Company. The new share capital was registered with the Register of Legal Entities of the Republic of Lithuania on 22 October 2012. The share capital was fully paid as at 31 December 2013 and 2012. The Company did not hold its own shares in 2013 and 2012. As at 31 December 2013 and 2012, the subsidiaries and the joint venture did not hold any shares of the Company.

The management of the Company approved these financial statements on 20 February 2014. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

**AB INTER RAO LIETUVA**  
**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 December 2013**  
(all amounts are in LTL thousand unless otherwise stated)

**1 General information (cont'd)**

As at 31 December 2013 the Group consisted of the Company and the following directly controlled subsidiaries and joint venture (hereinafter, the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Investment value (cost)	Profit (loss) for 2013	Equity as at 31 December 2013	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	110	(551)	(533)	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	10	(5,133)	(5,033)	Elizabetes iela 15-1, Riga, Latvia	Trade of electricity
Sp. z o.o. IRL Polska - subsidiary	0000436992	100 %	8,260	(318)	8,000	Emilii Plater 53, Warsaw, Poland	Trade of electricity (no active operations in 2013)
UAB Alproka – joint venture	125281684	49.99 %	2,572	(26)	1,888	Verkių Str. 25C, Vilnius, Lithuania	Operations with real estate
UAB UAB Vydmantai wind park - subsidiary	302666616	100 %	29,349	8,834	35,251	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

As at 31 December 2012 the Group consisted of the Company and the following directly and indirectly controlled subsidiaries and joint venture (hereinafter, the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Investment value (cost)	Profit (loss) for 2012	Equity as at 31 December 2012	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	110	(91)	18	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Trade of electricity (no active operations in 2012)
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	10	278	295	Elizabetes iela 15-1, Riga, Latvia	Trade of electricity
Sp. z o.o. IRL Polska - subsidiary	0000436992	100 %	1,684	-	1,684	W.Kosciuszko wskie 43-2, Warsaw, Poland	Trade of electricity (no active operations in 2012)
UAB Alproka – joint venture	125281684	49.99 %	2,572	(346)	3,415	Lvovo Str. 25, Vilnius, Lithuania	Operations with real estate
UAB IRL Wind - subsidiary	302615372	100 %	29,349	6,240	32,406	A.Tumėno Str. 4, Vilnius, Lithuania	Holding company
UAB Vydmantai wind park (indirectly owned subsidiary - managed through UAB IRL Wind)	302666616	100 %	77,199	8,372	37,989	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

**Changes in 2013**

On 11 July 2013 the merger of UAB Vydmantai Wind Park (previously indirectly owned subsidiary - managed through UAB IRL Wind) and UAB IRL Wind was completed. UAB IRL Wind and Vydmantai wind park, UAB were reorganized under Part 3 of Article 2.97 of the Civil Code of the Republic of Lithuania by merging UAB IRL Wind, which ceased its activities as a legal entity after the merger, into Vydmantai wind park, UAB which continued its activities after the merger.

On 6 November 2013 the Board of the Company has approved the decision to increase the authorized capital of the subsidiary Sp. z o.o. IRL Polska from PLN 2 million to PLN 10 million. The increase of share capital of the subsidiary was registered on 4 December 2013.

**AB INTER RAO LIETUVA**  
**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 December 2013**  
(all amounts are in LTL thousand unless otherwise stated)

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**1 General information (cont'd)**

Changes in 2012

On 17 September 2012 the Company incorporated a 100% owned entity Sp. z o.o. IRL Polska in Poland with a registered share capital of LTL 1,684 thousand with a purpose of electricity trading. In 2013 and 2012 the subsidiary did not perform active operations.

**2 Accounting policies**

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2013 are as follows:

**2.1. Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter the EU).

These financial statements are prepared based on a historical cost basis except for derivative financial instruments, which are measured at fair value.

***Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) Interpretations***

During the year the Group and the Company has adopted the following IFRS amendments:

- Amendment to IAS 1 *Financial Statement Presentation* - Presentation of Items of Other Comprehensive Income (OCI). This amendment changes the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's and the Company's financial position or performance. Since all the OCI items will be reclassified to profit or loss at a future point of time, the change to its presentation is minimal.
- Amendments to IAS 19 *Employee Benefits*. These amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. This amendment did not impact the financial statements of the Group and the Company, because the Group and the Company does not have material defined benefit obligations.
- Amendment to IFRS 7 *Financial Instruments: Disclosures* - Offsetting Financial Assets and Financial Liabilities. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. This amendment did not impact the financial statements of the Group and the Company, because the Group and the Company does not have netting arrangements.
- IFRS 13 *Fair Value Measurement*. The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The implementation of this standard did not have a material impact on the amounts recognised in these financial statements, however it resulted in additional disclosures (see Note 26).
- IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*. This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). This interpretation had no impact on the Group's and the Company's financial statements, as the Group and the Company is not involved in mining activity.

***Standards issued but not yet effective***

The Group and the Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

***Amendments to IAS 19 Employee Benefits*** (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's and the Company's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group and the Company.



## 2 Accounting policies (cont'd)

### 2.1. Basis of preparation (cont'd)

**Amendment to IAS 27 *Separate Financial Statements*** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 *Separate Financial Statements* requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. The implementation of this amendment will not have any impact on the financial statements of the Group and the Company.

**Amendment to IAS 28 *Investments in Associates and Joint Ventures*** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Group and the Company.

**Amendment to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*** (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group and the Company has not yet evaluated the impact of the implementation of this amendment.

**Amendment to IAS 36 *Impairment of Assets*** (effective for financial years beginning on or after 1 January 2014)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the Group and the Company, however may result in additional disclosures.

**Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*** (effective for financial years beginning on or after 1 January 2014)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group and the Company has not yet evaluated the impact of the implementation of this amendment.

**IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. The Group and the Company has not yet evaluated the impact of the implementation of this standard.

**IFRS 10 *Consolidated Financial Statements*** (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 *Consolidated and Separate Financial Statements* related to consolidated financial statements and replaces SIC 12 *Consolidation — Special Purpose Entities*. The Group does not expect any impact in relation to the implementation of this standard.

**IFRS 11 *Joint Arrangements*** (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The Group does not expect any material impact in relation to the implementation of this standard.



## 2 Accounting policies (cont'd)

### 2.1. Basis of preparation (cont'd)

**IFRS 12 *Disclosures of Interests in Other Entities*** (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Group does not expect any material impact in relation to the implementation of this standard; however, it may result in additional disclosures.

**Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities*** (effective for financial years beginning on or after 1 January 2014)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

#### Improvements to IFRSs

Effective for financial years beginning on or after 1 July 2014, once endorsed by the EU:

In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:

- IFRS 1 *First-time adoption of IFRS*;
- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments*;
- IFRS 13 *Fair value Measurement*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures*;
- IAS 38 *Intangible Assets*;
- IAS 40 *Investment property*.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group and the Company.

**IFRIC Interpretation 21 *Levies*** (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Group and the Company has not yet evaluated the impact of the implementation of this interpretation.

The Group and the Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

**AB INTER RAO LIETUVA**  
**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 December 2013**  
(all amounts are in LTL thousand unless otherwise stated)

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**2 Accounting policies (cont'd)**

**2.2. Measurement and presentation currency**

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, Litas (LTL), rounded to LTL thousand, unless otherwise stated.

The functional currency of the Company and its subsidiaries operating in Lithuania is Litas. The functional currencies of foreign subsidiaries are the respective foreign currencies of the country of residence. Items included in the financial statements of these subsidiaries are measured using their functional currency.

Transactions in foreign currencies are initially recorded in the functional currency as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange as at the date of the statement of financial position.

The assets and liabilities of foreign subsidiaries are translated into Litas at the reporting date using the rate of exchange as at the reporting date, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on this translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the income statement.

Non-current receivables from or loans granted to foreign subsidiaries that are neither planned nor likely to be settled in the future are considered to be a part of the Company's net investment in the foreign operation. In the Group's consolidated financial statements the exchange differences recognized in the separate financial statements of the subsidiary in relation to these monetary items are reclassified to other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the income statement.

Starting from 2 February 2002, Lithuanian Litas is pegged to Euro at the rate of 3.4528 Litas for 1 Euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

**2.3. Principles of consolidation**

The consolidated financial statements of the Group include UAB INTER RAO Lietuva and its subsidiaries as well as joint venture. The financial statements of the subsidiaries and joint venture are prepared for the same reporting year, using consistent accounting policies.

Subsidiaries are consolidated from the date from which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to non-controlling interests, if any, are shown separately in the statement of financial position and the statement of comprehensive income.

Total comprehensive income of a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Acquisitions and disposals of non-controlling interest by the Group are accounted as equity transaction: the difference between the carrying value of the net assets acquired from/disposed to the non-controlling interests in the Group's financial statements and the acquisition price/proceeds from disposal is accounted directly in equity.

Interest in a joint venture

The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method.

## **2 Accounting policies (cont'd)**

### **2.3. Principles of consolidation (cont'd)**

#### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill impairment is assessed annually. Once recognized, impairment losses are not reversed. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### **2.4. Investments (in the Company's accounts)**

#### Interest in a joint venture

The Company has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Company accounts for its interest in the joint venture at cost less impairment.

#### Interests in subsidiaries

Investments in subsidiaries are measured at cost less impairment in the statement of financial position of the Company. Accordingly, the investment is initially recognised at cost, being the fair value of the consideration given subsequently adjusted for any impairment losses. The carrying value of the investment is tested for impairment when events or changes in circumstances indicate that the carrying value may exceed the recoverable amount (higher of the two: fair value less costs to sell and value in use) of the investment. If such indications exist, the Company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its estimated recoverable amount, the investment is written down to its recoverable amount. Impairment loss is recognised in the statement of comprehensive income as financial expense for the period.

In 2013, for the evaluation of impairment on investment into subsidiary Vydmantai wind park, UAB the value in use concept was applied.

In 2012, for the evaluation of impairment on investment into subsidiary UAB IRL Wind the value in use concept was applied. The recoverable amount of UAB IRL Wind was primarily determined by the value of its subsidiary Vydmantai wind park, UAB.

**2 Accounting policies (cont'd)**

**2.5. Intangible assets other than goodwill**

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably.

The useful lives of all intangible assets are assessed to be finite.

After initial recognition, intangible assets with finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their expected useful lives (years), except for the wind farm operating license which validity term is indefinite, but the associated favourable fixed feed-in tariff expires in 2020.

The amortisation period of the wind farm operating license	9.5 years
The validity period of the contract of emission reduction units	1.5 years

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets other than goodwill.

Emission reduction units

Due to the nature of the Group activity (production of electricity from renewable sources) the Group is entitled to receive certain quantity of emission reduction units, depending on the quantity of electricity produced, which is estimated and verified annually during the special technical audit, although its performance date does not always coincide with the date of the financial statements preparation. Verified emission reductions units are treated as asset received free of charge for which inventory accounting principles are applied and it is accounted for at nominal acquisition cost, which is equal to zero. Emission reduction units are sold and sales result is recognized directly in the statement of comprehensive income at the moment of transaction.

The Group had the right to receive emission reduction units (ERU) till the end of 2012. As Kyoto protocol ended, and the wind park produces no CO2 emissions, The Group is searching for a possibility to apply to alternative projects in order to obtain ERUs and afterwards sell them in the market.

**2.6. Property, plant and equipment and investment property**

Property, plant and equipment and investment property are stated at cost less accumulated depreciation and impairment losses.

The initial cost of property, plant and equipment and investment property comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment is ready for its intended use, such as repair and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred.

The Group has leased plots of land on which it operates wind turbines. Those lease arrangements are classified as finance leases of the land. The initial cost of land leased is equal to the present value of future lease payments. For these purposes the applicable lease period was estimated at 20 years and the discount rate applied was 4.8%. Depreciation of land leased is calculated over the minimum lease period, because lease period represents useful life of land leased.

Depreciation is computed on a straight-line basis over the following estimated useful lives (years):

Land lease	21
Office premises	15
Buildings and structures	8 - 20
Machinery and equipment (wind power plants)	20
Vehicles	5 - 10
Other fittings, fixtures, tools and equipment	3 - 6
Investment property (buildings and structures)	17



## **2 Accounting policies (cont'd)**

### **2.6. Property, plant and equipment and investment property (cont'd)**

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment and investment property.

An item of property, plant and equipment and investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

### **2.7. Financial assets**

The Group's and the Company's financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

#### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables categories. After initial recognition available-for-sale financial assets are measured at fair value with unrealized gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement. The Group and the Company does not have any material available-for-sale financial instruments.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

The Company and the Group does not have held to maturity financial assets and financial assets at fair value through profit or loss.

### **2.8. Derecognition of financial assets and liabilities**

#### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group and the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.



**2 Accounting policies (cont'd)**

**2.8. Derecognition of financial assets and liabilities (cont'd)**

Financial liabilities

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

**2.9. Fair value measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

**2.10. Inventories**

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of inventory is determined by the first-in, first-out (FIFO) method. Unrealisable inventory is fully written-off.

**2.11. Cash and cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank accounts as well as deposits in bank with original term equal to or less than 3 months.

**2.12. Derivative financial instruments**

The Group engages in swap contract for interest rate risk management purposes. Derivative financial instruments are initially recognized at cost. Subsequent to initial recognition and measurement, outstanding swaps and other financial instruments are carried in the statement of financial position at the fair value. Fair value is derived from quoted market prices, or using the discounted cash flow method applying effective interest rate (level 2 in fair value hierarchy). The estimated fair values of these contracts are reported on a gross basis as financial assets for contracts having a positive fair value; and financial liabilities for contracts with a negative fair value.

Gain or loss from changes in the fair value of outstanding forward contracts, swaps and other financial instruments, which are not classified as hedging instruments, are recognized in the statement of comprehensive income as they arise.

## **2 Accounting policies (cont'd)**

### **2.13. Hedge accounting**

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction. The Group uses cash flow hedge.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other comprehensive income and the ineffective portion is recognized in the statement of comprehensive income (profit or loss). The gains or losses on effective cash flow hedges recognized initially in equity are either transferred to the statement of comprehensive income in the period in which the hedged transaction impacts the statement of comprehensive income or included in the initial measurement of the cost of the related asset or liability.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of comprehensive income (profit or loss) for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of comprehensive income (profit or loss).

In 2013 and 2012 the Group has entered into interest swap agreement with a purpose to hedge itself against a possible fluctuation/increase of EURIBOR on the loan taken from a bank, i. e. effectively switching the interest into a fixed rate (Note 15).

### **2.14. Borrowings**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

The Group capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no borrowing costs matching the capitalisation criteria in 2013 and 2012.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings (except for the capitalized part) using the effective interest method.

### **2.15. Financial and operating leases**

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

#### Financial lease

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease. The Group recognises financial leases as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate implicit in the financial lease agreement, when it is possible to determine it, in other cases, Group's incremental interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot be depreciated over a period longer than lease term, unless the Group, according to the lease contract, obtains ownership at the end of the lease term.

#### Operating lease

Leases where the lessor retains all significant risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

## **2 Accounting policies (cont'd)**

### **2.16. Income tax**

The Group companies are taxed individually, irrespective of the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania, the Republic of Latvia, the Republic of Estonia and the Republic of Poland.

The standard income tax rate in Lithuania was 15 % in 2013 and 2012, in the Republic of Latvia – 15 %, in the Republic of Poland – 19%, in the Republic of Estonia – 0 % (though dividends paid are taxable).

Starting from 1 January 2014 the tax loss carry forward that is deductible cannot exceed 70% of the current financial year taxable profit. Tax losses in Lithuania can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses were incurred except when the company does not continue its activities due to reasons which do not depend on the company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Tax losses in Republic of Latvia incurred in or before 2007 may be carried forward eight years. Tax losses incurred in 2008 and subsequent years may be carried forward indefinitely.

Deferred taxes are calculated using the liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

### **2.16. Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Sale of electricity is recognised at the time of delivery, based on the value of the volume supplied. Physical electricity sales and purchase contracts are accounted for on accrual basis as they are contracted with the Group's expected purchase, sale or usage requirements.

Physical electricity sales and purchases are done through the power exchange (Nord Pool Spot/Baltpool). The sales and purchases are netted on the Company and the Group level on an hourly basis and posted either as revenue or cost, according to whether the Company and the Group is a net seller or a net buyer during any particular hour.

Revenue from sales of produced electricity is recognised on accrual basis when transfer of risks and rewards has been completed.

Revenue from services is recognised when services are rendered.

Dividend income is recognised when the dividends are declared.

Interest income or expense are recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. It is included in finance income or expenses in the income statement.



## 2 Accounting policies (cont'd)

### 2.17. Impairment of assets

#### Financial assets

Financial assets are reviewed for impairment at each reporting date.

For financial assets carried at amortised cost, whenever it is probable that the Company and the Group will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the statement of comprehensive income. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the statement of comprehensive income. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### Other assets (excluding goodwill)

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted for in the same caption of the statement of comprehensive income as the impairment loss.

### 2.18. Use of judgments and estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation and amortisation (Notes 2.5, 2.6, 4, 5 and 14), impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Notes 2.3 and 4). The management also made judgment regarding net revenue presentation (Note 2.16). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

### 2.19. Contingencies

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

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

### 2.20. Subsequent events

Subsequent events that provide additional information about the Group's position at the date of statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

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**3 Segment information**

For management purposes, the Group is organized into business units based on type of activities and has two reportable segments:

- Purchase and sales of electricity;
- Production and sales of electricity.

The segment of purchase and sales of electricity includes operations of UAB INTER RAO Lietuva, SIA INTER RAO Latvia, OU INTER RAO Eesti and Sp. z o.o. IRL Polska. Electricity is purchased from the main suppliers and sold in the Baltics and Belarus. The Group and the Company has entered into contracts for the purpose of the receipt and delivery of electricity in accordance with the entity's expected purchase, sale or usage requirements. Furthermore, the Group and the Company also perform trading sales of electricity on the power exchange.

The segment of production and sales of electricity includes operations of UAB Vydmantai wind park. In 2012 this segment also included assets and liabilities of UAB IRL Wind. Electricity is produced by wind turbines and sold to AB Lietuvos energijos gamyba.

For management purposes, the Company is organized into a single business unit - purchase and sales of electricity, therefore this note does not include any disclosures on operating segments on the Company's level as they are the same as information provided by the Company in these financial statements.

No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on operating profit or loss and is measured consistently with profit from operations in the consolidated financial statements.

Finance income and expenses are allocated to individual segments as the underlying instruments are managed for each separate segment separately.

Taxes are not allocated to those segments as they are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are based on the prices set by the management, which management considers being similar to transactions with third parties.

*Operating Segments*

The following tables present revenue, profit and certain asset and liability information regarding the reportable operating segments:

Group Year ended 31 December 2013	Electricity purchases and sales	Electricity production and sales	Total Segments	Adjustments and eliminations	Consolidated
<b>Revenue</b>					
External customers	740,761	17,121	757,882	-	757,882
<b>Total revenue</b>	<b>740,761</b>	<b>17,121</b>	<b>757,882</b>	<b>-</b>	<b>757,882</b>
<b>Results</b>					
Depreciation and amortisation	461	8,080	8,541	-	8,541
Interest income	18	103	121	-	121
Interest expenses	200	3,868	4,068	-	4,068
Share of loss of the joint venture	-	-	-	(13)	(13)
<b>Segment operating profit/profit from operations</b>	<b>(2,392)</b>	<b>4,851</b>	<b>2,459</b>	<b>-</b>	<b>2,459</b>
<b>Segment assets</b>	<b>69,303</b>	<b>124,526</b>	<b>193,829</b>	<b>8,778</b>	<b>202,607</b>
<b>Segment liabilities</b>	<b>79,626</b>	<b>87,011</b>	<b>166,637</b>	<b>2,676</b>	<b>169,313</b>

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

**Other disclosures**

Interest in a joint venture	-	-	-	944	944
Capital expenditure	362	-	-	-	362

Capital expenditure consists of additions of property, plant and equipment, intangible assets, investment properties and assets from the acquisition of subsidiaries.



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**3 Segment information (cont'd)**

<b>Group Year ended 31 December 2012</b>	<b>Electricity purchases and sales</b>	<b>Electricity production and sales</b>	<b>Total Segments</b>	<b>Adjustments and eliminations</b>	<b>Consolidated</b>
<b>Revenue</b>					
External customers	878,373	19,062	897,435	-	897,435
<b>Total revenue</b>	<b>878,373</b>	<b>19,062</b>	<b>897,435</b>	<b>-</b>	<b>897,435</b>
<b>Results</b>					
Depreciation and amortisation	398	8,386	8,784	-	8,784
Interest income	137	142	279	-	279
Interest expenses	-	4,597	4,597	-	4,597
Share of loss of the joint venture	-	-	-	(173)	(173)
<b>Segment operating profit/profit from operations</b>	<b>65,426</b>	<b>7,703</b>	<b>73,129</b>	<b>-</b>	<b>73,129</b>
<b>Segment assets</b>	<b>72,958</b>	<b>134,550</b>	<b>207,508</b>	<b>1,409</b>	<b>208,917</b>
<b>Segment liabilities</b>	<b>45,226</b>	<b>98,382</b>	<b>143,608</b>	<b>8,719</b>	<b>152,327</b>

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

**Other disclosures**

Interest in a joint venture	-	-	-	1,707	1,707
Capital expenditure	4,022	284	4,305	-	4,305

Capital expenditure consists of additions of property, plant and equipment, intangible assets, investment properties and assets from the acquisition of subsidiaries.

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Reconciliation of liabilities</b>		
<b>Segment operating liabilities</b>	166,637	143,608
Deferred tax liabilities	2,676	8,131
Current tax payable	-	588
<b>Group total liabilities</b>	<b>169,313</b>	<b>152,327</b>
<b>Reconciliation of assets</b>		
<b>Segment operating assets</b>	193,829	207,508
Deferred tax asset	-	291
Prepaid income tax	8,778	1,118
<b>Group total assets</b>	<b>202,607</b>	<b>208,917</b>

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**3 Segment information (cont'd)**

*Geographical information*

The following table presents the Group's and the Company's geographical information on revenue based on the location of the customers:

	Group		Company	
	2013	2012	2013	2012
Lithuania	591,379	653,803	574,255	633,669
Latvia	117,552	179,425	89,424	179,425
Estonia*	31,195	50,105	29,079	50,105
Belarus	13,408	14,102	13,408	14,102
Russia	4,348	-	4,348	-
<b>Total revenue</b>	<b>757,882</b>	<b>897,435</b>	<b>710,514</b>	<b>877,301</b>

\*Represents trading sales on a power exchange.

Revenue from each single customer exceeding 10% of the Group's and the Company's revenue in 2013 amounted to LTL 112 million, LTL 94 million, LTL 85 million, LTL 82 million and LTL 77 million (2012: LTL 177 million, LTL 174 million LTL 165 million and LTL 106 million). Revenue from each single customer exceeding 10% of the Group's electricity production and sales segment revenue in 2013 amounted to LTL 17 million (2012: LTL 9,7 million and LTL 9,1 million).

The major part of the Group's and Company's non-current assets is located in Lithuania. Non-current assets for this purpose consist of property, plant and equipment, investment property, intangible assets, non-current financial and other assets.

**4 Intangible assets**

Group	Operating license	Contract of emission reduction units	Other intangible assets	Goodwill	Total
<b>Cost</b>					
Balance as at 31 December 2011	39,350	450	-	9,926	49,726
Balance as at 31 December 2012	39,350	450	-	9,926	49,726
Additions	-	-	94	-	94
Balance as at 31 December 2013	39,350	450	94	9,926	49,820
<b>Accumulated amortization and impairment</b>					
Balance as at 31 December 2011	1,741	132	-	3,000	4,873
Amortization for the period	4,179	318	-	-	4,497
Balance as at 31 December 2012	5,920	450	-	3,000	9,370
Amortization for the period	4,183	-	6	-	4,189
Impairment	-	-	-	1,000	1,000
Balance as at 31 December 2013	10,103	450	6	4,000	14,559
<b>Net book value as at 31 December 2011</b>	<b>37,609</b>	<b>318</b>	<b>-</b>	<b>6,926</b>	<b>44,853</b>
<b>Net book value as at 31 December 2012</b>	<b>33,430</b>	<b>-</b>	<b>-</b>	<b>6,926</b>	<b>40,356</b>
<b>Net book value as at 31 December 2013</b>	<b>29,247</b>	<b>-</b>	<b>88</b>	<b>5,926</b>	<b>35,261</b>

The above intangible assets were identified during the purchase price allocation as a result of the business combination in 2011, when the Company established a 100% owned entity UAB IRL Wind and the Group acquired 100% UAB Vėjų spektras shares with the purpose to acquire wind energy generation business. UAB Vėjų spektras was later reorganized by spinning off and transferring separate wind energy generation business to a newly established Vydmantai wind park, UAB. The differences between the amounts paid and the fair value of the acquired assets and liabilities were accounted for as goodwill.

Operating license is a license to produce wind generated electricity with an embedded favorable fixed feed-in tariff applied until 2020 (the license itself has no validity term although the benefit associated is temporal). The contract of emission reduction units (ERU) represented the right to be granted ERUs for free till the year end 2012 (Note 2.5) and further dispose ERUs in the market.

Amortization expenses and impairment expenses of intangible assets are included into the general and administrative expenses caption in the statement of comprehensive income.

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**4 Intangible assets (cont'd)**

Goodwill impairment

For the purpose of the impairment test, the goodwill as at 31 December 2013 and 2012 was allocated to the following cash generating unit (CGU) – wind energy generation business unit – Vydmantai wind park UAB.

The recoverable amount of the cash generating unit as at 31 December 2013 and 2012 was determined based on the value in use calculation using cash flow projections based on the twenty-years financial forecasts prepared by the management. The pre-tax discount rate of 9.9 % in 2013 (9.4 % in 2012) was applied. Twenty years forecast was used in order to avoid artificial inflation of the revenue stream due to the fixed feed-in tariff applied to Vydmantai wind park UAB until 2020, starting with 2021 market prices will be applicable. Significant assumptions used for the assessment of the value in use in 2013 and 2012 are described further:

- 1) the availability of wind turbines - will not fluctuate significantly over the first half of the forecasted period and in the remaining period will decrease due to a normal wear and tear of the equipment, regular maintenance of which is performed;
- 2) the efficiency of wind turbines (depending on the wind speed) – efficiency level in a long run is forecasted at the slightly lower than historical level due to a rather high level of unpredictability;
- 3) the electricity purchase price - revenues are expected to remain rather stable until 2020 due to a feed-in tariff applied, which ensures the purchases of electricity at a stable price, in the following years, electricity will be sold at market price, which is expected to be initially lower than the feed-in tariff and to increase over the period by 3.3% growth rate. Such forecasts are based on the Group's management estimate, since there is no reliable long-term prognosis; in addition, the Group is one of the most experienced players in this market.

As a result of the analysis above, the management recognized additional impairment charge of LTL 1,000 thousand in 2013, while no impairment was recognized in 2012. The management recognised an impairment charge of LTL 3,000 thousand in 2011 against goodwill previously carried at LTL 9,926 thousand (since purchase price was agreed using slightly different assumptions), which was recorded within general and administrative expenses in the statement of comprehensive income. Goodwill impairment may not be reversed in the future under any circumstances.

In the opinion of the Group's management, the most important assumptions are the efficiency level (see above) and the discount rate. The discount rate is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital – WACC (8.4% as at 31 December 2013 and 8% as at 31 December 2012). In respect of the efficiency level, the management strongly believes that in the long run it can only increase (based on historical trends), which has a positive impact on CGU results. If the discount rate increased by 0.5% additional goodwill impairment would amount to LTL 3.2 million as at 31 December 2013 in case all the rest of the assumptions remain constant. At the time of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used, including the discount rate, due to decrease of interest level in global markets.

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**5 Property, plant and equipment**

Movement of property, plant and equipment in 2013 and 2012 is presented below:

<b>Group</b>	<b>Land*</b>	<b>Buildings and structures</b>	<b>Office premises</b>	<b>Machinery and equipment</b>	<b>Other property plant and equipment</b>	<b>Total</b>
<b>Cost</b>						
Balance as at 31 December 2011	2,735	13,295	-	74,020	956	91,006
Additions	278	-	3,907	-	120	4,305
Write-offs and disposals	-	-	-	-	(185)	(185)
Balance as at 31 December 2012	3,013	13,295	3,907	74,020	891	95,126
Additions	-	-	-	-	268	268
Write-offs and disposals	-	-	-	-	(625)	(625)
Balance as at 31 December 2013	3,013	13,295	3,907	74,020	534	94,769
<b>Accumulated depreciation</b>						
Balance as at 31 December 2011	78	402	-	2,183	668	3,331
Depreciation for the period	106	589	196	3,184	173	4,248
Write-offs and disposals	-	-	-	-	(179)	(179)
Balance as at 31 December 2012	184	991	196	5,367	662	7,400
Depreciation for the period	142	591	260	3,167	153	4,313
Write-offs and disposals	-	-	-	-	(624)	(624)
Balance as at 31 December 2013	326	1,582	456	8,534	191	11,089
<b>Net book value as at 31 December 2011</b>	<b>2,657</b>	<b>12,893</b>	<b>-</b>	<b>71,837</b>	<b>288</b>	<b>87,675</b>
<b>Net book value as at 31 December 2012</b>	<b>2,829</b>	<b>12,304</b>	<b>3,711</b>	<b>68,653</b>	<b>229</b>	<b>87,726</b>
<b>Net book value as at 31 December 2013</b>	<b>2,687</b>	<b>11,713</b>	<b>3,451</b>	<b>65,486</b>	<b>343</b>	<b>83,680</b>

\*Land balance represents capitalised financial land lease.



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**5 Property, plant and equipment (cont'd)**

Company	Office premises	Machinery and equipment	Other property plant and equipment	Total
<b>Cost</b>				
Balance as at 31 December 2011	-	156	767	923
Additions	3,907	-	97	4,004
Write-offs and disposals	-	(108)	(78)	(186)
Balance as at 31 December 2012	3,907	48	786	4,741
Additions	-	-	268	268
Write-offs and disposals	-	-	(625)	(625)
Balance as at 31 December 2013	3,907	48	429	4,384
<b>Accumulated depreciation</b>				
Balance as at 31 December 2011	-	132	531	663
Depreciation for the period	196	9	152	357
Write-offs and disposals	-	(103)	(78)	(181)
Balance as at 31 December 2012	196	38	605	839
Depreciation for the period	260	8	148	416
Write-offs and disposals	-	-	(624)	(624)
Balance as at 31 December 2013	456	46	129	631
<b>Net book value as at 31 December 2011</b>	<b>-</b>	<b>24</b>	<b>236</b>	<b>260</b>
<b>Net book value as at 31 December 2012</b>	<b>3,711</b>	<b>10</b>	<b>181</b>	<b>3,902</b>
<b>Net book value as at 31 December 2013</b>	<b>3,451</b>	<b>2</b>	<b>300</b>	<b>3,753</b>

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2013 amounts to LTL 4,313 thousand and LTL 416 thousand, respectively (LTL 4,248 thousand and LTL 357 thousand in the year 2012, respectively). These amounts are included into the general and administrative expenses in the statement of comprehensive income except for the amount of LTL 3,757 in 2013 (LTL 3,913 thousand in 2012), which is included in the cost of sales in the Group's statement of comprehensive income.

Land was leased under finance lease agreements (Note 14) in 2012 and 2013. Buildings and structures, machinery and equipment were leased under finance lease agreements (Note 14) in 2012. In 2013 the lease contract of buildings and structures was refinanced by a long term loan and buildings and structures, machinery and equipment with the net book value of LTL 77,168 thousand were pledged to the bank to secure the loans received by the Group.

There were no material fully depreciated property, plant and equipment in the Group and the Company as at 31 December 2013 and 2012.

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**6 Interest in a joint venture**

As at 31 December 2013 and 2012 the Company had a 49.99% interest in UAB Alproka, a jointly controlled entity, which is engaged in the development of real estate projects (also see Note 1).

UAB Alproka is a private entity that is not listed on any public exchange. The following table illustrates summarized financial information of the Group's investment into UAB Alproka, which is accounted for using the equity method:

	<b>As at 31 December 2013</b>	<b>As at 31 December 2012</b>
Share of the joint venture's statement of financial position		
Current assets	1,101	1,731
Non-current assets	34	42
Current liabilities	(191)	(66)
Non-current liabilities	-	-
<b>Equity</b>	<b>944</b>	<b>1,707</b>
Share of the joint venture's revenue and profit		
Revenue	699	997
Profit (loss)	(13)	(173)

**7 Other non-current financial assets**

	<b>Group</b>		<b>Company</b>	
	<b>As at 31 December 2013</b>	<b>As at 31 December 2012</b>	<b>As at 31 December 2013</b>	<b>As at 31 December 2012</b>
Non-current deposit	1,726	3,453	-	-
Non-current receivables	60	-	-	-
Available-for-sale investments	119	102	119	102
	<b>1,905</b>	<b>3,555</b>	<b>119</b>	<b>102</b>

Other non-current assets of the Group comprise a 4 % annual interest deposit in Swedbank AB till 2016, which is a mandatory guarantee under the credit agreement, which is disclosed under Note 13.

**8 Inventories and prepayments**

The Group's and the Company's inventories and prepayments amount mainly consist of prepayments to the suppliers for electricity according to the existing electricity purchase agreements. Increase in the Group's prepayments comparing to 2012 was due to natural course of business. Increase in the Company's prepayments comparing to 2012 was due to prepayments made at the year end to Group Companies.

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**9 Trade receivables**

As at 31 December 2013 and 2012 the Group's and the Company's trade receivables consisted of receivables for supplied electricity.

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
Trade receivables, gross	50,103	60,084	45,257	57,315
Less: allowance for doubtful trade receivables	(4)	-	(4)	-
	<b>50,099</b>	<b>60,084</b>	<b>45,253</b>	<b>57,315</b>

Decrease in trade receivables in 2013 is mainly due to decreased sales comparing to prior year.

The management considers that the Group and the Company as at 31 December 2013 had LTL 4 thousand of doubtful receivables (none as at 31 December 2012).

There were no significant past due trade receivables as at 31 December 2013 and 2012 in the Group and in the Company.

Trade receivables are non-interest bearing and are generally collectible on 2-30 days terms.

**10 Other receivables**

As at 31 December 2013 the other receivables of the Group mainly consisted of accrued income amounting to LTL 4,494 thousand (2012 – LTL 993 thousand). The increase of accrued income is related to the increase in revenues in SIA INTER RAO Latvia.

There were no past due other receivables of the Group and the Company as at 31 December 2013 and 2012.

**11 Cash and cash equivalents**

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
Cash at bank	15,202	11,218	3,418	4,181
Cash in transit	-	-	-	1,164
	<b>15,202</b>	<b>11,218</b>	<b>3,418</b>	<b>5,345</b>

As at 31 Dec 2012 LTL 77 thousand of cash at bank was pledged to the bank according to loan agreement (Note 13).

**12 Reserves**

Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital.

As at 31 December 2013 the Company's legal reserve was fully formed. As at 31 December 2012 the Company's legal reserve was not fully formed due to increase in share capital which occurred in 2012 (Note 1). In order to comply with legal requirements the Company transferred LTL 1,900 thousand from its profit for the year 2012 to the legal reserve.

Cash flow hedge reserve

This reserve represents the effective part of the change in fair value of the derivative financial instruments (interest rate swaps), used by the Group to secure the cash flows from interest rate risk, at the reporting date. The reserve is accounted for according to the requirements of IAS 39 (Note 15).

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**13 Borrowings**

As at 31 December 2013 the Group's financial debts consisted of:

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
Non-current borrowings	70,264	43,121	-	-
Current portion of non-current borrowings	11,746	-	-	-
Other current financial debts (a)	17,182	-	17,182	-
	<b>99,192</b>	<b>43,121</b>	<b>17,182</b>	<b>-</b>

In 2012 the Group company UAB IRL Wind had a credit agreement with Swedbank AB for the amount of LTL 43,121 thousand with the interest rate of 6 months EURIBOR + 2.95 %, according to which 100% of all cash inflows into UAB IRL Wind bank accounts, 100% of UAB IRL Wind shares and 100 % of Vydmantai wind park UAB shares were pledged. The loan was denominated in EUR and the final repayment date was 13 July 2013; however, the agreement contained a binding requirement to merge UAB IRL Wind and Vydmantai wind park UAB until the same date, and upon the merger, the amended repayment date was 31 December 2020 (the same maturity amendment was applicable to the finance lease obligations described below).

In 2013 upon the merger, the Group company Vydmantai wind park UAB, signed the agreement with Swedbank AB, refinancing the loan and financial lease agreements of UAB IRL Wind which ceased the activities after the merger, according to which all land lease rights, buildings and structures, machinery and equipment, with the net book value of LTL 77,168 thousand and 100 % of Vydmantai wind park UAB shares are pledged. Interest rate applied is 6 months EURIBOR + 2.45 %. The loan is denominated in EUR and the final repayment date is 31 December 2020.

Interest rate applicable as at 31 December 2013 was 4.1 % (4.12% as at 31 December 2012).

According to the agreement above, Vydmantai wind park UAB has to comply with certain financial and non-financial covenants, one of which is debt service coverage ratio during the term of the agreement. As of 31 December 2013 the company did not comply with this ratio. However, till 31 December 2013 the bank had confirmed that it was informed about the Vydmantai wind park UAB noncompliance with these terms stated in the credit agreement and that it will not require early repayment of the loan because of this incompliance.

a) The Company entered into loan agreements with the shareholders RAO Nordic Oy and UAB Scaent Baltic in 2013. The interest rates are equal to average interest rate of loans by commercial banks of the Republic of Finland granted to new business (non-financial corporations) over 1 million EUR. The loans are denominated in EUR and the final repayment date is 31 March 2014. Interest rate applicable as at 31 December 2013 was 1.91%.

**14 Financial lease**

In 2012 the assets leased by the Group under financial lease contracts consisted of wind power plants, transformation equipment and other assets and equipment with the net book value of LTL 80,902 thousand as at 31 December 2012. The term of financial lease was 5 years. All amounts of finance lease payables as at the year-end of 2012 amounted to LTL 51,301 thousand. As at 31 December 2012 the interest rate on the finance lease obligations was fixed and equal 4.8%. Lease obligations were restructured in 2013 as described above in Note 13.

Furthermore, the Group leases land under financial lease contracts with the net book value of LTL 2,687 thousand as at 31 December 2013 (LTL 2,829 thousand as at 31 December 2012). The contractual lease terms are diverse, but for the financial reporting purpose, the judgmental period of 20 years from the inception date (representing usage of wind farm) was used by the management. The interest rate applied is 4.8%.



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**14 Financial lease (cont'd)**

Future minimal lease payments under the above mentioned financial lease contracts as at 31 December 2013 and 2012 are as follows:

	<b>As at 31 December 2013</b>	<b>As at 31 December 2012</b>
Within one year	241	10,546
From one to five years	1,205	45,581
After five years	2,847	2,169
<b>Total financial lease obligations</b>	<b>4,293</b>	<b>58,296</b>
Interest	(1,469)	(6,995)
<b>Present value of financial lease obligations</b>	<b>2,824</b>	<b>51,301</b>
Financial lease obligations are accounted for as:		
- current	237	8,423
- non-current	2,587	42,878
Financial lease obligations are denominated in the following currencies:		
- LTL	2,824	2,231
- EUR	-	49,070

**15 Derivative financial instruments**

	<b>As at 31 December 2013</b>	<b>As at 31 December 2012</b>
Derivative financial instruments (non-current part)	385	1,647
Derivative financial instruments (current part)	1,141	880
<b>Total derivative financial instruments</b>	<b>1,526</b>	<b>2,527</b>

As at 31 December 2012 and 2013, the Group's company (IRL Wind UAB and Vydmantai wind park UAB, after the merger) had an interest rate swap agreement for purpose of future cash flow hedge. On 29 June 2012 the Group has concluded interest rate swap agreement for the period from 17 July 2012 to 17 October 2020. The Group's company pays a fixed interest rate at 1.65 % and receives a floating interest rate at 6-month EURIBOR on a notional amount set in the agreement. The notional amount of the transaction at the inception moment was EUR 12,500 thousand (the equivalent of LTL 43,160 thousand) and is amortised over the period of validity of the derivative. The notional amount of the transaction after the merger was increased to EUR 23,300 thousand (the equivalent of LTL 80,450 thousand). The interest rate swap is being used to hedge the exposure to changes in the market based rates and to secure the cash flows for the loan (Note 13).

The fair value of derivative financial instrument is measured by management at each reporting date. The change in fair value of the effective part of interest rate swap is recognised in other comprehensive income and the change in fair value of the non-effective part of interest rate swap is recognised directly in finance income (costs) in the statement of comprehensive income.

The fair values of interest rate swap contract designated to hedge interest rate risk are presented below:

	<b>As at 31 December 2013</b>		<b>As at 31 December 2012</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Interest rate swap contract</b>				
Fair value	-	1,526	-	2,527

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**15 Derivative financial instruments (cont'd)**

The following table summarizes amounts recognised in other comprehensive income during the period and in the finance costs in the statement of comprehensive income:

	<u>As at 31 December 2013</u>	<u>As at 31 December 2012</u>
<b>Recognised:</b>		
Gain (loss) on interest rate swap contract	1,001	(2,527)
<b>Recognised in the finance costs in the statement of comprehensive income:</b>		
(Loss) on interest rate swap contract (non effective part)	-	(505)
Accrued interest expenses	(126)	(80)
<b>Recognised in other comprehensive income:</b>		
Gain (loss) on interest rate swap contract (effective part)	1,127	(1,942)
Income tax effect	(169)	291

**16 Trade payables**

	<u>Group</u>		<u>Company</u>	
	<u>As at 31 December 2013</u>	<u>As at 31 December 2012</u>	<u>As at 31 December 2013</u>	<u>As at 31 December 2012</u>
Payables to electricity suppliers	45,644	34,761	45,494	34,761
Payables to other suppliers	3,132	4,403	2,893	4,304
	<u>48,776</u>	<u>39,164</u>	<u>48,387</u>	<u>39,065</u>

Trade payables are non-interest bearing and are normally settled on 20-day terms.

**17 Advances received**

The increase in advances received comparing to 2012 is due to advance received from electricity customer in the normal course of business.

**18 Other current liabilities**

	<u>Group</u>		<u>Company</u>	
	<u>As at 31 December 2013</u>	<u>As at 31 December 2012</u>	<u>As at 31 December 2013</u>	<u>As at 31 December 2012</u>
VAT payable	9,713	6,468	8,125	6,011
Employment related liabilities	585	561	516	239
Other current liabilities	592	132	135	68
	<u>10,890</u>	<u>7,161</u>	<u>8,776</u>	<u>6,318</u>

**19 Sales**

	<u>Group</u>		<u>Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenue from sales of electricity	740,761	878,373	710,514	877,301
Revenue from produced electricity sales	17,102	18,865	-	-
Other sales revenue	19	197	-	-
	<u>757,882</u>	<u>897,435</u>	<u>710,514</u>	<u>877,301</u>

The decrease in revenue of the Group and the Company comparing to 2012 is due to restrictions of intersystem transmission lines capacity mainly.

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**20 Cost of sales**

	Group		Company	
	2013	2012	2013	2012
Cost of purchase of electricity*	716,088	780,423	681,949	780,304
Transmission network service cost	9,708	14,138	9,708	14,138
Depreciation on wind park	3,757	3,913	-	-
Other expenses**	2,523	2,264	-	-
	<b>732,076</b>	<b>800,738</b>	<b>691,657</b>	<b>794,442</b>

\* Cost of purchased electricity also includes the fees paid during the year and accrued as at the balance sheet date for not acquired agreed quantity of electricity.

\*\* Other expenses mainly comprise maintenance of wind park.

The decrease in cost of sales of the Groups and the Company comparing to 2012 is related to decrease in sales, due to restrictions of intersystem transmission lines capacity mainly.

**21 General and administrative expenses**

	Group		Company	
	2013	2012	2013	2012
Wages, salaries and social security	7,136	6,517	6,048	5,864
Depreciation and amortization	4,784	4,871	461	396
Support (charity)	3,120	3,890	3,084	3,888
Electricity selling expenses	1,716	1,267	1,081	1,155
Consulting services expenses	1,313	2,818	989	2,659
Transport expenses	1,004	979	898	863
Goodwill impairment loss (Note 4)	1,000	-	-	-
Professional services expenses	738	626	676	583
Business trips	482	777	472	772
Repair and maintenance	283	192	273	150
Tax expenses	243	193	145	116
Bank services	216	252	192	236
Rent	196	161	55	94
Trainings and seminars	175	119	174	118
Representation expenses	137	211	137	209
Other general and administrative expenses, net	804	695	677	568
	<b>23,347</b>	<b>23,568</b>	<b>15,362</b>	<b>17,671</b>

**22 Finance income and expenses**

In 2013 and 2012 the Group's finance expenses mainly comprise interest expenses – LTL 4,068 thousand and LTL 4,597 thousand, respectively.

In 2013 and 2012 the Company's finance income mainly comprise dividend income – LTL 1,460 thousand and LTL 768 thousand, respectively (Note 28)

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**23 Income tax**

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Components of income tax expenses</b>				
Current year income tax expenses	1,058	9,920	849	9,153
Deferred income tax (benefit) expenses	(5,334)	91	-	-
Income tax (benefit) expenses charged to statement of comprehensive income	(4,276)	10,011	849	9,153

In 2013 deferred tax loss of LTL 169 thousand related to cash flow hedges was accounted under other comprehensive income caption in the statement of comprehensive income.

As at 31 December 2013 and 2012 the deferred income tax asset and liability was accounted for at 15 % and consisted of:

**Group**

		<b>As at 31</b>	<b>As at 31</b>
		<b>December 2013</b>	<b>December 2012</b>
<b>Deferred income tax asset</b>			
Tax deductible goodwill recognized upon merger	a)	5,389	-
Cash flow hedge		122	291
Less: valuation allowance		-	-
Deferred income tax asset, net of valuation allowance		5,511	291
<b>Deferred income tax liability</b>			
Equity method		(142)	(256)
Intangible assets	b)	(4,387)	(5,014)
Depreciation differences		(3,658)	(2,861)
Deferred income tax liability		(8,187)	(8,131)
Deferred income tax, net		(2,676)	(7,840)

**Presented in the statement of financial position as follows:**

Deferred income tax asset	-	291
Deferred income tax liability	(2,676)	(8,131)

a) As a result of the merger of Vydmantai wind park UAB and UAB IRL Wind (Note 1) in accordance with tax legislation the Group company Vydmantai Wind Park UAB qualifies for recognition of tax deductible goodwill, which may be amortized per 15 years starting the merger date, the amount of such goodwill was estimated as LTL 43,082 thousand. Difference between the tax and financial goodwill created a deferred tax asset (which was assessed as recoverable) in the amount of LTL 5,573 thousand which was recognized in the statement of comprehensive income upon merger.

b) Due to intangible assets (related to Vydmantai wind park UAB) identified during the acquisition, a deferred income tax liability amounting to LTL 5,970 thousand was recognized. The decrease in deferred income tax liability in 2013 comparing to 2012 represents the amortisation of the related intangible assets during 2013.



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**23 Income tax (cont'd)**

The changes of temporary differences before and after tax effect in the Group were as follows:

Group	Balance as at 31 December 2012	Recognised in profit or loss			Balance as at 31 December 2013
		Recognised in other comprehensive income	Tax deductible goodwill recognized upon merger	Other recognised in profit or loss	
Equity method	(1,707)	-	-	763	(944)
Intangible assets	(33,430)	-	-	4,183	(29,247)
Tax deductible goodwill recognized upon merger	-	-	37,157	(1,231)	35,926
Depreciation differences	(19,073)	-	-	(5,316)	(24,389)
Cash flow hedge	1,942	(1,127)	-	-	815
Total temporary differences	(52,268)	(1,127)	37,157	(1,601)	(17,839)
Deferred income tax, net	(7,840)	(169)	5,574	(240)	(2,676)

Group	Balance as at 31 December 2011	Recognized in			Balance as at 31 December 2012
		other comprehensive income	Recognised in profit or loss		
Equity method	(2,630)	-	923	(1,707)	
Intangible assets	(37,927)	-	4,497	(33,430)	
Depreciation differences	(13,047)	-	(6,026)	(19,073)	
Cash flow hedge	-	1,942	-	1,942	
Total temporary differences	(53,604)	1,942	(606)	(52,268)	
Deferred income tax, net	(8,040)	291	(91)	(7,840)	

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pre-tax income as follows:

	Group		Company	
	2013	2012	2013	2012
Profit (loss) before tax	(1,592)	68,125	4,920	66,078
Income tax expenses computed at 15% in 2013 and 2012	(239)	10,219	738	9,912
Tax deductible goodwill recognized upon merger	(5,574)	-	-	-
Deferred tax assets not recognized	1,088	-	-	-
Permanent differences	449	(208)	111	(759)
Income tax (benefit) expenses charged to statement of comprehensive income	(4,276)	10,011	849	9,153

The amount of deferred asset not recognized in financial statements of the Group is LTL 1,088 thousand and it has no expiry date.

**24 Basic and diluted earnings per share (LTL)**

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. The Group has no diluting instruments; therefore, basic and diluted earnings per share are equal.

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**24 Basic and diluted earnings per share (LTL) (cont'd)**

Calculation of basic and diluted earnings per share is presented below:

<b>Group</b>	<b>2013</b>	<b>2012</b>
Net profit attributable to the shareholders	2,684,000	58,114,000
Number of shares, opening balance*	20,000,000	1,000,000
Number of shares, closing balance*	20,000,000	20,000,000
Weighted average number of shares**	20,000,000	4,643,836
Basic and diluted earnings per share (LTL)	<b>0.13</b>	<b>12.51</b>

\*\* The weighted average number of shares takes into account increase in share capital in 2012.

**25 Dividends per share (LTL)**

**Company**

	<b>2013</b>	<b>2012</b>
Approved dividends (LTL)*	27,000,000	64,023,000
Number of shares (units)**	20,000,000	1,000,000
Approved dividends per share (LTL)	1.35	64.02

\* The year when the dividends are approved.

\*\* At the date when dividends are approved.

**26 Financial assets and liabilities and risk management**

Credit risk

The Group and the Company has a fairly significant concentration of trading counterparties. Trade receivables from the main three customers of the Group and the Company amounted from approximately 46% to 44% of the total Group's and Company's trade receivables as at 31 December 2013, respectively (80% as at 31 December 2012). The Group's and the Company's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history, which mainly are the state owned entities, and the majority of transactions is carried out through the market intermediary - electricity exchange Nordpool spot.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, the Group's and the Company's management considers that its maximum exposure is reflected by the amount of trade receivables less allowance for doubtful accounts, recognised at the reporting date, if any.

Interest rate risk

As at 31 December 2013 and 2012 the Group had borrowings which were subject to variable rates related to EURIBOR and created interest rate risk (Note 13).

The following table demonstrates the sensitivity of the Group's 2013 profit before tax (through the impact on floating rate borrowings) to a reasonably possible change in interest rates, with all other variables held constant. There is no impact on the Group's equity, other than that on current year profit.

<b>2013</b>	<b>Increase/decrease in basis points</b>	<b>Effect on the profit before the income tax</b>
EUR	+50	(410)
EUR	-50	410

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**26 Financial assets and liabilities and risk management (cont'd)**

As at 31 December 2013 the Group manages its interest rate risk by having entered into interest rate swap contract, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount (Note 15). Since 17 July 2012, the Group's loan turned to be with fixed interest (hedged by interest rate swap), therefore the Group does not face interest rate risk.

As at 31 December 2013 and 2012 the Group had material financial lease obligations with fixed interest rates; therefore, they did not create interest rate risk.

Liquidity risk

The Group's and Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2013 and 2012 were 0.86 and 1.32, respectively. The Company's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2013 and 2012 were 0.87 and 1.32 respectively.

The tables below summarise the maturity profile of the Group's financial liabilities as at 31 December 2013 and 2012, based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	4,496	26,202	46,738	29,767	107,203
Derivative financial instruments (net)	-	517	624	555	(170)	1,526
Financial lease obligations	-	196	45	1,205	2,847	4,293
Trade payables	-	48,776	-	-	-	48,776
Other current liabilities	-	592	-	-	-	592
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>54,577</b>	<b>26,871</b>	<b>48,498</b>	<b>32,444</b>	<b>162,390</b>

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	444	1,332	7,106	48,432	57,314
Derivative financial instruments (net)	-	180	622	1,847	(192)	2,457
Financial lease obligations	-	2,766	7,780	45,581	2,169	58,296
Trade payables	-	39,164	-	-	-	39,164
Other current liabilities	-	132	-	-	-	132
<b>Balance as at 31 December 2012</b>	<b>-</b>	<b>42,686</b>	<b>9,734</b>	<b>54,534</b>	<b>50,409</b>	<b>157,363</b>

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**26 Financial assets and liabilities and risk management (cont'd)**

The tables below summarise the maturity profile of the Company's financial liabilities as at 31 December 2013 and 2012 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Other financial debts	-	-	17,263	-	-	17,263
Trade payables	-	48,387	-	-	-	48,387
Other current liabilities	-	135	-	-	-	135
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>48,522</b>	<b>17,263</b>	<b>-</b>	<b>-</b>	<b>65,785</b>

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade payables	-	39,065	-	-	-	39,065
Other current liabilities	-	68	-	-	-	68
<b>Balance as at 31 December 2012</b>	<b>-</b>	<b>39,133</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,133</b>

Foreign exchange risk

Import and export activities expose the Group and the Company to foreign exchange risk. The Group and the Company is not using financial instruments intended to control the risk of foreign exchange except for focusing on trade in the euro to which the litas is pegged; therefore, the Group and the Company is not exposed to significant foreign exchange risk.

Fair value of financial instruments

The Group's and the Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, non-current and current borrowings and financial lease.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade and other accounts receivable, current accounts payable and current borrowings approximates fair value;
- The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

The fair values of the Group's and the Company's financial assets and financial liabilities approximate their carrying values.

Fair value of the Group's derivative financial instrument (Note 15) is defined as level 2. This is interest rate swap which is valued using discounted cash flow or present value calculation method. In all cases pricing is based on market observable inputs.

There were no movements of financial instruments between the levels during 2013.

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**27 Capital management**

The Group's and Company's capital consists of share capital in the amount of LTL 20 million and retained earnings. The Company manages its business in such a way which allows avoiding significant increases in working capital requirements. This is achieved primarily through the thorough management of payment dates for electricity purchased from suppliers and sold to the clients. The Company aims to maintain the longest possible gap between the dates when it receives the payment for the electricity sold and is obliged to pay for the electricity purchased. Every year the Company evaluates the level of its working capital, which is required for operating sustainably (for the sustainable operations the Company requires LTL~13 mln. of working capital per year). In cases when the Company forecasts possible increase in the level of required working capital it always has a possibility to take a credit line from the bank (this option has been discussed with the bank and it is possible to open a required credit line within the term of 1 month). All the excessive cash is deposited in the bank accounts and gains overnight interests pre-agreed with bank.

In addition, companies registered in Lithuania are obliged to upkeep its equity at not less than 50 % of its share capital, as imposed by the Law on Companies of the Republic of Lithuania. As at 31 December 2013 and 2012 the Company was in line with this regulation. There were no other externally imposed capital requirements on the Company.

Group companies registered in Latvia are obliged to keep its equity at no less than zero, as imposed by the Law on Companies of the Republic of Latvia. The Group's subsidiary SIA INTER RAO Latvia does not comply with this requirement as at 31 December 2013. The Group's management does not expect any negative consequences to the Group and believes that the losses will be covered from SIA INTER RAO Latvia profit from operations.

**28 Related party transactions**

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

OJSC INTER RAO UES (ultimate parent);  
RAO Nordic Oy (one of the shareholders);  
UAB Scaent Baltic (one of the shareholders);  
SIA INTER RAO Latvia (subsidiary);  
OU INTER RAO Eesti (subsidiary);  
UAB IRL Wind (subsidiary until merger with UAB Vydmantai wind park as at 11 July 2013);  
Sp z o.o. IRL Polska (subsidiary);  
UAB Vydmantai wind park (indirectly controlled subsidiary until merger with UAB IRL Wind as at 11 July 2013, after - subsidiary);  
UAB Alproka (joint venture);  
Other related parties include:  
UAB Scaent Baltic Group companies (the same shareholder);  
Other shareholders;  
Management.

**2013**

Group		Purchases	Sales	Declared dividends/(received)	Receivables	Payables
OJSC INTER RAO UES	a)	511,251	4,348	-	145	41,636
Oy RAO Nordic	b)	123	-	13,770	-	10,961
UAB Scaent Baltic	c)	203	-	7,830	-	6,232
UAB Alproka		-	-	(750)	-	-
Other related parties	d)	302	-	5,400	1	28
		<b>511,879</b>	<b>4,348</b>	<b>26,250</b>	<b>146</b>	<b>58,857</b>

**2012**

Group		Purchases	Sales	Declared dividends/(received)	Receivables	Payables
OJSC INTER RAO UES	a)	674,117	-	-	-	34,013
Oy RAO Nordic	b)	-	-	32,652	-	-
UAB Scaent Baltic	c)	232	947	31,371	947	10
UAB Alproka		-	-	(768)	-	-
Other related parties	d)	543	56	-	-	176
		<b>674,892</b>	<b>1,003</b>	<b>63,255</b>	<b>947</b>	<b>34,199</b>



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**28 Related party transactions (cont'd)**

2013		Purchases	Sales	Declared dividends/(received)	Receivables and prepayments	Payables
<b>Company</b>						
OJSC INTER RAO UES	a)	511,251	4,348	-	145	41,636
Oy RAO Nordic	b)	123	-	13,770	-	10,961
UAB Scaent Baltic	c)	203	-	7,830	-	6,232
UAB Alproka		-	-	(750)	-	-
SIA INTER RAO Latvia		-	4,927	(210)	8,577	-
OU INTER RAO Eesti		-	-	-	1,355	-
UAB IRL Wind		-	-	(500)	-	-
UAB Vydmantai wind park		-	50	-	6	-
Other related parties	d)	302	-	5,400	1	28
		<b>511,879</b>	<b>9,325</b>	<b>25,540</b>	<b>10,084</b>	<b>58,857</b>
<b>2012</b>						
2012		Purchases	Sales	Declared dividends/(received)	Receivables	Payables
<b>Company</b>						
OJSC INTER RAO UES	a)	674,117	-	-	-	34,013
Oy RAO Nordic	b)	-	-	32,652	-	-
UAB Scaent Baltic	c)	208	947	31,371	947	10
UAB Alproka		-	-	(768)	-	-
SIA INTER RAO Latvia		-	5,239	-	570	-
UAB IRL Wind		-	19	-	5	-
UAB Vydmantai wind park		-	21	-	3	-
Other related parties	d)	543	56	-	-	176
		<b>674,868</b>	<b>6,282</b>	<b>63,255</b>	<b>1,525</b>	<b>34,199</b>

- a) The Group and the Company performs electricity purchase transactions with OJSC INTER RAO UES.  
b) The main part of the payables to Oy RAO Nordic in 2013 consists of loan (note 13) provided as a transfer from dividends payable (note 29).  
c) In 2013 and 2012 the Group and the Company purchased rent of premises and accounting services from UAB Scaent Baltic. The main part of the payables to UAB Scaent Baltic in 2013 consists of loan (note 13) provided as a transfer from dividends payable (note 29).  
d) In 2013 and 2012 the Group and the Company purchased advertising services from other related parties. In 2013 the Company paid dividends to other shareholders.

The Company has an agreement with OJSC INTER RAO UES, according to which the Company is obliged to buy certain minimum amount of electricity in 2014.

Payables and receivables between related parties are non-interest bearing. Receivables and payables payment terms between the related parties are up to 15 days, except for the dividends and loans, which are repaid in accordance to the legal or contractual requirements, respectively.

Outstanding balances at the year-end are unsecured and settlement occurs in cash, unless agreed otherwise. There have been no guarantees provided or received for any related party receivable or payable and no allowance has been made for the receivables from related parties by the Group and by the Company.

Management remuneration and other benefits

The Group's management includes each of the Group companies managing director, deputy director and board members. Amounts of salaries and bonuses calculated during the years 2013 and 2012 for the management of the Group were as follows: LTL 3,134 thousand and LTL 2,640 thousand, respectively.

The Company's management includes managing director, deputy director and board members. Amounts of salaries and bonuses calculated during the years 2013 and 2012 for the management of the Company were as follows: LTL 2,754 thousand, and LTL 2,350 thousand, respectively.

On 1 December 2005, under a credit agreement a loan of EUR 29 thousand was granted to one of the members of the Group's management. As at 31 December 2013, the balance of the loan amounted to EUR 2.6 thousand. The maturity date is 5 December 2015. The interest rate of the loan is 6 month EURIBOR + 0.1%. There are no collaterals attached to the related party loans.

No other guarantees were issued to the Group's and Company's management and no other amounts were paid or calculated and no assets were disposed of.

**AB INTER RAO LIETUVA**  
**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 December 2013**  
(all amounts are in LTL thousand unless otherwise stated)

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**29 Non-monetary transactions**

In April 2013 the general shareholders meeting decided to pay LTL 27,000 thousand dividends to the shareholders. LTL 17,000 thousand dividends payable were transferred to loans payable to Oy RAO Nordic and UAB Scaent Baltic (note 13).

During 2013 and 2012 the following amounts of Group's income tax were set off against other taxes: LTL 148 thousand and LTL 7,882 thousand, respectively.

**30 Subsequent events**

The Energy Regulatory Authority of the Republic of Poland has granted the Group's company Sp z o.o. IRL Polska the license for electricity trading which will take effect on 9 January 2014.

## I. General Information

### Reporting period

Year ended 31<sup>st</sup> December 2013

### Company and its contact details

Company name	AB INTER RAO Lietuva (hereinafter - IRL or „the Company“)
Company code	126119913
Legal form	Public company (joint-stock company)
Date of registration	21 <sup>st</sup> December 2002
Name of register of Legal Entities	State Enterprise Centre of Registers
Registered office	A.Tumėno g. 4, block B, LT-01109 Vilnius
Telephone number	+370 5 242 11 21
Fax number	+370 5 242 11 22
E-mail	info@interrao.lt
Internet address	www.interrao.lt

### Main activities of the Group of INTER RAO Lietuva

The Group of INTER RAO Lietuva (hereinafter - “the Group”) is an independent supplier of electricity and, as such, may engage in various forms of electricity trading. Moreover, the Group is also present in electricity generation operations, as it owns a wind farm in Western Lithuania.

The Group is engaged in various forms of electricity trading: the purchase and sale of electricity under bilateral contracts with wholesalers of electricity, as well as on the power exchange; supply of electricity to end-users; provision of balancing services for end-users and other wholesalers of electricity; sale and purchase of regulating and balancing electricity for the purposes of systemic services provided by the transmission system operators; cross-border electricity trading.

The Group has permission to import and export electricity to and from Lithuania, it is engaged in the import of electricity from Russia and, to a lesser extent, from Belarus, as well as in export to these countries. The Group is also active in electricity trading in other EU Member States, namely Latvia and Estonia.

The Group sells all of the electricity it cross-border delivers to the Lithuanian internal market on the Nord Pool Spot since, in accordance with respective regulations, all electricity cross-border delivered to the Nord Pool Spot Lithuanian price area, has to be sold on the Nord Pool Spot. Then the Group buys the electricity on the Nord Pool Spot in a volume corresponding to its contractual obligations with Clients. Sale and purchase orders are submitted for the same price and trades are executed at the market price. Only then does the Group sell electricity to its wholesale customers in Lithuania, Latvia and Estonia according to bilateral contracts. Some portion of electricity is also sold directly through Nord Pool Spot AS to other market participants. Trades on the power exchange are executed at the market price.

The price of electricity sold under bilateral contacts is the market price, adjusted for variances depending on the electricity trading and/ or consumption pattern of the customer and contractual arrangements (e.g., fixed on annual or monthly basis or agreed in daily delivery schedules).

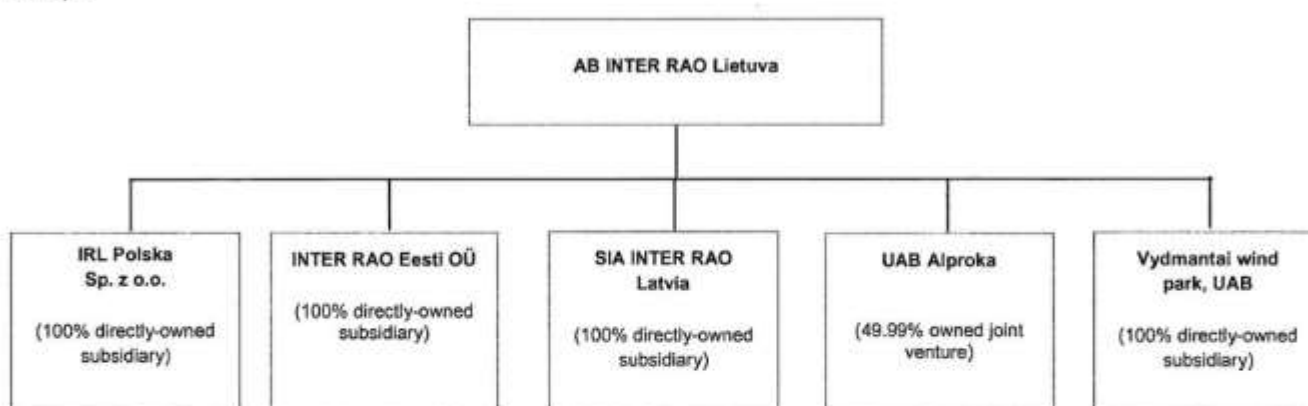
Apart from importing electricity, the Group also purchases the electricity it trades from other wholesalers of electricity in Lithuania and Latvia under bilateral contracts based on various pricing arrangements, as well as on Nord Pool Spot AS in Lithuania, Latvia and Estonia based on market price.

### The Group structure

As on 31<sup>st</sup> December 2013, the Group consisted of the Company and the following directly controlled subsidiaries and joint venture (hereinafter - the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Equity as at 31 <sup>st</sup> December 2013	Registration address	Activity
INTER RAO Eesti OÜ - subsidiary	11879805	100%	(533)	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100%	(5,033)	Elizabetes iela 15-1, Riga, Latvia	Trade of electricity
IRL Polska Sp. z.o.o.	0000436992	100%	8,000	Emilii Plater 53. Warsaw, Poland	Expected trade of electricity
UAB Alproka - joint venture	125281684	49,99%	1,888	Verkių Str. 25C, Vilnius, Lithuania	Operations with real estate
Vydmantai Wind Park, UAB - subsidiary	302666616	100%	35,251	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

The following chart sets out the Group' subsidiaries and interest in those subsidiaries, as well as the structure of the Group:



On 22<sup>nd</sup> October 2012 the Group registered a 100% owned entity Sp. z o.o. IRL Polska in Poland with a registered share capital of PLN 2,000 thousand with a purpose of electricity trading on Poland electricity exchange. On 4<sup>th</sup> December 2013, the subsidiary's statutory capital was increased from PLN 2,000 thousands to PLN 10.000 thousands. On 3<sup>rd</sup> January 2014 Sp. z o.o. IRL Polska was granted the license for trade in electricity in Poland. The term of the license is from 9<sup>th</sup> January 2014 till 9<sup>th</sup> January 2024.

In April 2011, the Company established a 100% owned entity UAB IRL Wind. In July 2011, UAB IRL Wind acquired a wind electricity generation business from UAB Vėjų Spektras. Vydmantai wind park, UAB was established in a process of reorganization to take over the electricity generation business acquired from UAB Vėjų spektras with all assets, rights and obligations. On 11<sup>th</sup> July 2013 a reorganization of UAB IRL Wind and Vydmantai wind park, UAB was completed. During this reorganization UAB IRL Wind was merged into Vydmantai wind park, UAB and ceased its activities as a legal



entity. All the assets and undertakings of UAB IRL Wind were taken over by Vydmantai wind park UAB. Vydmantai wind park, UAB represents an independent economic unit capable of carrying out the activities and performing functions on its own.

The Company directly holds 49.99% of the share capital of UAB Alproka, which was acquired in 2006. The investment in UAB Alproka was a one-time investment and the Company does not plan to further participate in the real estate development industry after the project conducted by UAB Alproka is closed. UAB Alproka is engaged in real estate development in the Lithuanian seaside resort, Palanga. UAB Alproka has already completed the development of the residential buildings complex and has almost finished the sales of the apartments. As of 31<sup>st</sup> December 2013, out of 447 apartments, 6 are still to be sold (along with 10 storage rooms and 8 parking lots). When the sale of all apartments is completed, shares of UAB Alproka owned by the Company will be either sold to other shareholder - AB Panevėžio keliai or alternatively - UAB Alproka will be liquidated.

The Company has no branches or representative offices.

### The Group history and development

- 2002 The Company was incorporated as UAB Energijos realizacijos centras.
- 2003 The Company received its license as independent electricity supplier with permission to export electricity.
- The Company signed sale-purchase agreements with INTER RAO UES and Lietuvos energija AB.
- The Company began electricity trading activities by exporting electricity to Russia and Belarus.
- 2004 Permission to import electricity was granted to the Company.
- 2005 The Company began importing electricity to Lithuania.
- RAO Nordic OY, a wholly owned subsidiary of INTER RAO UES, acquired 18% of the Company's share capital from UAB VB rizikos kapitalo valdymas.
- 2006 The Company acquired a 49.99% stake in UAB Alproka, a company engaged in real estate development in the Lithuanian seaside resort of Palanga.
- 2007 UAB Scaent Baltic acquired an 82% stake in the Company's share capital from Scaent Holdings Cooperatie UA and Bengtsbädd Förvaltning AB.
- 2008 RAO Nordic OY increased its shareholding in the Company by acquiring a 33% stake from UAB Scaent Baltic. The stake of RAO Nordic OY in the Company's share capital reaches 51%, while the stake of UAB Scaent Baltic decreases to 49%.
- 2009 The Company signed electricity sale-purchase agreements with the Belarusian company, Belenergo and the Latvian company, Latvenergo.
- Cooperation regarding the sale of electricity with the largest electricity consumer in the Baltic States, Orlen Lietuva, was established. Delivery was initiated in 2010.
- The Company changed its name to UAB INTER RAO Lietuva.
- 2010 The Company established two wholly-owned subsidiaries, one in Latvia (SIA INTER RAO Latvia) and the second in Estonia (INTER RAO Eestí OU).
- SIA INTER RAO Latvia received its license for electricity trading in Latvia.



- 2011 SIA INTER RAO Latvia begins electricity trading operations.
- The Company begins trading activities in the Estonian area of NordPool Spot.
- The Company begins operations in electricity generation from renewable energy sources by acquiring the wind park in Vydmantai.
- The Company signs an agreement with INTER RAO UES on potential export of electricity generated in Baltiiskaya NPP under construction in Kaliningrad Oblast.
- 2012 Decision on public offering and listing of the Company's shares on the Warsaw Stock Exchange was made.
- Business entity (IRL POLSKA sp. z o.o.) in Poland was established.
- 2013 AB INTER RAO Lietuva shareholders decided to distribute 27 million Litas as dividends.
- In July 2013, the Company has completed a merger of its two subsidiary companies UAB IRL Wind and Vydmantai wind park, UAB. Subsidiary companies were reorganised by merging UAB IRL Wind, which ceased its activities as a legal entity after the merger, into Vydmantai wind park, UAB which continued its activities after the merger.
- On 4<sup>th</sup> December 2013, the statutory capital of subsidiary company of AB INTER RAO Lietuva in Poland IRL Polska Sp.z o.o. was increased from PLN 2,000 thousand to PLN 10,000 thousand.
- 2014 On 3<sup>rd</sup> January 2014, the subsidiary company of AB INTER RAO Lietuva in Poland IRL Polska Sp.z o.o. was granted the license for trade in electricity in Poland. The term of the license is from 9th January 2014 till 9th January 2024.

#### Agreements with intermediaries of public trading in securities

Since 29<sup>th</sup> October 2012 the Company and UAB FM| Orion Securities (code 122033915), A. Tumėno str. 4, LT-01109 Vilnius, have an agreement on accounting of the Company's securities and services related to the accounting of securities.

#### Data about securities traded on regulated market

The following securities of the Company are included into the Main List of Warsaw stock exchange (symbol: IRL):

Types of shares	Number of shares	Nominal value (in LTL)	Total nominal value (in LTL)	Issue Code
Ordinary registered shares	20,000,000	1	20,000,000	LT0000128621

In December 2012, the initial public offering of the Company's ordinary shares was completed on the Warsaw Stock Exchange. The total oversubscription for the Company's ordinary shares exceeded 26%. Given the ordinary share offer price of PLN 24.17 the value of the offering exceeded PLN 96.7 million. The Company's ordinary shares were included into the Main list of the Warsaw Stock Exchange.

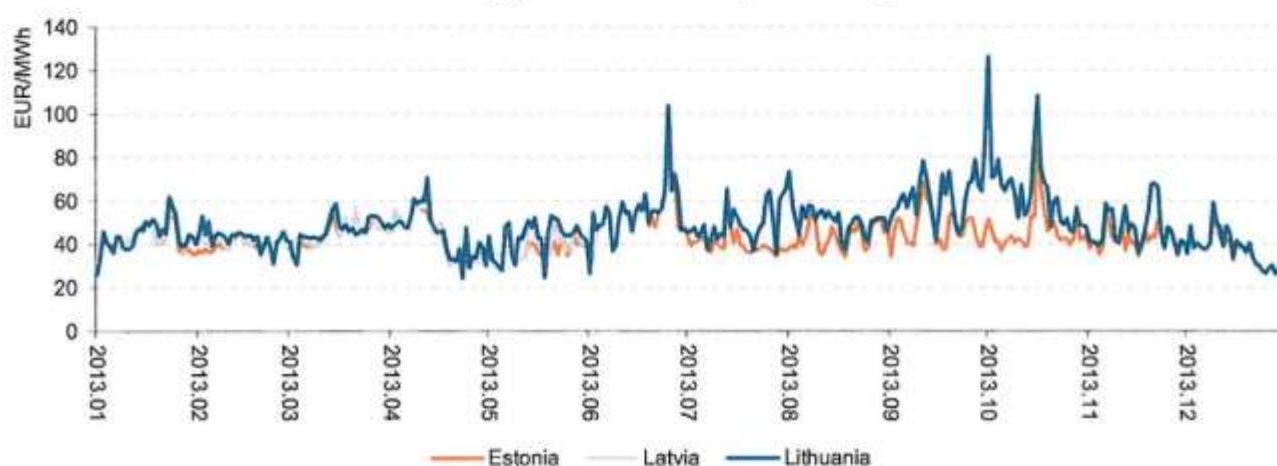
Securities of the Group's subsidiaries are not traded publicly.

## II. Financial Information

The Company's and the Group's sales in 2013 reached LTL 710.5 million and LTL 757.9 million and they were lower by 19.0% and 15.6% respectively in comparison with the sales in 2012.

Despite the losses that the Company and the Group incurred during the 3<sup>rd</sup> quarter of 2013, which were caused by the limitation of electricity transmission capacities from third countries (Russia and Belarus) into the Baltics<sup>1</sup>, the Company and the Group managed to finish the year with profit. The main reason for sharp decline in sales and profitability were the limitation of electricity transmission capacities from third countries, which restricted the Company's and the Groups ability to import higher amounts of electricity from Russia and Belarus and resulted in high electricity prices in Lithuanian and Latvian Nord Pool Spot price zones, which were significantly higher than in Estonian price zone at the very same time.

Electricity price in NordPoolSpot exchange



During this period, the Company and the Group had to fulfil its contractual obligations of electricity sales to its Clients at lower prices, agreed upon in annual contracts, and at the same time to purchase the electricity in Lithuanian and Latvian markets at significantly higher prices, instead of purchasing electricity from Russia/Belarus. The Company and the Group fulfilled all of its contractual obligations to its Clients in 2013 without any delays and disturbances.

Simultaneously the Company and the Group implemented a set of risk management measures, which should allow avoiding such loss-making situation in the future.

Due to the limitation of electricity transmission capacities from third countries to Baltics, the Company's and the Group's cost of sales were lower by 12,9% and 8,6%, comparing to the year 2012, but still the decrease in costs of sales were significantly lower than decrease in sales. Consequently the Company's and the Group's gross profitability decreased by 77,2% and 73,3% to 2,65% and 3,41% respectively.

The Company's and the Group's EBITDA for the year 2013 was LTL 5.58 million and LTL 11.024 million. Company's EBITDA margin decreased from 7.58% in 2012 to 0.79% in 2013 and the Group's from 9.1% in 2012 to 1.45% in 2013.

During 2013 the Company and the Group fulfilled all of its contractual obligations to the Clients, substantially increased its customer base: from 285 in 2012 to 693 in 2013, improved relationships with the largest electricity trading customers in the region, increased statutory capital of its fully owned subsidiary in Poland, which applied for the electricity trading license in Poland (and the license was granted on the 3<sup>rd</sup> of January, 2014). These events are likely to be positively reflected in the financial results of the year 2014.

<sup>1</sup> Limitation of electricity transmission capacities from third countries to Baltics were caused by the agreement, signed between three Baltic States transmission system operators as of 15<sup>th</sup> of March 2013. The transmission system operators de facto terminated this agreement in the 4<sup>th</sup> quarter of 2013.



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(all amounts are in LTL thousand unless otherwise stated)

Wind park located in Vydmantai, owned by the Group over a year generated and sold 57,007 MWh, which was 9.3% lower than in 2012. The decline in electricity production was mainly caused by the less favourable wind conditions in Lithuania compared to 2012, which has led to lower electricity generation and sales revenue.

The consolidated financial statements of the Group have been prepared according to the International Financial Reporting Standards as adopted by the European Union.

**Key figures of IRL Group**

<b>Financial figures</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Sales (LTL thousand)	757,882	897,435	919,080	750,389
Gross profit (LTL thousand)	25,806	96,697	91,965	79,462
Gross profit margin (%)	3.41%	10.80%	10.00%	10.60%
Operating profit (LTL thousand)	2,459	73,129	73,264	68,531
Operating profit margin (%)	0.32%	8.10%	8.00%	9.10%
EBITDA (LTL thousand)	11,024	81,506	78,800	69,439
EBITDA profit margin (%)	1.45%	9.10%	8.60%	9.30%
Net profit (LTL thousand)	2,684	58,114	61,200	59,061
Net profit margin (%)	0.35%	6.50%	6.70%	7.90%
Number of shares (thousand)	20,000	20,000	1,000	1,000
Earnings per share (LTL)	0.13	2.91	61.2	59.06

<b>Financial ratios</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Return on capital employed (%)	2%	48%	44%	107%
Return on assets (%)	1%	28%	27%	38%
Return on shareholders' equity (%)	8%	103%	95%	93%
Gearing ratio	3.08	1.67	1.63	0
Net financial debt to equity	2.62	1.47	1.1	-1.29
Equity to assets ratio	0.16	0.27	0.28	0.4
Current ratio	0.86	1.32	1.49	1.62
Rate of turnover of assets (%)	27%	23%	25%	21%

Gross profit margin - Gross profit / Sales

Operating profit margin - Operating profit / Sales

EBITDA profit margin - EBITDA / Sales

Profit before taxes margin - Profit before taxes / Sales

Net profit margin - Net profit / Sales

Earnings per shares - Net profit / Number of shares

Return on capital employed - EBIT / (Total assets - Current liabilities)

Return on assets - Net profit / Total assets

Return on equity - Net profit / Total shareholders' equity

Gearing ratio - Total debt / Total shareholders' equity

Net financial debt to equity - (Financial borrowings - Cash and cash equivalents) / Total equity

Equity to assets ratio - Total equity / Total assets

Current ratio - Current assets / Current liabilities

Rate of turnover of assets - Total assets / Sales

## Revenues

The total consolidated Group's sales revenue in 2013 was equal to LTL 758 million, a 15.6% less than in 2012. Total revenue declined due to lower amount of electricity traded in all Baltic countries, which mainly decreased due to the limitation of electricity transmission capacities from the third countries. The limitation restricted the Groups and the Company's ability to import higher amounts of electricity from Russia and Belarus and resulted in high electricity prices in Lithuanian and Latvian Nord Pool Spot price zones.

Sales revenues by operating segments, thous. LTL	2013	2012
Electricity purchases and sales	740,761	878,373
Electricity production and sales	17,121	19,062
<b>Total</b>	<b>757,882</b>	<b>897,435</b>

Group's revenue from sales of electricity in the 2013 amounted to LTL 741 million. Revenue from produced electricity sales accounted for LTL 17.1 million, which is 10.2% less than a year ago. The decline in electricity production was mainly caused by the less favourable wind conditions in Lithuania compared to 2012, which has led to lower electricity generation and sales revenue.

The tables below present data on the electricity trading activities of the Group for the 2013 and the 4<sup>th</sup> quarter of 2013, with a breakdown by each country for the periods indicated (S - sale, P - purchase).

	For 2013		For 2012	
	S	P	S	P
	GWh		GWh	
Lithuania*	3,616	410	3,895	208
Latvia	640	356	1,130	139
Estonia	220	49	374	95
Russia	99	3,568		4,780
Belarus	115	307	109	286
<b>Total*</b>	<b>4,690</b>	<b>4,690</b>	<b>5,508</b>	<b>5,508</b>

\* Excluding equivalent trades on the power exchange

Differences between purchased and sold electricity total values is due to rounding

	For the 4 <sup>th</sup> quarter of 2013		For the 4 <sup>th</sup> quarter of 2012	
	S	P	S	P
	GWh		GWh	
Lithuania*	1,078	119	982	51
Latvia	121	116	302	20
Estonia	13	13	122	20
Russia	8	839	-	1,232
Belarus		133	-	83
<b>Total*</b>	<b>1,220</b>	<b>1,220</b>	<b>1,406</b>	<b>1,406</b>

\* Excluding equivalent trades on the power exchange

The average annual electricity price in 2013 in Lithuanian Nord Pool Spot zone was equal to 48.91 EUR/MWh, which was 9.5% higher than in 2012. The average monthly electricity price on the power exchange was fluctuating between 37.48 and 64.18 EUR/MWh in 2013, while the min. and max. hourly electricity prices were 3.09 EUR/MWh and 210.01 EUR/MWh over the same period. The max. price was reached on the 16<sup>th</sup> October, 2013.



#### Cost of sales

The Company's and the Group's cost of purchase of electricity in 2013 decreased by 12.6% and 8.2% respectively if compared to 2012 it amounted to LTL 682 million and LTL 716 million. Cost of purchase of electricity constituted 98.6% and 97.8% of total cost of sales for the Company and for the Group in 2013.

Transmission network service cost (*i.e.*, input fee) for the Company and for the Group declined by 31.3% and accounted to LTL 9.7 million.

Gross profit decreased over the year by 77.2% and amounted to LTL 18.9 million for the Company, by 73.3%, and amounted to LTL 25.8 million for the Group, if compared to LTL 82.9 million and LTL 96.7 million in 2012. Gross profit margin in 2013 decreased to 2.7% for the Company and to 3.4% for the Group from 9.4% and 10.8% in 2012.

#### General and administrative expenses

Total general and administrative expenses of the Company and the Group in 2013 were 13% and 1% lower than total general and administrative expenses a year ago and amounted to LTL 15.4 million and LTL 23.3 million respectively. The most significant cost groups within general and administrative expenses were wages, depreciation and amortization, charity, and electricity selling expenses.

The employment related expenses (wages, salaries and social security) for the Company and for the Group over the year increased by 3.1% and 9.5%. The increase was mainly caused by larger headcount: the total number of employees in INTER RAO Lietuva Group increased by 3, up to 40 in 2013. The increase was associated with increasing number of Clients and planned electricity trading operations in Poland.

Support (charity) related expenses for the Company and the Group in 2013 decreased by 20.7% and 19.8% and amounted to LTL 3.08 million and LTL 3.1 million respectively. The Group constantly supports various organizations and initiatives as a part of its business mission. Support, provided by the Group, is concentrated on three areas: communities, education and culture, sports.

Electricity selling expenses for the Company decreased by 6.4% in 2013 and for the Group increased by 35.4% and accounted for LTL 1.08 million and LTL 1.72 million respectively. The expenses are payments to Nord Pool Spot AS. The changes were due to the introduction of Nord Pool Spot trading platform since the 3<sup>rd</sup> of June 2013, when separate Latvian price zone was introduced. In the course of 2013 Latvian and Estonian subsidiaries of the Company started to trade electricity in their price zones, therefore the Group's payments to Nord Pool Spot AS has increased, and the Company's remained the same.

Consulting services expenses for the Company and the Group over the year dropped by 62.8% and 53.4% respectively. These expenses were significantly lower than in 2012 because the bulk of consulting services expenses in 2012 were mainly related to the organization of the initial public offering of the Company's shares in Warsaw Stock exchange in December 2012.

#### Earnings

Profit from operations for the Company and for the Group for year 2013 were equal to LTL 3.50 million and LTL 2.46 million, compared to the profit from operations of LTL 65.19 million and LTL 73.13 million in 2012. Operating profit margin for the Company and for the Group equalled to 0.49% and 0.32%.

Net result from financial and investing activities for the Company in 2013 was by 53.5% higher than a year ago and amounted to LTL 1.37 million. Net consolidated result from financial and investing activities for the Group decreased by 18.3% compared to 2012 and amounted to LTL (-4.1) million. Better overall result for the Group from financial activities was mainly caused by year-on-year 16.4% lower interest expenses, which in 2013 totalled to LTL 4.3 million.

As a result, profit before tax for the Company and for the Group in 2013 amounted to LTL 4.92 million and negative LTL (-1.59) million respectively.

Due to deferred income tax income, the Group in 2013 received an income tax gain in the amount of LTL 4.3 million. As a result, net profit for the Company and for the Group for the period of 2013 amounted to LTL 4.07 million and LTL 2.68 million respectively, while a year ago there were LTL 56.93 million and LTL 58.11 million. The net profit margins for the Company and for the Group in 2013 were equal to 0.57% and 0.35% (compared to 6.49% and 6.48% year ago).



## Investments

During 2013 the Group has not made any significant investments. In total LTL 362 thousand were invested into non-current assets.

## Balance sheet and cash flow

During January-December 2013 total assets of the Company increased by 8.8% and of the Group decreased by 3%.

Total non-current assets of the Company increased by 16.9% and of the Group - decreased by 8.9% and amounted to 39.7% of the total assets for the Company and to 60.4% of total assets for the Group. During the year, shareholders' equity of the Company and of the Group decreased by 39.5% and 41.2% and amounted to 31.1% of the total assets of the Company and to 16.4% of the total assets of the Group. Decrease in equity was caused by the pay-out of dividends by the Company for the year of 2012. Total dividends distributed reached LTL 27 million. Due to dividend distribution retained earnings have decreased from LTL 37.9 million to LTL 13.1 million for the Company and from LTL 38.1 million to LTL 11.9 million for the Group.

At the end of December 2013, total amount of borrowings, including financial liabilities related to finance lease and bank financing, amounted to LTL 17.2 million for the Company and LTL 102 million for the Group. Cash, cash equivalents amounted to LTL 3.4 million for the Company and LTL 15.2 million for the Group.

Net cash flow from operating activities for the Company and for the Group in 2013 were by 68.3% and 53.8% lower than a year ago and amounted to LTL 13.6 million and LTL 26.95 million respectively (compared to LTL 42.77 million and LTL 58.3 million a year ago). The decrease in net cash flow from operating activities was mainly caused by the limitation of electricity transmission capacities from third countries, which restricted the Company's and the Groups ability to import higher amounts of electricity from Russia and Belarus. These restrictions resulted in high electricity prices in Lithuanian and Latvian Nord Pool Spot price zones while the Company and the Group at the same time had to fulfil its contractual obligations of electricity sales to its Clients at lower prices, agreed upon in annual contracts. Purchase of the electricity in Lithuanian and Latvian markets at significantly higher prices significantly decreased Company's and the Group's profitability, which led to substantially lower cash flows from operating activities.

During 2013 net cash flow from investing and financing activities amounted to negative LTL (-15.5) million for the Company and negative LTL (-23) million for the Group (compared to negative LTL (- 68.8) million for the Company and to negative LTL (-81) million for the Group in 2012). Negative result from financing activities is related to the paid out dividends.

## Information about related party transactions

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

- OJSC INTER RAO UES (ultimate parent);
- RAO Nordic Oy (one of the shareholders);
- UAB Scaent Baltic (one of the shareholders);
- SiA INTER RAO Latvia (subsidiary);
- INTER RAO Eesti OÜ (subsidiary);
- UAB IRL Wind (subsidiary until merger with UAB Vydmantai wind park as at 11<sup>th</sup> July 2013);
- IRL Polska Sp z o.o. (subsidiary);
- UAB Vydmantai wind park (indirectly controlled subsidiary until merger with UAB IRL Wind as at 11<sup>th</sup> July 2013, after - subsidiary);
- UAB Alproka (joint venture);
- Other related parties include:
- UAB Scaent Baltic Group companies (the same shareholder);
- Other shareholders;
- Management.

Detailed information about related party transactions is provided in Note 28 of INTER RAO Lietuva, AB Financial Statements for the year ended 31<sup>st</sup> December 2013.

#### **Other material information**

No other material information occurred after the balance sheet date.

#### **Recent events**

On 3<sup>rd</sup> January 2014 the subsidiary company of AB INTER RAO Lietuva in Poland IRL Polska Sp.z o.o. was granted the license for trade in electricity in Poland. The term of the license is from 9<sup>th</sup> January 2014 till 9<sup>th</sup> January 2024. On 7<sup>th</sup> January 2014 the Company announced that group of shareholders submitted a notification regarding acquisition of block of voting rights in the Company.

No other material subsequent events occurred after the balance sheet date.

#### **Research and development activities**

There were no major research and development projects undertaken during 2013, except the on-going development and improvement of the Group provided services.

#### **Risk management**

The main risk factors associated with the activities of the Company are as follows:

- Changes in the regulatory environment.
- Changes in the price of electricity traded.
- Increase in price of imported electricity.
- Decrease in electricity demand.
- Failure to build or delay in building interconnections between electricity grids.
- Discontinuation or unfavourable changes in renewable energy support schemes.
- Decrease in volume of electricity generated by the wind park.
- Increased competition among independent electricity suppliers.
- Changes in currency exchange rates.

As of 31<sup>st</sup> December 2013 the total amount of borrowings of the Group amounted to LTL 102 million.

As at 31<sup>st</sup> December 2013, the Group's company (Vydmantai wind park, UAB) had an interest rate swap agreement for purpose of future cash flow hedge. On 29<sup>th</sup> June 2012 the Group's company (IRL Wind, UAB) has concluded interest rate swap agreement for the period from 17<sup>th</sup> July 2012 to 17<sup>th</sup> October 2020. The Group's company pays a fixed interest rate at 1.65% and receives a floating interest rate at 6-month EURIBOR on a notional amount set in the agreement. The notional amount of the transaction at the inception moment was EUR 12,500 thousand (the equivalent of LTL 43,160 thousand) and is amortized over the period of validity of the derivative. After the reorganization of UAB IRL Wind and Vydmantai wind park, UAB was completed on 11<sup>th</sup> July 2013, all the assets and undertakings, including the interest rate swap agreement, of UAB IRL Wind were taken over by Vydmantai wind park UAB. The notional amount of the transaction after reorganization was increased to EUR 23.3 million (the equivalent of LTL 80.45 millions).

The Group's and the Company's activities expose it to the following financial risks: market risk (including foreign exchange risk, and cash flow and interest rate risk), credit risk, liquidity risk. The Group's policy for treasury management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of the financial performance of the Group.

The Company's financial risk management is carried out by the Company under policies approved by the Management Board. This unit identifies and evaluates financial risks in close co-operation with the Group's operating units. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

The Group's electricity trading is partially executed based on orders submitted by a team of traders on a daily basis in response to market conditions, upon consideration of the Group's contractual obligations and market demand. Electricity trading operations are executed using software provided by the electricity exchange (Nord Pool Spot AS) platform or platforms of clients/suppliers. In order to mitigate risks associated with electricity trading, the Group has introduced respective policies to supervise its traders' activity. Namely, each order for electricity purchase or sale is



made by two employees: one employee inputs trading parameters, whereas the other (usually the commercial director) reviews and confirms them.

Apart from internal risk management procedures, trades made by the Group are checked by its counterparties, the power exchange and transmission system operators. Electricity trades made through Nord Pool Spot AS are checked by the power exchange itself for arithmetical accuracy and systematic errors, as well as for unusual activities. Furthermore, each day the Group is obliged to present to the transmission system operator its plan for deliveries of electricity for the following day. The transmission system operator checks whether the Group is able to deliver the planned volume of electricity and, if required, checks the availability of balancing services to be provided to the Group. Moreover, each day the Group is obliged to deliver to the Lithuanian transmission system operator plans for import and export of electricity from/to Russia or Belarus.

Regarding the management of credit risk, the Group is engaged in credit valuation and constant monitoring of its Clients. In such activities, the Group uses internally designed software which allows for the collection of information from Clients and prospective Clients, which is needed to evaluate Client's credit risk.

The Company implemented a process of internal controls. The process of the Company's internal controls implies control of business processes related to provision of electricity purchase and sale, and revenue assurance (customers' settlements and accounting, development and management of services, services provision), performance of IT systems (customer care and billing, infrastructure, network information, financial accounting, salary accounting, networks' interconnection) and the process of preparation of financial reports.

#### **Plans and forecasts**

The Company does not provide any specific plans or forecasts. The Group is engaged in electricity trading and plans expansion into other countries. The Group operates a wind park located in Vydmantai and plans to further develop activities in the renewable energy sector.

### III. Information about Share Capital and Shareholders

#### Share Capital

The share capital of the Company amounts to LTL 20,000,000 and consists of 20,000,000 ordinary registered shares with a nominal value LTL 1 each. On 20<sup>th</sup> July 2012, the General Meeting adopted a resolution to increase the share capital from LTL 1,000,000 to LTL 20,000,000, and to divide the share capital into 20,000,000 ordinary registered shares with a nominal value of LTL 1 each. Such an increase in share capital was made by converting 1,000 ordinary registered shares of the Company with a nominal value of LTL 1,000 into 1,000,000 ordinary registered shares with a nominal value of LTL 1 each, and by issuing 19,000,000 new ordinary registered shares of the Company from the retained earnings of the Company.

Ordinary registered shares of the Company (ISIN code LT0000128621) are listed on the Main List of Warsaw Stock Exchange (symbol: IRL).

#### Shareholders

As of 31<sup>st</sup> December 2013 the Company had 3 shareholders whose shares were accounted in Lithuanian securities depository system. The shares of remaining shareholders were accounted in Polish securities depository system. Due to prevailing private information protection laws in Poland, Polish National Depository for Securities is not able to provide the Company with information about number of Company's shareholders whose shares are accounted in Polish securities depository system.

Shareholders, holding more than 5% of the share capital and votes, as of 31<sup>st</sup> December 2013:

Name of shareholder	Number of ordinary registered shares owned by the shareholder	Share of the share capital, %	Share of votes given by the shares owned by the right of ownership, %
RAO Nordic OY *	10,200,000	51.0	51.0
UAB Scaent Baltic *	5,800,000	29.0	29.0
Other shareholders	4,000,000	20.0	20.0
<b>Total</b>	<b>20,000,000</b>	<b>100.00</b>	<b>100.00</b>

As of 31<sup>st</sup> December 2013, 51% of the outstanding share capital of INTER RAO Lietuva, AB is held directly by RAO Nordic OY, a company organized and existing under the laws of the Republic of Finland, registration number 1784937-7, with its registered office at Tammasaarekatu 1, FIN-00180, Helsinki, the Republic of Finland. RAO Nordic OY is a wholly-owned subsidiary of OJSC INTER RAO UES, a company incorporated under Russian law, listed on MICEX-RTS under ticker 'IRAO'. INTER RAO UES is a diversified energy holding managing assets in Russia, several countries of the CIS and the EU. Its operations comprise electric power and heat generation, international power trading and electric industry engineering.

As of 31<sup>st</sup> December 2013, 29% of the outstanding share capital of the Company is held directly by UAB Scaent Baltic, a company organized and existing under the laws of the Republic of Lithuania, registration number 300661378, with its registered office at Jogailos g. 9, LT-01116, Vilnius, the Republic of Lithuania.

As of 31<sup>st</sup> December 2013, free float represents 20% of the outstanding share capital.



**AB INTER RAO LIETUVA, Company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE 12 MONTH PERIOD ENDED 31<sup>st</sup> December 2013**  
(all amounts are in LTL thousand unless otherwise stated)

\* On 7<sup>th</sup> January 2014, the Company made Announcement of the acquisition of block of voting right in the Company. As of 31<sup>st</sup> December 2013, the block of voting rights is held by:

Specification of voting rights held by Jonas Garbaravičius as of 31 <sup>st</sup> December 2013						
	Number of shares (units)		Number of voting rights (units)		Number of voting rights (%)	
	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly
Ordinary registered shares of AB INTER RAO Lietuva (ISIN code LT0000128621)	55,000		55,000	5,952,050	0.28	29.76

Specification of voting rights indirectly held by Jonas Garbaravičius as of 31 <sup>st</sup> December 2013			
Name and other data about the person	The number of shares and voting rights held as of 31 <sup>st</sup> December 2013		
	Number of shares (units)	Number of voting rights (units)	Number of voting rights (%)
	directly	directly	directly
Voting rights held according to the Art 24 Part 1 Item 6 of the Law on Securities of the Republic of Lithuania (voting rights held by the company controlled by Jonas Garbaravičius)			
JG Investment Management UAB, code 303049386, address A. Tumėno g. 4-38, Vilnius, the Republic of Lithuania	96,620	96,620	0.48
Voting rights held according to the Art 24 Part 2 of the Law on Securities of the Republic of Lithuania (voting rights held by other managers of the issuer)			
Vilma Juratė Balciuniene (spouse of the CEO of the issuer)	20,000	20,000	0.1
Vidas Cebatarionas (management board member of the issuer)	35,430	35,430	0.18
Voting rights held according to the Art 24 Part 1 Item 6 of the Law on Securities of the Republic of Lithuania (voting rights held by the company indirectly controlled by Garbaravičius family)			
UAB Scaent Baltic, code 300661378, address Jogailos g. 9, Vilnius, the Republic of Lithuania	5,800,000	5,800,000	29

In addition, according to Art 24 Part 1 Item 2 of the Law on Securities of the Republic of Lithuania (agreement on implementation of long term management policy of the issuer), the persons indicated above indirectly hold voting rights directly held of RAO Nordic Oy, code 1784937-7, address Tammasaarenkatu 1, FIN-00180, Helsinki, the Republic of Finland, which concluded an agreement on implementation of long term management policy of the issuer with UAB Scaent Baltic (hereinafter *Shareholders' agreement*):

Name and other data about the person	The number of shares and voting rights held as of 31 <sup>st</sup> December 2013		
	Number of shares (units)	Number of voting rights (units)	Number of voting rights (%)
	directly	directly	directly
RAO Nordic Oy, code 1784937-7, address Tammasaarenkatu 1, FIN-00180, Helsinki, the Republic of Finland	10,200,000	10,200,000	51



### Treasury shares

During the financial year of 2013, the Company has not purchased any treasury stock. As of 31<sup>st</sup> December 2013, the Company does not hold any treasury stocks.

### Acquisition of treasury shares

For an adoption of a resolution on the acquisition of its own shares, a qualified  $\frac{3}{4}$  majority of votes of shareholders participating at the General Meeting is required. Under Lithuanian law, the Company may acquire its own shares if all of the following conditions are met: (i) the acquisition of its own shares occurs within a specified period (no longer than eighteen months) after the adoption of a resolution by the General Meeting which specifies the conditions, purpose and terms for the acquisition of its own shares, including the maximum number of shares to be acquired, the manner in which these shares may be acquired and the price range within which the shares may be acquired; (ii) the total nominal value of the shares redeemed or taken as collateral does not exceed one-tenth of the share capital; and (iii) after the acquisition of its own shares, the Company's equity does not fall below the sum of the paid share capital, mandatory reserve and the reserve for acquisition of own shares; (iv) consideration of redeemed shares are paid from the reserve for acquisition of its own shares which was formed by the Company; (v) acquired shares are fully paid; (vi) acquisition of its own shares by the Company ensures equal possibilities for all shareholders to sell their held shares to the Company. Shares that were acquired infringing the above listed requirements (i)-(iv) must be sold within twelve months from the acquisition of these shares. If the shares are not sold during this period, then the corresponding portion of the share capital of the Company must be annulled. Upon acquisition of its own shares, the Company has no right to exercise property and non-property rights conferred by such shares.

### Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. One ordinary registered share of the Company gives one vote in the General Meeting of Shareholders.

### Shareholders' agreements

In accordance with the Shareholders' Agreement (the agreement between RAO Nordic OY and UAB Scaent Baltic), neither RAO Nordic OY, nor UAB Scaent Baltic will have the right to sell or otherwise transfer its ordinary shares in the Company or any part thereof to any third party or create any other third party rights to the Shares or any part thereof, until 31<sup>st</sup> December 2015, except upon receiving the prior written consent of RAO Nordic OY and UAB Scaent Baltic.

In addition, pursuant to the lock-up agreement, entered into between RAO Nordic OY and UAB Scaent Baltic and UAB FM| ORION Securities, RAO Nordic OY and UAB Scaent Baltic have agreed to certain restrictions including, but not limited to: (i) an undertaking not to offer, sell, transfer, vote in favour of, or otherwise dispose of, or publicly announce the issuance, offering, sale or disposal of any ordinary shares; and (ii) an undertaking not to enter into any swap or other transaction that transfers, in whole or in part, the economic consequences of ownership of Shares or options, without the prior written consent of UAB FM| ORION Securities for a period of a year following the admission and introduction of Shares to trading on Warsaw Stock Exchange, which was executed on 18<sup>th</sup> December 2012. The lock-up period set in this agreement has ended on 18<sup>th</sup> December 2013.

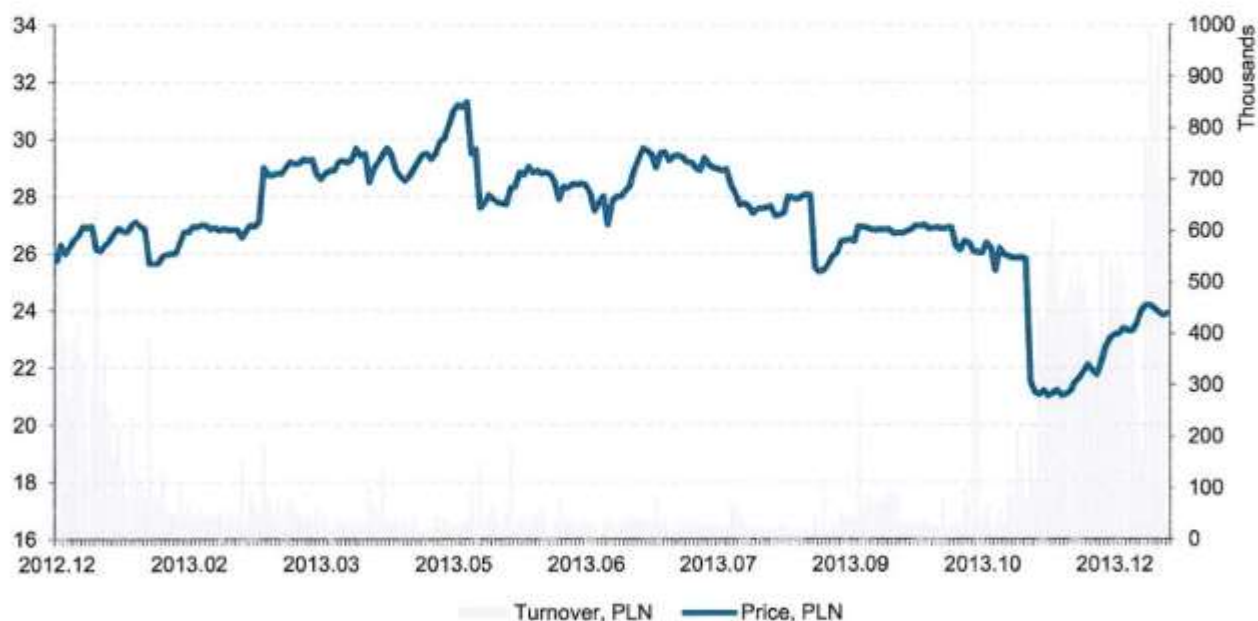
### Information about trading in the Company's securities

Information about trading in the Company's shares on Warsaw stock exchange in 2013:

Year	Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover
2012	PLN	25.75	26.64	25.75	26.64	26.23	2,862,401
2013	PLN	26.93	31.3	21.01	23.92	27.12	43,529,719

The Company has signed market making agreement with UAB FM| ORION Securities.

IRL market capitalization as of 31<sup>st</sup> December 2013 reached PLN 478.4 million.



#### Dividends

According to the shareholders' agreement, RAO Nordic OY and UAB Scaent Baltic shall cause their respective nominees in the Supervisory Board and Management Board to support the distribution of no less than 70% of the relevant year net profit as dividends to shareholders.

RAO Nordic OY and UAB Scaent Baltic shall vote their ordinary shares at the General Meeting to ensure such distribution of the net profit, unless the Management Board, in acting in the best interests of the Company by approving the annual investment program, decides that the Company should make investments with the relevant year's net profit.

Dividend per share declared by the Company for the financial years ended 31 December 2012, 2011, 2010 and 2009 was equal to LTL 1.35, LTL 60.79 thousand, LTL 28.98 thousand and LTL 35 thousand respectively.

Dividends for 2012, 2011, 2010 and 2009 amounted to LTL 27.0 million, LTL 64.0 million, LTL 60.8 million and LTL 29.0 million respectively.

	2009	2010	2011	2012
Net profit, mLTL	15	59	61	58
Dividends declared, mLTL	29	61	64	27
Dividend pay-out ratio	193%	103%	105%	46%

On 20<sup>th</sup> July 2012 RAO Nordic OY and UAB Scaent Baltic adopted resolution on the increase of the share capital from the Company's own funds from LTL 1,000,000 to LTL 20,000,000. As a consequence the net profit for distribution for the financial year ending 31<sup>st</sup> December 2012, was reduced by the amount of the share capital increase.



## IV. Corporate Governance

The management bodies of the Company are as follows: General Shareholders Meeting, a collegial management body - Supervisory council, a collegial management body - Board, and single-person management body - Chief Executive Officer.

In addition to main governing bodies, the Company has an audit committee formed.

### *Members of Supervisory council*



**Anton Badenkov**

Chairman of the Supervisory Council (term: 2012.10.22 - 2016.10.22)  
Advisor to the Chairman of the Board at INTER RAO UES

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**Education:**

Lomonosov Moscow State University

**Career:**

2012 - present: Chairman of the Supervisory Council at INTER RAO Lietuva  
2011 - present: Member of the Board at Third Generating Company of the Wholesale Electricity Market  
2010 - present: Member of the Board at Electric Networks of Armenia

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**Nerijus Dagilis**

Member of the Supervisory Council (term: 2013.04.30 - 2016.10.22)  
Entrepreneur

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**Education:**

Master degree at the G. Soros foundation program at University of Essex, Great Britain and Budapest, Hungary, Central European University  
BA in Business and Administration at Vytautas Magnus University, Kaunas, Lithuania, and Fordham University, NY, Creighton University, NE, USA

**Career:**

2010 - 2012: Chairman of the Board at Charter Jets  
2005 - 2010: Chairman of the Board at Kitron ASA  
2001 - 2010: Chairman of the Board at Snaige  
2000 - 2010: Chairman of the Board at Hermis Capital

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**Dmitrijus Dutovas**

Member of the Supervisory Council (term: 2013.04.30 - 2016.10.22)  
Head of Institutional Clients at Orion Securities

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**Education:**

Master degree at the Faculty of Economics, Vilnius University

**Career:**

2008 - present: Head of Institutional Clients at Orion Securities  
2007 - 2008: Head of Capital Markets at "MP investment bank" Baltic Branch

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**Jonas Garbaravičius**  
Member of the Supervisory Council (term: 2012.10.22 - 2016.10.22)  
Partner at CEE Resources & Investments LLP

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**Education:**  
Vytautas Magnus University

**Career:**  
2013 - present: Partner at CEE Resources & Investments LLP  
2012 - present: Member of the Supervisory Board at INTER RAO Lietuva  
2011 - present: Member of the Board at Inter Green Renewables and Trading  
2007 - 2013: Chairman of the Board at Scaent Baltic  
2007 - 2012: Member of the Board at INTER RAO Lietuva  
2008 - 2009: Member of the Board at Onergo

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**Michail Konstantinov**  
Member of the Supervisory Council (term: 2012.10.22 - 2016.10.22)  
Member of the Board at INTER RAO Energy Asset

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**Education:**  
PhD in Law awarded by Moscow Academy of Economics and Law  
Tver Institute of Ecology and Law  
Moscow International University of Environment and Politics

**Career:**  
2012 - present: Member of the Supervisory Council at INTER RAO Lietuva  
2012 - present: Director for Corporate Governance of the Corporate and Property relations Unit at INTER RAO UES  
2012 - present: Member of the Board at INTER RAO Energy Asset  
2012 - present: Member of the Board at INTER RAO Energy  
2012 - present: Member of the Board at Dominanta Energy  
2012 - present: Member of the Board at Dominanta Management  
2012 - present: Member of the Board at Saint Petersburg Energy Sales Company  
2010 - 2012: Head of the Directorate for Law at Sobinbank  
2008 - 2010: Deputy Manager of the Directorate at Federal Bailiff Service of the Russian Federation

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**Alexander Pakhomov**  
Member of the Supervisory Council (term: 2012.10.22 - 2016.10.22)  
Member of the Management Board, Head of the Legal Affairs Unit at INTER RAO UES

**Education:**  
Academy of Public Administration under the President of the Russian Federation  
Military University of the Ministry of Defense of the Russian Federation

**Career:**  
2012 - present: Member of the Supervisory Council at INTER RAO Lietuva  
2011 - present: Member of the Board of Directors at RazTES  
2011: Member of the Board of Directors at LLC INTER RAO Electrogeneration  
2008 - 2011: Director of the Department of Law at INTER RAO UES  
2007 - 2008: member of RAO UES of Russia project team providing tax support for electric power industry reform

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### Members of the Board



**Karina Tsurkan**

Chairman of the Board (term: 2013.04.08 -2017.04.08)  
Member of the Management Board, Head of the Trading Unit of JSC  
INTER RAO UES

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#### Education:

Bachelor's degree at the International Independent University of Moldova  
MBA degree at the University Consortium of Spain (IUP)

#### Career:

2012 - present: Chairman of the Board at INTER RAO Lietuva  
2012 - present: Member of the Management Board, Head of the Trading Unit at INTER RAO UES  
2011 - 2012: Head of the Geographic Division "Europe" at INTER RAO UES  
2010 - 2011: Head of the Geographic Division "Moldova, Ukraine, Romania" at INTER RAO UES  
2009 - 2010: Head of the Department of Management and Development, the Geographic Division "Europe" at  
INTER RAO UES  
2008: Head of the Department of Foreign Economic Activity in East and West Europe, INTER RAO UES

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**Ilnar Mirsiyapov**

Member of the Board (term: 2013.04.08 -2017.04.08)  
Member of the Management Board, Head of the Strategy and  
Investment Unit of JSC INTER RAO UES

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#### Education:

Ph.D.  
Moscow State Institute of International Relations  
Almetyevsk State Oil Institute  
Kutafin Moscow State Law Academy

#### Career:

2012 - present: Member of the Board at INTER RAO Lietuva  
2010 - present: Head of the Strategy and Investment Unit at INTER RAO UES  
2009 - present: Advisor to CEO at INTER RAO UES  
2009 - 2010: Associated Head of the Department of Law and Corporate Affairs at Rosatom  
2008 - 2009: Associated Head of the Department of Corporate Governance and Development at Rosatom  
2007 - 2008: Head of the Administrative Support Department at Atomenergoprom

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**Dmitrij Palunin**  
Member of the Board (term: 2013.04.08 -2017.04.08)  
Member of the Management Board, Financial Director (CFO) at  
INTER RAO UES

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**Education:**

Moscow State Aviation Institute  
Academy of National Economy, Graduate School of International Business

**Career:**

Presently: Member of the Management Board, Financial Director (CFO) at INTER RAO UES  
2012 - present: Member of the Board, INTER RAO Lietuva  
2007 - 2009: Associated Financial Director (CFO), Head of the Department of Corporate Finance at INTER RAO UES  
2006 - 2007: Head of the Treasury Department at INTER RAO UES  
2005 - 2006: Associated Head of the Department of Economics and Finance at INTER RAO UES

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**Giedrius Balčiūnas**  
Member of the Board (term: 2013.04.08 -2017.04.08)  
Director General (CEO) at INTER RAO Lietuva

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**Career:**

2012 - present: Member of the Board at INTER RAO Lietuva  
2010 - present: Member of the Management Board at INTER RAO Eesti OÜ  
2006 - present: Chairman of the Management Board at Alproka  
2003 - present: Director General (CEO) at INTER RAO Lietuva  
2011: Member of the Management Board at Vėjų spektras (Vydmantai Wind Park)

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**Vidas Čebatariūnas**  
Member of the Board (term: 2013.04.08 -2017.04.08)  
Director of Commerce of AB INTER RAO Lietuva

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**Education:**

Master of Economic Analysis and Planning awarded by Vilnius University

**Career:**

2012 - present: Member of the Management Board at IRL Polska  
2012 - present: Chairman of the Management Board at INTER RAO Latvia  
2010 - present: Member of the Management Board at INTER RAO Eesti  
2010 - 2013: Member of the Management Board at Scaent Baltic  
2007 - present: Member of the Management Board at INTER RAO Lietuva  
2005 - present: Director of Commerce at INTER RAO Lietuva  
2011: Member of the Management Board at Vėjų spektras (Vydmantai Wind Park)  
2009 - 2011: Member of the Management Board at SC Baltic Media (at the time called Express Media)  
2008 - 2010: Member of the Management Board at UAB Versus aureus leidykla

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## CEO

The general director (CEO) of the Company is Giedrius Balčiūnas. Term in the position: 2003.05.21 - unlimited

## Chief accountant

Chief accountant of the Company is Edita Vagonienė. Term in the position: 2012.10.01 - unlimited

## Audit committee

On 12<sup>th</sup> December 2013 the Company has formed an audit committee. The term of committee will end on 2016.10.22.

The members of the audit committee are the following: Mr Nerijus Dagilis, Mr Mikhail Konstantinov and Mr Aleksandr Pakhomov.

## Holdings in the Company by members of governing bodies, administration, and audit committee

Table below presents information about number of shares held in the Company by members of governing bodies, administration, and audit committee:

	Name, surname	Directly held shares		Indirectly held shares		Total	
		No. of shares	% of total equity	No. of shares	% of total equity	No. of shares	% of total equity
Supervisory board	Anton Badenkov						
	Nerijus Dagilis						
	Dmitrijus Dutovas						
	Jonas Garbaravičius*	55,000	0.28%	5,952,050	29.76%	6,007,050	30.04%
	Michail Konstantinov						
Management board	Alexander Pakhomov						
	Karina Tsurkan						
	Ilnar Mirsiyapov						
	Dmitrij Palunin						
Administration	Giedrius Balčiūnas		0.00%	20,000	0.10%	20,000	0.10%
	Vidas Cebatariūnas	35,430	0.18%		0.00%	35,430	0.18%
	Giedrius Balčiūnas, CEO		0.00%	20,000	0.10%	20,000	0.10%
Audit Committee	Edita Vagonienė, chief accountant						
	Nerijus Dagilis						
	Michail Konstantinov						
	Alexander Pakhomov						

\* - more specific information about shares held by Jonas Garbaravičius can be found on the section "Information about Share Capital and Shareholders" of this report.

## Remuneration of the members of the governing bodies, CEO and Chief accountant of the Company

During 2013 in total LTL 2.2 million was paid as salaries for the members of governing bodies and administration. Except for salaries, there have been no other sums transferred by the Company to the members of governing bodies and administration. More detailed information regarding remuneration is presented in the table below.

	Salaries, LTL
All members of the Supervisory Board collectively	396,125.26
Per member of the Supervisory Board on average	66,020.88
All members of the Board collectively	1,087,658.13
Per member of the Board on average	217,531.63
All members of administration (CEO and chief accountant)	790,743.58
Per member of administration	395,371.79



#### **Important agreements**

The Company has not entered into any material contracts which would come into validity, change, or expire after the change in the control of the Company.

The Company has not entered into any agreements with the members of the governing bodies, committees or employees regarding compensation in case members or employees resign, are fired without reasonable cause or their employment ceases due to change in control of the Company.

#### **Harmful transactions**

During the reporting period there have been no any transactions performed on behalf of the Company which were harmful (not complying with the goals of the Company, usual market practices, conflicting with the interests of shareholders etc.), had or could have in the future any negative influence for the activities or financial results of the Company.

According to the knowledge of the Company, during the reporting period there have been no any transactions made by the management, controlling shareholders or any other parties related to the Company which resulted in the private - corporate conflicts of interest.

#### **Auditors**

The Consolidated Financial Statements presented in the annual report were audited by UAB Ernst & Young Baltic (license No. 001335), with its seat at Subačiaus 7, LT-01127 Vilnius, Lithuania. Ms Asta Štreimikienė (auditor license No. 000382) is the signatory of the independent auditors' report on the Consolidated Financial Statements, a member of the Lithuanian Chamber of Auditors.

#### **Social Responsibility**

The Group constantly supports various organizations and initiatives as a part of its business mission. For the financial years ended 31<sup>st</sup> December 2013, 2012, 2011, 2010 and 2009, the Group spent LTL 3.1 million, LTL 3.89 million, LTL 4.07 million, LTL 3.91 million and LTL 3.63 million, respectively, on charity and other support. These costs represent Group's corporate values and culture to support and contribute to the overall social welfare. Support, provided by the Group, is concentrated on three areas: communities, education and culture, sports. While contributing to the social communities the Group donates to orphanages, hospitals, churches and various other charity and support organizations. When sponsoring culture and education spheres, the Group supports universities, schools, theatres, orchestras and various other organizations and events. Sports sponsorship started at the very beginning of the company's activities, the main attention is paid to basketball, soccer, car races, tennis and various other sports organizations and events.

#### **Environment matters**

The Group uses the most innovative means and the most modern technological processes that meet ecological standards. In addition, the Group owns wind park located in Vydmantai, which produces eco-friendly electricity.

## V. Personnel

The table below presents the Company's data on the headcount of employees divided into categories, in the periods indicated.

	As of 31 <sup>st</sup> December	
	2013	2012
Management	8	8
Sales Managers, including Traders	5	6
PR & Marketing Staff	3	2
Project managers	1	1
Technical staff	1	1
Office Staff	6	5
<b>Total</b>	<b>24</b>	<b>23</b>

The table below presents the Company's data on the employee related expenses divided into employee categories, for the period indicated.

	As of 31 <sup>st</sup> December 2013	
	Headcount	Expenses, LTL million
Management	8	3.2
Sales Managers, including Traders	5	0.47
PR & Marketing Staff	3	0.15
Project managers	1	0.02
Technical staff	1	0.05
Office Staff	6	0.55
<b>Total</b>	<b>24</b>	<b>4.44</b>

On 31<sup>st</sup> December 2013 24 employees were employed in the Company. Company's personnel consisted of 8 managers and 16 specialists. Average annual employment expenses per employee in 2013 amounted to LTL 303 thousand for managers and LTL 140 thousand for specialists.



The table below presents the Group's data on the headcount of employees divided into categories, in the periods indicated.

	As of 31 <sup>st</sup> December	
	2013	2012
Management	8	8
Sales Managers, including Traders	11	11
PR & Marketing Staff	3	2
Project managers	4	4
Technical staff	3	3
Office Staff	11	9
<b>Total</b>	<b>40</b>	<b>37</b>

The table below presents the Group's data on the employee related expenses divided into employee categories, for the period indicated.

	As of 31 <sup>st</sup> December 2013	
	Headcount	Expenses, LTL million
Management	8	3.2
Sales Managers, including Traders	11	1
PR & Marketing Staff	3	0.15
Project managers	4	0.16
Technical staff	3	0.12
Office Staff	11	0.7
<b>Total</b>	<b>40</b>	<b>5.63</b>

Once grouped by broad categories, on 31<sup>st</sup> December 2013 Group's personnel consisted of 8 managers and 32 specialists. Average employment expenses per employee in 2013 amounted to LTL 400 thousand for managers and LTL 76 thousand for specialists.

As of 31<sup>st</sup> December 2013, 31 of the Group's employees were employed in Lithuania, 5 were employed in Latvia, 3 were employed in Estonia and 1 was employed in Poland.

The Group recognizes the importance of its staff in operating a stable and efficient business, and in providing the highest level of customer service and, accordingly, the Group strives to recruit, train, reward and retain only the best personnel. The Group usually introduces a remuneration system comprised of a standard gross salary, paid monthly, as well as bonuses, based on the discretionary decision of the Management.

There are no trade unions or workers councils registered in the Group Companies. There are no collective bargaining agreements concluded in the Group companies.

As of 31<sup>st</sup> December 2013, the Group's employees, except for Mr Jonas Garbaravičius, Mr Giedrius Balčiūnas, Mr Vidas Čebatariūnas, Mr Saulius Garbaravičius, Mr Nerijus Veikša, and Mr Paulius Vazniokas do not have any direct or indirect shareholdings in the Company, do not hold any stock options or other rights to the Shares and do not participate in any other way in the capital of the Company. There are no arrangements relating to such participation.

### Senior Management

In the opinion of the Company's management, except for members of the Company's corporate bodies, the following persons are the most important for the Group (herein after the "Senior Management"):

Name	Position/Function
Paulius Vazniokas	Economic Director
Aistė Vaitaitytė	Deputy CEO
Edvardas Važgėla	Electricity Trading Development Director
Nerijus Veikša	Legal Department Director
Saulius Garbaravičius	Chief Corporate Communication Officer

The business address of the members of the Senior Management is the Company's principal place of business at A. Tumėno 4, Vilnius, Lithuania.

**Paulius Vazniokas** has been the Economic Director of the Company since 2007. He currently holds several positions in the Group Companies. Since 2007, Mr Vazniokas has also sat on the management board of UAB Scaent Baltic. He also holds various positions in companies from UAB Scaent Baltic's group. Before joining the Group, Mr Vazniokas gained experience as: Head of Commercial Real Estate Department in Kaunas branch of Ober Haus UAB (2000-2002), Real Estate Project Manager and Director at AB Panevėžio keliai group (2002-2004), as well as a CFO and Head of Administration at UAB Realtus (2004-2007).

Mr Vazniokas holds Bachelor's degree in Business Administration from Vytautas Magnus University, which he obtained in 2000. In 2002 he obtained Master's degree in Finance and Banking from Vytautas Magnus University. Mr Vazniokas also obtained Ph. D. degree in Economics from Vytautas Magnus University in 2011. Since 2007, he has lectured at Vytautas Magnus University. Mr Vazniokas also studied law at Vilnius University (2002-2006).

**Aistė Vaitaitytė** has been the Deputy CEO of the Company since 1 June 2005. She has been associated with the Group since 2003 and, before becoming the Deputy CEO, Ms Vaitaityte held position of Head of Information Analysis and Transmission Division.

Ms Vaitaitytė holds Master's degree in Law and Management from Mykolas Romeris University, which she obtained in 2003. In 2000 Ms Vaitaitytė obtained Bachelor's degree in Social sciences from Lithuanian University of Educational Sciences.

**Edvardas Važgėla** has been the Electricity Trading Development Director of the Company since 2012. Before joining the Group, Mr Važgėla had, for over 20 years, been associated with Lietuvos energija AB, working as: Leading Engineer (1991-1993), Energy Marketing Services Manager (1993-1996), Energy Trading Centre Director (1996-2001), Electricity Market Department Director (2001-2009) and Wholesale Electricity Trading Department Director (2010-2011). Moreover, in years 1977-1991 Mr Važgėla worked for Lithuanian National Energy System, first as an Engineer Inspector and later as an Electrical Inspection Chief.

Mr Važgėla graduated from the Kaunas Polytechnic Institute in 1977 with specialization in electricity engineering. His education also includes various courses in the fields of electricity and energy.

**Nerijus Veikša** has been the Legal Department Director of the Company since 2007. He also is a Board member at UAB Scaent Baltic. His past professional experience includes posts of: Director at National Association of Business Administrators (2002-2003), Assistant General Director at Kauno termofikacinė elektrinė (2003-2006), lawyer at UAB Creditum (2007), General Director at UAB Scaent Baltic Energy (2007-2009), Member of the supervisory board at OMX Baltic Benchmark Fund (since 2010) and Member of the management board at UAB SC Baltic Media (2009-2012).

Mr Veikša holds Master's degree in International Commercial Law from the Law Faculty of Vytautas Magnus University, which he obtained in 2002. In 1999, he also obtained Bachelor's degree in Business Administration from Vytautas Magnus University.

**Saulius Garbaravičius** has been Chief Corporate Communication Officer since 2013. Since 2013 Mr Garbaravičius is a partner at CEE Resources&Investments LLP. His past professional experience includes posts of: Member of the Board at UAB "Scaent Baltic" (2007-2013), Chairmen of the Board at UAB "SC Baltic Media" (2008-2013), CEO at UAB "Franchise Media" (2008-2011), CEO at UAB "Intelligent Media" (2009-2010).

Mr Garbaravičius holds Bachelor's degree in Philosophy from Vytautas Magnus University.



## VI. Statement on Corporate Governance

### 6.1. Statement on compliance with the CODE OF BEST PRACTICE FOR WSE LISTED COMPANIES

The Company hereby informs about the Company's partial non-compliance with the Code of Best Practice for WSE Listed Companies ("WSE Corporate Governance Rules"). The WSE Corporate Governance Rules can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl) and on the corporate website: [www.interrao.lt](http://www.interrao.lt) in the section "For Investors".

The Company acknowledges the importance of the good corporate governance and intends to apply WSE Corporate Governance Rules as wide as is practicable. However, due to, *inter alia*, differences between Polish and Lithuanian Corporate Law the Company will not comply with the following rules:

Rule II.1.6, according to which the Company should publish on its website annual reports on the activity of the Company's Supervisory Board, taking account of the work of its committees, together with the evaluation of the internal control system and the significant risk management system submitted by the Supervisory Board. According to Lithuanian law, the Supervisory Board is not required to draw up an annual report.

Rule II.1.14, according to which the Company should publish on its website information about the content of the Company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule. According to Lithuanian law, the audit firm is selected by the annual general meeting of the Company's shareholders (the "Annual General Meeting") to perform the audit of annual financial statements. The Supervisory Board, the Management Board and the shareholders having at least 1/20 of votes may at any time prior to or during the Annual General Meeting suggest in writing or by means of electronic communication the audit firm, therefore such rule is not required and the Company has not adopted any rules regarding the issue.

Rule II.3 and Rule III.9, according to which the Supervisory Board should approve a significant transaction/agreement with a related entity at the request of the Company's Management Board. In accordance with Lithuanian law, the Supervisory Board is not entitled to approve any decisions of the Management Board.

Rule III.1.1, according to which once a year the Supervisory Board should prepare and present to the General Meeting a brief assessment of the Company's standing, including an evaluation of the internal control system and the significant risk management system. According to Lithuanian law, the Supervisory Board is not required to draw up such an assessment.

Rule III.6, according to which at least two members of the Supervisory Board should meet the criteria of being independent from the Company and entities with significant connections with the Company. As of the date of this report member of the Supervisory Board Mr Nerijus Dagilis meets criteria of being independent.

Rule III.8, according to which annex I to the Commission Recommendation of 15<sup>th</sup> February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board should apply to the tasks and the operation of the committees of the Supervisory Board. As at the date of this report, the Supervisory Board has formed audit committee. As of 12<sup>th</sup> December 2013 Mr Nerijus Dagilis, Mr Mikhail Konstantinov and Mr Aleksandr Pakhomov were elected as members of audit committee of the Company.

Rule IV 10, according to which the Company should enable its shareholders to participate in a General Meeting using electronic communication means through real-life broadcast of General Meetings and real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting. The Company does not enable participation in the General Meeting by using electronic communication means through real-life broadcast and real-time bilateral communication. However, the Company does not exclude that such means will be adopted in the future.

Furthermore, the Company will not comply with the following recommendations:

Recommendation I.5, according to which the Company should have a remuneration policy and rules of defining the policy. The Company has not adopted such policy, since the Company's Group is developing and the number of employees and members of management do not justify implementation of a complex set of rules.



Recommendation I.9, according to which a balanced proportion of women and men in management and supervisory functions should be ensured. Currently, there is only one woman in governing bodies of the Company, Ms Karina Tsurkan, the chairwoman of the Management Board. However, the Company does not exclude that this recommendation will be implemented in the future.

Recommendation I.10, according to which, if the Company supports different forms or artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness of the enterprise, then the Company should publish the rules of its activity in this area. While the Company continuously supports sport, culture and education as well as social initiatives as a part of its business mission, it does not consider it practicable to impose rules on its activity within these spheres.

Recommendation I.12, according to which the Company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means. Currently, the Company does not envisage such possibility. However, the Company does not exclude that relevant solutions will be introduced in the future.

## **6.2. Description of the procedures of the General Meeting and its main powers and the rights of the shareholders and procedures of their execution**

### **6.2.1. Procedures of the General Meeting**

The General Meeting is the supreme corporate body of the Company. Procedures and powers of the General Meeting of Shareholders are regulated in the Articles of Association and specified in the Lithuanian Company Law.

The Company must hold at least one Annual General Meeting within four months of the end of the financial year. The Annual General Meeting, among other things, is entitled to resolve important corporate matters, such as any amendments to the Articles of Association, any increase and reduction of the share capital of the Company, election and removal of members of the Supervisory Board, selection and removal of the audit firm, approval of the annual financial statements and interim financial statements, adoption of a decision on the distribution of profit, dissolution, merger or transformation of the Company, and certain other matters.

The right of initiative to convene the General Meeting is vested in the Supervisory Board, the Management Board and any shareholders holding at least 1/10 of all votes.

The agenda of the General Meeting shall be prepared by the Management Board or CEO (if the General Meeting is convened by him/her). The General Meeting shall have no right to adopt decisions on issues not announced in the agenda, except when all shareholders with voting rights participate in the General Meeting and no one of them has voted in writing.

The agenda of the General Meeting may be supplemented based on suggestions of the Supervisory Board, the Management Board and any shareholder holding at least 1/20 of all votes, as long as the suggestion is received not later than 14 calendar days prior to the General Meeting. Such suggestion shall be submitted in writing or by means of electronic communication, together with draft decisions, or when no decisions must be adopted, explanations on each of the suggested agenda items shall be submitted.

Shareholders have the right to ask questions regarding items on the agenda of the General Meeting in advance. Under Lithuanian law, the Company is obliged to answer these questions before the General Meeting, provided that the questions were received by the Company not later than 3 business days prior to the General Meeting. If several questions of identical content are submitted, the Company may respond with a single answer.

If the General Meeting is not held due to absence of a quorum (shareholders that have more than half of all votes and participate at the General Meeting constitute a quorum), a repeat General Meeting shall be convened not earlier than in 14 calendar days, and not later than 21 calendar days following the failed General Meeting. The shareholders shall be informed of the convening of the repeat General Meeting in the same manner as the failed General Meeting, but not later than 14 calendar days prior to the repeat General Meeting.



### **6.2.2. Voting at the General Meeting**

Each ordinary share of the Company confers one vote at the General Meeting. Participation and voting in the General Meeting or the repeat General Meeting shall be reserved only for those who are shareholders on the record date, *i.e.* those who are shareholders at the end of the fifth business day prior to the General Meeting or prior to the repeat General Meeting.

Those authorised by the shareholders and holding a power of attorney issued by means of electronic communication to an individual or a company to participate and vote on his/her behalf at the General Meeting may attend and vote at the General Meeting. Persons with whom an agreement on assignment of voting rights has been concluded may attend and vote at the General Meeting if a shareholder informs the CEO of the Company of any transfer of voting rights by providing copies of the respective agreement and (or) authorization. Under the Articles of Association such document must be provided to the Company within 7 calendar days of the signing of the respective document.

Anyone attending the General Meeting and entitled to vote must present a document which is a proof of his/her identity. Anyone who is not a shareholder must additionally present a document proving his/her right to vote at the General Meeting.

In addition, shareholders may vote in advance of the General Meeting by filling in written general voting ballots. Shareholders that have voted in advance shall be deemed as participating in the General Meeting and their votes will be counted when establishing the quorum and voting results. If the shareholder so requests, the Company, no later than 10 days before the General Meeting, must dispatch a general ballot paper by registered mail or present this against signature, free of charge. The general ballot paper must also be available on the Company's website ([www.interrao.lt](http://www.interrao.lt)) no later than 21 days before the General Meeting.

The General Meeting shall be deemed to have taken place and will be able to adopt decisions if the shareholders holding more than half of all votes of the Company participate in the General Meeting. If the required quorum is not present, the General Meeting shall be deemed to have failed to take place and a repeat General Meeting shall be convened. A repeat General Meeting shall be held based on the agenda of the failed General Meeting and shall not be subject to quorum requirements. General voting ballots of a failed General Meeting will be valid in a repeat General Meeting.

All shareholders participating in the General Meeting have the right to vote and ask questions during the General Meeting. The right to participate and to speak at the General Meeting shall also be held by the members of the Supervisory Board, Management Board, CEO, the General Meeting inspector and the auditor that prepared the conclusion and the report.

The Company must record the voting results for each decision adopted at the General Meeting. The shareholders at the General Meeting shall elect the General Meeting inspector who determines the total number of votes carried by the shares issued by the Company on the day of the General Meeting, the number of valid and invalid general ballot papers filled-in and submitted in advance, the number of valid and invalid proxies submitted, the number of submitted agreements on the disposal of voting rights, the number of voting shares represented at the General Meeting (in person, through proxies, through persons under agreements on the disposal of voting rights, under the general ballot papers filled-in in advance, under other documents entitling to vote), whether the General Meeting has a quorum, and the results of voting at the General Meeting.

Not later than within 7 days following the General Meeting, the Company must post the voting results of the General Meeting on its website. Shareholders or their representatives that have participated in the General Meeting may become familiar with the meeting minutes, and within 3 calendar days after becoming familiar (but not later than within 10 calendar days of the General Meeting), may submit their comments and opinions in writing.

### **6.2.3. Electing members of the Supervisory Board**

The members of the Supervisory Board are elected by the General Meeting. Under the Lithuanian law candidates for a supervisory board may be proposed by the Management Board and a shareholder(s) holding shares representing at least 5% of votes. When electing Supervisory Board members, each shareholder has a number of votes equal to the number of votes carried by the shares of the Company he/she owns, multiplied by the number of members of the Supervisory Board being elected. A shareholder can distribute votes at his/her own discretion, granting them to one or several candidates. The candidate who receives the highest number of votes prevails. The chairman of the Supervisory



Board is elected by the members of the Supervisory Board. If the number of candidates who received an equal number of votes exceeds the number of vacancies on the Supervisory Board, a repeat vote shall be held in which each shareholder may vote only for one of the candidates who received the equal number of votes.

The General Meeting may remove the entire Supervisory Board or its individual members before the expiry of their term of office. Such decision requires a simple majority of votes. If an individual member is removed, resigns or discontinues the performance of his/her duties for other reasons, and the shareholders whose shares carry at least 1/10 of all votes object to the election of individual members of the Supervisory Board, then the entire Supervisory Board shall lose its powers and shall be subject to election. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

Under the shareholders' agreement entered by the principal shareholder of the Company (the Shareholders' Agreement), at all times during the validity of the Shareholders' Agreement, the principal shareholders will vote their shares in order to elect five candidates nominated by the principal shareholders. In addition, the principal shareholders will vote their shares to appoint two independent members proposed by the principal shareholder, since under Lithuanian law, candidates for a Supervisory Board may be proposed by the Management Board and any shareholder(s) holding shares representing at least 5% of votes.

#### **6.2.4. Approval of annual accounts**

Annual financial statements and an annual report are prepared by the CEO, assessed by the Management Board and commented on by the Supervisory Board. The Annual General Meeting receives annual financial statements and the annual report, together with comments and proposals of the Supervisory Board, and adopts a decision to approve the audited annual financial statements. The same procedure, *mutatis mutandis*, applies to the approval of interim accounts of the Company if the General Meeting makes a decision to distribute dividends to the shareholders of the Company for a period shorter than the financial year.

The annual financial statements, auditor's report, annual report and other information required under Lithuanian law must be made available to shareholders for review from the date of the notice on convening the Annual General Meeting.

#### **6.2.5. Distribution of profit**

Pursuant to the Law on Companies of the Republic of Lithuania, the Company may distribute its profit or assets to shareholders only (i) by paying dividend; (ii) in case of liquidation of the Company; or (iii) in case of reduction of the share capital of the Company.

Decision to distribute profits of the Company, as well as to establish, use, decrease and/or cancel the reserves, is adopted in the General Meeting by the qualified  $\frac{3}{4}$  majority of votes of shareholders participating in the General Meeting.

The General Meeting may adopt a decision to declare annual and interim dividends by the qualified  $\frac{3}{4}$  majority of votes of shareholders participating at the General Meeting. The Company is allowed to pay dividends (i) only to the extent that the Company's equity exceeds the aggregate nominal value of all of the Company's shares plus the amount of any reserves (mandatory reserve, the revaluation reserve and the reserve for acquisition of own shares) that the Company is required to, or is allowed to, maintain pursuant to the Articles of Association or the provisions of applicable laws; (ii) only if the Company has no outstanding non-performed obligations with due terms before the adoption of the decision to pay out dividends, and (iii) only if the Company during the respective financial year or interim financial period has made profit.

Further, payment of interim dividends may be initiated by the proposal of shareholders, holding at least 1/3 of all votes of the Company. In addition to the above mentioned conditions, interim dividends are allowed to be paid only if (i) financial statements for the respective period shorter than the financial year are approved by the General Meeting; (ii) profit was generated during the respective period that is shorter than the financial year; (iii) the amount of the paid-out interim dividends do not exceed the following: a) profit generated during the respective period that is shorter than the financial year, plus undistributed profit (accumulated during all earlier years) present at the end of the previous financial year, minus part of the profit generated during the respective period that is shorter than the financial year that must be allocated to reserves under the Articles of Association or the Law on Companies (*i.e.* if the mandatory reserve is below 1/10 of the registered share capital, deductions must be made to it of not less than 1/20



of the net profit of the respective financial year); (iv) the Company has no outstanding obligations which became due before adoption of the decision to pay out interim dividends and after the interim dividends are paid, the Company will remain able to meet its obligations for the current financial year.

Dividends are paid to persons who, at the end of the rights record date (i.e. the tenth business day following the day the decision to distribute dividends was adopted by the General Meeting), were shareholders of the Company or were otherwise entitled to receive dividends. Each shareholder is entitled to dividends *pro rata* to the number of shares held by such shareholder. The Company must pay dividends within one month of the date of resolution adopted by the General Meeting.

#### **6.2.6. Issuance of shares**

The Company may issue new shares pursuant to a resolution of the General Meeting adopted by qualified  $\frac{3}{4}$  majority of votes of shareholders participating at the General Meeting; no special quorum is required. A qualified  $\frac{3}{4}$  majority of votes of shareholders participating at the General Meeting is also required to issue convertible bonds. The decision of the General Meeting to issue new shares shall be deemed void in case of failure to submit the amended Articles of Association to the Register of Legal Entities of the Republic of Lithuania within six months of the day on which the General Meeting adopted the decision. If this deadline is not met, the contributions for the subscribed shares must immediately be returned, without any deductions at the written request of the subscriber.

The Company's share capital may be increased from the Company's own funds by issuing new shares. In such case the shareholders are entitled to receive new additional shares for no consideration in proportion to the nominal value of the shares owned by them on the rights record day (i.e. the tenth business day following the day of the decision of the General Meeting to increase the Company's share capital).

A qualified  $\frac{3}{4}$  majority of votes of shareholders participating at the General Meeting is also required to establish the class, number, nominal value, minimal issue price of shares in the Company, as well as to convert the Company's shares of one class into another class and related procedures.

#### **6.2.7. Amendment of the Articles of Association**

The General Meeting can resolve to amend the Articles of Association by a qualified  $\frac{3}{4}$  majority of votes of shareholders participating at the General Meeting. The amended Articles of Association shall come into force on the day of the registration of the Articles of Association with the Register of Legal Entities of the Republic of Lithuania. Once the amendments to the Articles of Association are entered in the companies register, the Company publishes a relevant current report.

#### **6.2.8. The rights of the shareholders and procedures of their execution**

In addition to the rights described above, the shareholders of the Company also enjoy other rights established by the Lithuanian Company Law or other legal acts of the Republic of Lithuania.

#### **6.2.9. Right to transfer the shares**

According to Lithuanian law, the Company is prohibited from introducing any additional restrictions of the shareholders right to dispose of fully paid shares to another person. There are no restrictions on transfer of the shares, other than those described in applicable laws or agreed between the shareholders of the Company.

#### **6.2.10. Pre-emptive right**

Each shareholder holding the shares at the end of the rights record date (i.e. the tenth business day following the day of the decision of the General Meeting to increase the Company's share capital) has a pre-emptive right with respect to all new share issuances or convertible bonds, in proportion to the number of shares held by such shareholder.

Pre-emptive rights may be withdrawn by a decision of the General Meeting taken by a qualified  $\frac{3}{4}$  majority of votes of shareholders participating at the General Meeting. The right of pre-emption to acquire new shares being issued by the Company or the convertible bonds may only be withdrawn for all shareholders of the Company. A written proposal to withdraw the pre-emptive right must be given by the Management Board, indicating reasons and causes for such withdrawal, as well as persons who would be offered to acquire the newly issued securities. The General Meeting, taking a decision on withdrawal of the pre-emptive right, must justify the necessity to withdraw such right and specify



the person or persons who are given the right to subscribe to newly issued securities or convertible bonds, save for cases when the pre-emptive right is withdrawn because of the intention to make a public offering of securities of the Company under the procedure set by the Lithuanian Law on Securities.

#### **6.2.11. Right to receive information**

At the written request of any shareholder, the Company shall, no later than within 7 days from the day of receipt of such request, submit to the shareholder to become familiar with and (or) present copies of the following documents: the Articles of Association of the Company, annual and interim financial statements, annual and interim reports of the Company, audit statements and reports, minutes of the General Meeting and other documents containing decisions of the General Meeting, lists of the shareholders, other documents of the Company which must be public by law of the Republic of Lithuania as long as they do not contain any commercial (industrial) secret or confidential information of the Company. Upon submission to the Company of a written undertaking in the form established by the Company not to disclose the commercial (industrial) secret and confidential information, a shareholder or group of shareholders holding or possessing more than half of all the shares shall have the right to become familiar with all documents of the Company. The Company has the right to refuse to provide to the shareholder present copies of the documents if it is unable to determine the identity of the shareholder. Refusal to provide to the shareholder with present documents shall be executed by the Company in writing at the shareholder's request. Disputes regarding the right of the shareholder to information shall be settled in court.

The Company's documents and other information or copies thereof shall be presented to the shareholders at the registered office of the Company. The Company's documents, their copies and other information shall be presented to the shareholders, free of charge.

#### **6.2.12. Inquiry right**

One or more shareholders, individually or jointly representing at least 1/10 of the share capital of the Company, may assert their inquiry right. This means that they may appeal to the court in writing to appoint one or more experts to conduct an inquiry of the activity and affairs of the Company, *i.e.* whether the Company or the Company's corporate bodies or their members acted in the proper manner.

In the event of improper performance of the activity, the following sanctions may be imposed by the court after evaluating the findings reported by the appointed experts: (i) revocation of the resolutions taken by the corporate bodies; (ii) temporary suspension of the powers of the members of the corporate bodies or exclusion of a person from the corporate body; (iii) appointment of provisional members of corporate bodies; (iv) authorisation of non-implementation of certain provisions of incorporation documents; (v) obligation to make amendments to certain provisions of incorporation documents; (vi) transferral to another person of the member's right of the corporate body to vote; (vii) obligation of the Company to take or not take certain actions; and (viii) liquidation of the Company and appointment of a liquidator.

### **6.3. Personal composition and procedures of the Company's Management and Supervisory Boards and its committees**

Rules of conduct of the Supervisory Board, its committees and the Management Board are regulated in the Articles of Association of the Company and the Regulations of work of the Supervisory Board, its committees and the Supervisory Board, respectively.

#### **6.3.1. Management Board**

The Company's Management Board consists of five board members, including the chairman of the Management Board. Under Lithuanian law, the Management Board may act if at least 2/3 of the number of members established in the Articles of Association are appointed and participate in the Management Board activities. Under the Articles of Association, the members are appointed for a term of four years. Each member may be reappointed. The Supervisory Board elects the Board members by a majority of votes of the members who attended the Supervisory Board's meeting and those who voted in advance. The chairman of the Management Board is elected by the Management Board. The Supervisory Board may recall the entire Management Board or its individual members before the expiry of the term of their office if at least 2/3 of the Supervisory Board members present at the meeting vote for such a decision. The Management Board is responsible for the strategic direction of the Company under the supervision of the Supervisory



Board. Under the Articles of Association, all resolutions of the Management Board must, depending on the type of decision, be adopted either by a simple majority of the votes cast, or unanimously.

The following decisions must be adopted unanimously (defined as all members of the Management Board vote for the adoption of the decision): (i) to approve and amend the by-laws of the Management Board; (ii) election and removal of the CEO, establishment of his/her salary and other employment conditions, to provide him/her incentives and impose penalties; approval of the by-laws of the CEO; (iii) approval of the business strategy of the Company; (iv) approval of the management structure and positions of the Company; (v) becoming an incorporator or member of other legal entities and acquisition of shares or part of capital in other legal entities; (vi) establishing branches and representative offices of the Company, approval of their regulations and nomination of their managers; (vii) investing, transferring of or leasing the tangible long-term assets, the book value of which exceeds 1/20 of the authorised share capital of the Company (calculated individually for each type of transaction); (viii) pledging or mortgaging the tangible long-term assets, the book value of which exceeds 1/20 of the authorised share capital of the Company (calculated for the total amount of transactions); (ix) granting surety or guarantee for the discharge of obligations of third persons, the amount of which exceeds 1/20 of the authorised share capital of the Company; (x) acquiring tangible long-term assets, the price of which exceeds 1/20 of the authorised share capital of the Company; (xi) approval, amendment or termination of the transactions between the Company and persons related to shareholders (except for transactions regarding the sale or purchase of electricity and/or transactions that are included in the annual investment program or budget approved by the Management Board); (xii) approval or amendment of the annual budget of the Company; (xiii) adopting decisions on issuance of debentures; (xiv) approval of transactions which are outside the scope of an annual investment program approved by the Management Board and investments exceeding EUR 1.5 million; (xv) any decisions related to the exercising of the shareholder's rights or obligations in any controlled legal entity of the Company, including (without limitation) voting in the general meetings of shareholders, nomination of the candidates to the governing bodies etc.; (xvi) making transactions or actions for sale or other transfer of the shares, capital or any other form of the membership interest (including any rights carried thereby) held by the Company in any legal entity; (xvii) decision of any other issue attributed to the competence of the Management Board by the laws, by the decisions of the General Meeting and by the Articles of Association; (xviii) approval of the annual investment program of the Company; and (xix) approval of transactions whereby loans, credits or similar financial arrangements to be obtained by the Company or whereby loans, credits or similar financial arrangements to be extended by the Company.

The term of office of the Management Board shall commence after the closing of the Meeting of the Supervisory Board at which it was elected. The Management Board shall perform its functions for a term of four years or until election and commencement of functioning of a new Management Board, but no longer than until the annual General Meeting to be held in the year at the end of the term of office of the Management Board. As at the date of the Report, the Management Board is composed of five members.

### **6.3.2. Supervisory Board**

The Supervisory Board consists of five members, including the chairman. Under Lithuanian law, the Supervisory Board may act if at least half of the number of members established in the Articles of Association are appointed and participate in Supervisory Board activities. The members of the Supervisory Board are elected by the General Meeting. The General Meeting may also remove the entire Supervisory Board or its individual members before the expiry of their term of office.

The Supervisory Board is responsible for supervising the activities of the Management Board and the CEO. The Supervisory Board may adopt decisions, and its meetings are considered to have been validly held only if more than half of its members are present, or represented during such a meeting. The members of the Supervisory Board who have voted in advance shall also be considered to have attended the meeting. Each member of the Supervisory Board is entitled to one vote.

Under the Articles of Association, the members of the Supervisory Board are elected for a term of four years by the General Meeting. The Supervisory Board commences its activities after the closing of the General Meeting which elected the Supervisory Board and shall perform its functions for a period of four years or until a new Supervisory Board is elected, but not for longer than the date of the annual General Meeting to be held during the final year of the term of office of the Supervisory Board.

The Supervisory Board shall have all powers and rights provided for by the laws and these Articles of Association, including: (i) to approval and amendment of by-laws of Supervisory Board; (ii) election of members of the



Management Board and removal from the office; (iii) supervision of activities of the Management Board and CEO; (iv) submission of comments and proposals to the General Meeting on the Company's operating strategy, annual financial statements, draft of profit (loss) appropriation and the annual report of the Company, as well as the activities of the Management Board and CEO; (v) submission of comments and proposals to the General Meeting on draft decision of allocation of dividends for any period shorter than the financial year, and for that purpose composed interim financial statements and annual report; (vi) submission of proposals to the Management Board and CEO to revoke any decisions which are in conflict with the laws, other legal acts, the Articles of Association or decisions of the General Meeting; (vii) request the Management Board and the CEO to submit documents related to the activity of Company; (viii) right to make proposals for the reorganization terms; (ix) right to initiate the conveyance of the General Meeting; (x) right to supplement the agenda of the General Meeting; and (xi) a member of Supervisory Board has the right attend and speak at the General Meeting.

A decision to remove a member of the Management Board from office may be taken if at least 2/3 of the Supervisory Board members present at the meeting, including any who have voted in advance, vote for it.

As at the date of this report, the Supervisory Board is composed of five members. The Company expects that additional two members of the Supervisory Board will be elected during the Annual General Meeting. It is expected that such additional members of the Supervisory Board shall meet criteria of being independent.

### **6.3.3. Committees**

In order to properly implement its supervisory function, the Supervisory Board has the right to form its committees. The audit committee is formed from among the members of the Supervisory Board. The audit committee shall consist of three members, of the Supervisory Board As of 12<sup>th</sup> December 2013 Mr Nerijus Dagilis, Mr Mikhail Konstantinov and Mr Aleksandr Pakhomov were elected as members of audit committee of the Company.

The audit committee's term of office shall be the same as the Supervisory Board. Any decisions made by the audit committee shall be only of an advisory nature to the Supervisory Board. The main tasks of the audit committee shall include, among others, the monitoring of the Company's financial information integrity, the external auditor's independence and objectivity, as well as the effectiveness of the external audit process, the review of internal control and risk management systems.

### **6.3.4. Description of the basic features of the Company's internal control and risk management systems related to the process of preparing financial statements**

The Company's system of internal control and risk management in the process of drawing up financial statements is implemented through:

- the audit of the annual financial statements of the Company and the Group companies;
- verification whether a single accounting policy is applied by the Company's Group companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS);
- following accounting standards and monitoring compliance with them.

The Company maintains its financial statements in accordance with the IFRS as adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and as applicable in the respective years.

The Company has certain procedures to authorise the financial statements under which the periodical annual reports are submitted to the Management Board for an approval and after the approval disclosed in public. Subsequently, the financial statements are forwarded to the Supervisory Board for their opinion. The Annual General Meeting receives annual financial statements and the annual report, together with comments and proposals of the Supervisory Board, and adopts a decision to approve the audited annual financial statements. Before the publication, the financial statements are treated as confidential information of the Company and provided solely to persons involved in the preparation, verification and approval process which are bind under the confidentiality undertakings.



### 6.3.5. Publicly announced information

During the period from the start of 2013 to 31<sup>st</sup> December 2013 Company publicly announced and broadcasted through Warsaw Stock Exchange information system and on own webpage the following information:

Title	Category of announcement	Language	Date
End of the stabilisation period	Investor news	EN, LT	21-Jan-2013
Decisions of the Supervisory Board	Notification on material event	EN, LT	25-Jan-2013
Publication date of the results for the 4th quarter of 2012 and the annual information for 2012	Investor news	EN, LT	25-Feb-2013
Announcement of the results for the 4th quarter of 2012 and the Annual Information for 2012 of AB INTER RAO Lietuva	Annual information	EN, LT	27-Feb-2013
Statement on corporate governance	Investor news	EN, LT	28-Feb-2013
AB INTER RAO Lietuva decisions of the Management Board	Notification on material event	EN, LT	29-Mar-2013
Current report	Notification on material event	EN, LT	8-Apr-2013
AB INTER RAO Lietuva decisions of the Supervisory Board	Notification on material event	EN, LT	9-Apr-2013
Appointment of the Chairman of the Board	Notification on material event	EN, LT	18-Apr-2013
The decisions adopted by the Annual General Meeting of Shareholders of AB INTER RAO Lietuva	Notification on material event	EN, LT	30-Apr-2013
Announcement of the results for the 1st quarter of the year 2013 of AB INTER RAO Lietuva	Interim information	EN, LT	14-May-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	22-May-2013
AB INTER RAO Lietuva announces about financing received from its major shareholders	Notification on material event	EN, LT	28-May-2013
AB INTER RAO Lietuva announces about the decision to merge its two controlled subsidiaries	Notification on material event	EN, LT	4-Jun-2013
AB INTER RAO Lietuva announces about the completion of the merger of its two subsidiaries	Notification on material event	EN, LT	12-Jul-2013
AB INTER RAO Lietuva announces about the resignation of a member of the Supervisory Council	Notification on material event	EN, LT	12-Aug-2013
Publication date of the results for the 1st half of 2013	Interim information	EN, LT	30-Aug-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	12-Sep-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	17-Sep-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	23-Sep-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	24-Sep-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	27-Sep-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	02-Oct-2013

**AB INTER RAO LIETUVA, Company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania**  
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(all amounts are in LTL thousand unless otherwise stated)

AB INTER RAO Lietuva Management Board adopted a decision on share capital increase of its subsidiary in Poland IRL Polska Sp.z o.o.	Notification on material event	EN, LT	07-Nov-2013
Publication date of the results for the 1st half of 2013	Interim information	EN, LT	08-Nov-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	19-Nov-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	22-Nov-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	27-Nov-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	03-Dec-2013
AB INTER RAO Lietuva announces about the pledge of shares of its subsidiary	Notification on material event	EN, LT	06-Dec-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	09-Dec-2013
AB INTER RAO Lietuva decisions of the Supervisory Council	Notification on material event	EN, LT	13-Dec-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	13-Dec-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	19-Dec-2013
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers of the Group	EN, LT	30-Dec-2013

Contents of above mentioned announcements can be obtained on Company's webpage <http://www.interrao.lt/eng/For-Investors2/Reports/Current-Reports/2013>.

## Confirmation of Responsible Persons

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, I, Giedrius Balčiūnas, General Director of AB INTER RAO Lietuva hereby confirm that, to the best of my knowledge, AB INTER RAO Lietuva Financial Statements as of and for the year ended 31 December 2013 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of the Company and the Group. The consolidated Annual Report of the Company includes a fair review of the development and performance of the business and the position of the Company and the Group in relation to the description of the main risks and contingencies faced thereby.

Giedrius Balčiūnas

General Director

