

# AB INTER RAO LIETUVA

Consolidated and parent company's financial statements  
for the year ended 31 December 2014,  
prepared in accordance with  
International Financial Reporting Standards  
as adopted by the European Union  
presented together with independent auditor's report

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UAB „Ernst & Young Baltic“  
Subačiaus g. 7  
LT-01302 Vilnius  
Lietuva  
Tel.: (8 5) 274 2200  
Faks.: (8 5) 274 2333  
Vilnius@lt.ey.com  
www.ey.com

Ernst & Young Baltic UAB  
Subačiaus St. 7  
LT-01302 Vilnius  
Lithuania  
Tel.: +370 5 274 2200  
Fax: +370 5 274 2333  
Vilnius@lt.ey.com  
www.ey.com

Juridinio asmens kodas 110878442  
PVM mokėtojo kodas LT108784411  
Juridinių asmenų registras

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

## Independent auditor's report to the 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 2014, 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 the 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 2014 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 2014 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2014.

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

Asta Štreimikienė  
Auditor's licence No. 000382

The audit was completed on 10 February 2015

## Statements of financial position

	Notes	Group		Company	
		As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets					
Goodwill		5,926	5,926	-	-
Operating license		25,059	29,247	-	-
Other intangible assets		288	88	284	88
<b>Total intangible assets</b>	4	<b>31,273</b>	<b>35,261</b>	<b>284</b>	<b>88</b>
Property, plant and equipment					
Land		2,545	2,687	-	-
Buildings and structures		11,122	11,713	-	-
Office premises		3,191	3,451	3,191	3,451
Machinery and equipment		62,319	65,486	-	2
Other property, plant and equipment		269	343	243	300
<b>Total property, plant and equipment</b>	5	<b>79,446</b>	<b>83,680</b>	<b>3,434</b>	<b>3,753</b>
Investment property		544	584	544	584
Interest in a joint venture and subsidiaries	1, 6	675	944	39,301	40,301
Other non-current financial assets	7	4,238	1,905	728	119
Derivative financial instruments	14	88	-	91	-
<b>Total non-current assets</b>		<b>116,264</b>	<b>122,374</b>	<b>44,382</b>	<b>44,845</b>
<b>Current assets</b>					
Inventories and prepayments		486	449	411	368
Accounts receivable					
Trade receivables	8	59,522	50,099	52,850	45,253
Prepayments to and receivables from subsidiaries and joint venture	28	-	-	14,407	9,938
Accrued income and other receivables	9	7,757	4,599	-	13
<b>Total accounts receivable</b>		<b>67,279</b>	<b>54,698</b>	<b>67,257</b>	<b>55,204</b>
Prepaid income tax		654	8,778	-	8,310
Other current assets		862	1,106	646	714
Derivative financial instruments	14	195	-	195	-
Cash and cash equivalents	10	38,767	15,202	28,838	3,418
<b>Total current assets</b>		<b>108,243</b>	<b>80,233</b>	<b>97,347</b>	<b>68,014</b>
<b>Total assets</b>		<b>224,507</b>	<b>202,607</b>	<b>141,729</b>	<b>112,859</b>

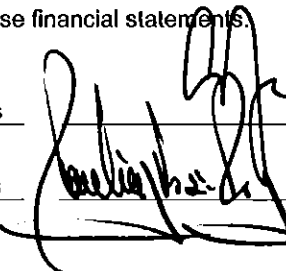
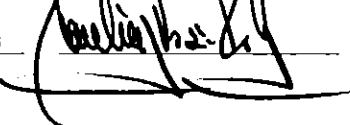
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The accompanying notes are an integral part of these financial statements.

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

	Notes	Group		Company	
		As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	1	20,000	20,000	20,000	20,000
Legal reserves	11	2,754	2,000	2,000	2,000
Cash flow hedge reserve	11	(1,476)	(693)	167	-
Currency translation reserve	2.2	(215)	62	-	-
Retained earnings		40,787	11,925	38,769	13,096
<b>Total equity</b>		<b>61,850</b>	<b>33,294</b>	<b>60,936</b>	<b>35,096</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Non-current borrowings	12	58,870	70,264	-	-
Financial lease obligations	13	2,445	2,587	-	-
Derivative financial instruments	14	1,644	385	-	-
Deferred income tax liability	23	2,876	2,676	-	-
<b>Total non-current liabilities</b>		<b>65,835</b>	<b>75,912</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>					
Current portion of non-current borrowings	12	11,394	11,746	-	-
Other financial debts	12	10,536	17,182	10,536	17,182
Current portion of financial lease obligations	13	235	237	-	-
Derivative financial instruments	14	1,116	1,141	119	-
Trade payables	16	55,507	48,776	54,933	48,387
Income tax payable		3,851	-	3,851	-
Advances received	17	650	3,429	623	3,418
Other current liabilities	18	13,533	10,890	10,731	8,776
<b>Total current liabilities</b>		<b>96,822</b>	<b>93,401</b>	<b>80,793</b>	<b>77,763</b>
<b>Total equity and liabilities</b>		<b>224,507</b>	<b>202,607</b>	<b>141,729</b>	<b>112,859</b>

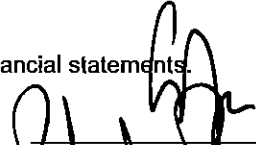
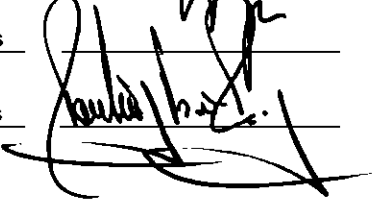
The accompanying notes are an integral part of these financial statements.

<u>General Manager</u>	<u>Giedrius Balčiūnas</u>		<u>10 February 2015</u>
<u>Economic Director</u>	<u>Paulius Vazniokas</u>		<u>10 February 2015</u>

## Statements of comprehensive income

	Notes	Group		Company	
		2014	2013	2014	2013
Sales	3,19	726,337	757,882	651,695	710,514
Cost of sales	20	(651,174)	(732,076)	(591,080)	(691,657)
<b>Gross profit</b>		<b>75,163</b>	<b>25,806</b>	<b>60,615</b>	<b>18,857</b>
General and administrative expenses	21	(23,259)	(23,347)	(15,342)	(15,362)
<b>Profit from operations</b>		<b>51,904</b>	<b>2,459</b>	<b>45,273</b>	<b>3,495</b>
Income from other activities		710	38	630	58
Finance income	22	195	210	568	1,567
Finance expenses	22	(3,409)	(4,286)	(1,221)	(200)
Share of result of joint venture	6	181	(13)	-	-
<b>Profit (loss) before tax</b>		<b>49,581</b>	<b>(1,592)</b>	<b>45,250</b>	<b>4,920</b>
Income tax	23	(6,965)	4,276	(6,577)	(849)
<b>Net profit</b>		<b>42,616</b>	<b>2,684</b>	<b>38,673</b>	<b>4,071</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>					
Net result on cash flow hedges		(971)	1,127	167	-
Income tax effect		188	(169)	-	-
Effect of currency exchange		(277)	62	-	-
<b>Total other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax</b>		<b>(1,060)</b>	<b>1,020</b>	<b>167</b>	<b>-</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>41,556</b>	<b>3,704</b>	<b>38,840</b>	<b>4,071</b>
Basic and diluted earnings per share (LTL)	24	2.13	0.13		

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

General Manager	Giedrius Balčiūnas		10 February 2015
Economic Director	Paulius Vazniokas		10 February 2015

## Statements of changes in equity

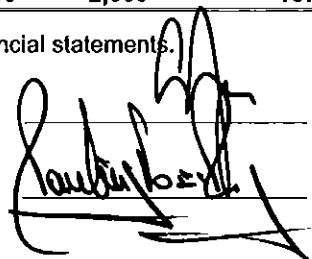
### Group

Notes	Equity attributable to equity holders of the parent						
	Share capital	Currency translation reserve	Legal reserve	Cash flow hedge reserve	Retained earnings	Total	
<b>Balance as at 31 December 2012</b>	<b>20,000</b>	<b>-</b>	<b>100</b>	<b>(1,651)</b>	<b>38,141</b>	<b>56,590</b>	
Transfer to reserves	11	-	-	1,900	-	(1,900)	-
Net profit for the year		-	-	-	-	2,684	2,684
Other comprehensive income, net of tax	14	-	62	-	958	-	1,020
<b>Total comprehensive income</b>		<b>-</b>	<b>62</b>	<b>-</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>	
Transfer to reserves	11	-	-	754	-	(754)	-
Net profit for the year		-	-	-	-	42,616	42,616
Other comprehensive income, net of tax	14	-	(277)	-	(783)	-	(1,060)
<b>Total comprehensive income</b>		<b>-</b>	<b>(277)</b>	<b>754</b>	<b>(783)</b>	<b>42,616</b>	<b>41,556</b>
Dividends declared	25	-	-	-	-	(13,000)	(13,000)
<b>Balance as at 31 December 2014</b>	<b>20,000</b>	<b>(215)</b>	<b>2,754</b>	<b>(1,476)</b>	<b>40,787</b>	<b>61,850</b>	

### Company

Notes	Share capital	Legal reserve	Cash flow hedge reserve	Retained earnings	Total	
<b>Balance as at 31 December 2012</b>	<b>20,000</b>	<b>100</b>	<b>-</b>	<b>37,925</b>	<b>58,025</b>	
Transfer to reserves	-	1,900	-	(1,900)	-	
Net profit for the year	-	-	-	4,071	4,071	
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,071</b>	<b>4,071</b>	
Dividends declared	25	-	-	-	(27,000)	(27,000)
<b>Balance as at 31 December 2013</b>	<b>20,000</b>	<b>2,000</b>	<b>-</b>	<b>13,096</b>	<b>35,096</b>	
Net profit for the year	-	-	-	38,673	38,673	
Other comprehensive income	-	-	167	-	167	
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>167</b>	<b>38,673</b>	<b>38,840</b>	
Dividends declared	25	-	-	-	(13,000)	(13,000)
<b>Balance as at 31 December 2014</b>	<b>20,000</b>	<b>2,000</b>	<b>167</b>	<b>38,769</b>	<b>60,936</b>	

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

General Manager	Giedrius Balčiūnas		10 February 2015
Economic Director	Paulius Vazniokas		10 February 2015

## Statements of cash flows

	Notes	Group		Company	
		2014	2013	2014	2013
<b>Cash flows from (to) operating activities</b>					
Net profit		42,616	2,684	38,673	4,071
<b>Adjustments for non-cash items:</b>					
Income tax (benefit) expenses	23	6,965	(4,276)	6,577	849
Depreciation and amortisation	4, 5	8,535	8,541	442	461
Impairment of goodwill	4	-	1,000	-	-
Impairment of investment to joint venture		-	-	1,000	-
Allowance for doubtful accounts receivable		6	4	6	4
Loss on write-offs of non-current assets		9	-	-	-
Share of net result of joint venture	6	(181)	13	-	-
Dividend (income)		-	-	(462)	(1,460)
Interest (income) expenses	22	3,316	3,947	215	175
		61,266	11,975	46,451	4,100
<b>Changes in working capital:</b>					
(Increase) decrease in inventories and prepayments, prepayments to and other receivables from subsidiaries and joint venture		(37)	(91)	(4,511)	(10,006)
(Increase) decrease in accounts receivable and other current assets		(12,343)	6,158	(7,523)	12,641
(Increase) decrease in other non-current assets		(2,333)	1,650	(609)	(17)
Increase in trade payables		6,731	9,612	6,546	9,322
Income tax (paid)		(228)	(9,158)	-	(8,041)
Increase (decrease) in other current liabilities		5,193	6,868	4,744	5,554
<b>Net cash flows from operating activities</b>		<b>58,249</b>	<b>26,952</b>	<b>45,098</b>	<b>13,553</b>
<b>Cash flows from (to) investing activities</b>					
(Acquisition) of non-current assets		(282)	(362)	(279)	(362)
(Incorporation) and (increase) in share capital of subsidiaries		-	-	-	(6,576)
Interest received		78	121	1	18
Dividends received		450	750	462	1,460
<b>Net cash flows from (to) investing activities</b>		<b>246</b>	<b>509</b>	<b>184</b>	<b>(5,460)</b>

*(cont'd on the next page)*

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



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

	Group		Company	
	2014	2013	2014	2013
<b>Cash flows from (to) financing activities</b>				
Dividends (paid)	29	(2,600)	(10,000)	(2,600)
Loans repaid		(28,928)	(857)	(17,182)
Interest (paid)		(3,258)	(3,889)	(80)
Financial lease (payments)		(144)	(8,731)	-
<b>Net cash flows (to) financing activities</b>		<b>(34,930)</b>	<b>(23,477)</b>	<b>(19,862)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>23,565</b>	<b>3,984</b>	<b>25,420</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>15,202</b>	<b>11,218</b>	<b>3,418</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>38,767</b>	<b>15,202</b>	<b>28,838</b>

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

General Manager

Giedrius Balčiūnas

10 February 2015

Economic Director

Paulius Vazniokas

10 February 2015

**AB INTER RAO LIETUVA, company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania**  
**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 December 2014**  
(all amounts are in LTL thousand unless otherwise stated)

**1 General information**

AB INTER RAO Lietuva (hereinafter, "the Company") is a public 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 is included in electricity trading registry in the Republic of Latvia. 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. In 2014 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 took effect on 9 January 2014.

As at 31 December 2014 and 2013 the shareholders of the Company were as follows:

	<b>31 December 2014</b>		<b>31 December 2013</b>	
	<b>Number of shares held</b>	<b>Interest held</b>	<b>Number of shares held</b>	<b>Interest held</b>
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 2014 and 2013 the Company's share capital was comprised of 20,000,000 ordinary shares with the par value of LTL 1 each. The share capital was fully paid as at 31 December 2014 and 2013. The Company did not hold its own shares in 2014 and 2013. As at 31 December 2014 and 2013, the subsidiaries and the joint venture did not hold any shares of the Company.

The management of the Company approved these financial statements on 10 February 2015. 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, company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania**  
**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 December 2014**  
(all amounts are in LTL thousand unless otherwise stated)

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

As at 31 December 2014 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	Invest-ment value (cost less impairment)	Profit (loss) for 2014	Equity As at 31 December 2014	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	110	971	555	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	10	232	(4,794)	Ropažu iela 10, Riga, Latvia	Trade of electricity
Sp. z o.o. IRL Polska - subsidiary	0000436992	100 %	8,260	(382)	7,359	Emilii Plater 53, Warsaw, Poland	Trade of electricity
UAB Alproka – joint venture	125281684	49.99 %	1,572	364	1,351	Verkių Str. 25C, Vilnius, Lithuania	Operations with real estate
Vydmantai wind park, UAB - subsidiary	302666616	100 %	29,349	2,335	36,520	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

As at 31 December 2013 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	Invest-ment value (cost less impairment)	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
Vydmantai wind park, UAB - subsidiary	302666616	100 %	29,349	8,834	35,251	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

**Changes in 2014**

In 2014 the Company estimated the recoverable value of UAB Alproka and recorded the impairment to investment in joint venture of LTL 1,000 thousand under financial expenses in the statement of comprehensive income.

**Changes in 2013**

On 11 July 2013 the merger of Vydmantai Wind Park, UAB (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.

## 2 Accounting policies

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2014 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**

The following new and/or amended IFRSs have been adopted by the Group and the Company as of 1 January 2014:

- IAS 27 Separate Financial Statements (Amended)
- IAS 28 Investments in Associates and Joint Ventures (Amended)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 10, IFRS 12 and IAS 27 - Investment Entities (Amended)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group and the Company, its impact is described below:

- Amendment to IAS 28 *Investments in Associates and Joint Ventures* - 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 had no impact on the financial statements of the Group.
- Amendment to IAS 36 *Impairment of Assets* - 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 did not have any impact on the financial position or performance of the Group, however it resulted in additional disclosures (see Note 4).
- IFRS 11 *Joint Arrangements* - 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 classifies the jointly controlled entity as joint venture and applies equity method; therefore the implementation of this amendment had no effect on the financial statements of the Group.
- IFRS 12 *Disclosures of Interests in Other Entities* - 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 are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial position or performance of the Group, however it resulted in additional disclosures (see Note 2.3).

## 2 Accounting policies (cont'd)

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

#### *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 authorization of these financial statements for issue, but which are not yet effective:

**Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Group and the Company have not yet evaluated the impact of the implementation of this standard.

**Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Group and the Company, as the Group and the Company do not use revenue-based depreciation and amortisation methods.

**Amendments to IAS 19 *Employee Benefits*** (effective for financial years beginning on or after 1 February 2015)

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.

**Amendments to IAS 27 *Equity method in separate financial statements*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Company has not yet evaluated the impact of the implementation of this standard.

**IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 01.01.2018, 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 has not yet evaluated the impact of the implementation of this standard.

**Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The impact of the implementation of this standard will not have any effect of the Group's financial statements.

**Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group and the Company has not yet evaluated the impact of the implementation of this standard.

## 2 Accounting policies (cont'd)

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

**Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group and the Company have not yet evaluated the impact of the implementation of this standard.

**IFRS 14 *Regulatory Deferral Accounts*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The implementation of this standard will not have any impact on the Group and the Company.

**IFRS 15 *Revenue from Contracts with Customers*** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group and the Company have not yet evaluated the impact of the implementation of this standard.

#### Improvements to IFRSs

In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015):

- IFRS 1 *First-time adoption of IFRS*;
- IFRS 3 *Business Combinations*;
- IFRS 13 *Fair value Measurement*;
- IAS 40 *Investment property*.

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- 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*.

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting*.

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 17 June 2014)

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 have 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.

## 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 profit (loss) 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 profit (loss) 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.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control.

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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 separate 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.

As at 31 December 2014 and 2013, for the evaluation of impairment of investment into subsidiary Vydmantai wind park, UAB the value in use concept was applied.



## 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

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.

### 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 leased land is calculated over the minimum lease period, because the lease period represents useful life of leased land.

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

Land lease	20
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

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 Accounting policies (cont'd)

### 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.

#### Financial assets at fair value through profit and loss

The category of financial assets at fair value through profit and loss includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains or losses on investments held for trading are recognised in the statement of comprehensive income. The Group and the Company does not have any material fair value through profit and loss financial instruments.

#### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

#### 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 profit (loss) 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.

## 2 Accounting policies (cont'd)

### 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.

#### 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 and the Company 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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### 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 Accounting policies (cont'd)

### 2.12. Derivative financial instruments

The Group engages in swap contract for interest rate and the Group and the Company engages in forward contract for electricity price 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 (level 1 in fair value hierarchy), 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.

### 2.13. 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 and the Company 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 (profit or loss) 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 2014 and 2013 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 14). In 2014 the Group and the Company has entered into electricity forward contracts with a purpose to hedge itself against a possible fluctuation of electricity prices (Note 14).

### 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 2014 and 2013.

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 Accounting policies (cont'd)

### 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 an 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.

### 2.16. 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 is 15%, 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 the 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.

Tax losses in the Republic of Poland may be carried forward to the following five tax years to offset profits from all sources that are derived in those years. Up to 50% of the original loss may offset profits in any of the five tax years. Losses may not be carried back.

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 Accounting policies (cont'd)

### 2.17. 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). 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 profit (loss) statement.

### 2.18. 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.

### 2.19. 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 13), impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Notes 2.3 and 4). The management also made a judgment regarding net revenue presentation (Note 2.17). 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 Accounting policies (cont'd)**

**2.20. 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.

**2.21. 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.

### 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. The Group and the Company have 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 Vydmantai wind park, UAB. 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 2014	Electricity purchases and sales	Electricity production and sales	Total Segments	Adjustments and eliminations	Consolidated
<b>Revenue</b>					
External customers	709,316	17,021	726,337	-	726,337
<b>Total revenue</b>	<b>709,316</b>	<b>17,021</b>	<b>726,337</b>	<b>-</b>	<b>726,337</b>
<b>Results</b>					
Depreciation and amortisation	441	8,094	8,535	-	8,535
Interest income	1	78	79	-	79
Interest expenses	216	3,178	3,394	-	3,394
Share of loss of the joint venture	-	-	-	181	181
<b>Segment operating profit/profit from operations</b>	<b>46,034</b>	<b>5,870</b>	<b>51,904</b>	<b>-</b>	<b>51,904</b>
<b>Segment assets</b>	<b>107,217</b>	<b>116,636</b>	<b>223,853</b>	<b>654</b>	<b>224,507</b>
<b>Segment liabilities</b>	<b>78,589</b>	<b>77,341</b>	<b>155,930</b>	<b>6,727</b>	<b>162,657</b>

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



3 Segment information (cont'd)

Other disclosures

Interest in a joint venture	-	-	-	675	675
Capital expenditure	282	-	-	-	282

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

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>

Results

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)

Segment operating profit/profit from operations

	(2,392)	4,851	2,459	-	2,459
<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.

	31 December 2014	31 December 2013
<b>Reconciliation of liabilities</b>		
<b>Segment operating liabilities</b>	155,930	166,637
Deferred tax liabilities	2,876	2,676
Current tax payable	3,851	-
<b>Group total liabilities</b>	<b>162,657</b>	<b>169,313</b>
<b>Reconciliation of assets</b>		
<b>Segment operating assets</b>	223,853	193,829
Prepaid income tax	654	8,778
<b>Group total assets</b>	<b>224,507</b>	<b>202,607</b>

### 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	
	2014	2013	2014	2013
Lithuania*	588,689	591,379	571,667	574,255
Latvia	104,117	117,552	77,802	89,424
Estonia**	22,486	31,195	143	29,079
Poland	8,962	-	-	-
Belarus	-	13,408	-	13,408
Russia	2,083	4,348	2,083	4,348
<b>Total revenue</b>	<b>726,337</b>	<b>757,882</b>	<b>651,695</b>	<b>710,514</b>

\* Includes also sales of Lithuanian company to the power exchange

\*\*Represents trading sales on a power exchange.

Revenue from each single customer exceeding 10% of the Group's and the Company's revenue in 2014 amounted to LTL 166 million, LTL 123 million and LTL 105 million (2013: LTL 112 million, LTL 94 million LTL 85 million, LTL 82 million and 77 million). Revenue from each single customer exceeding 10% of the Group's electricity production and sales segment revenue in 2014 amounted to LTL 17 million (2013: LTL 17 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 2012	39,350	450	-	9,926	49,726
Balance as at 31 December 2013	39,350	450	94	9,926	49,820
Additions	-	-	224	-	224
Balance as at 31 December 2014	39,350	450	318	9,926	50,044
<b>Accumulated amortization and impairment</b>					
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
Amortization for the period	4,188	-	24	-	4,212
Balance as at 31 December 2014	14,291	450	30	4,000	18,771
<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>
<b>Net book value as at 31 December 2014</b>	<b>25,059</b>	<b>-</b>	<b>288</b>	<b>5,926</b>	<b>31,273</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).

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

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

##### Goodwill impairment

For the purpose of the impairment test, the goodwill as at 31 December 2014 and 2013 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 2014 and 2013 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 2014 and 2013 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 2014 and 2013 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 4-6% 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 recognised additional impairment charge of LTL 1,000 thousand in 2013, while no impairment was recognised in 2014. The management recognised an impairment charge of LTL 3,000 thousand in 2011 against goodwill previously carried at LTL 9,926 thousand. 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), electricity prices after 2020 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 2014 and 2013). 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%, no additional impairment would occur in 2014, in case all the rest of the assumptions remain constant. If the forecasted electricity prices after 2020 decreased by approximately 10% and increased over the subsequent period by 3% growth rate, additional impairment of LTL 1 million would occur, 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.

**5 Property, plant and equipment**

Movement of property, plant and equipment in 2014 and 2013 is presented below:

Group	Land*	Buildings and structures	Office premises	Machinery and equipment	Other property plant and equipment	Total
<b>Cost</b>						
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
Additions	-	-	-	-	58	58
Write-offs and disposals	-	-	-	(48)	(88)	(136)
Balance as at 31 December 2014	3,013	13,295	3,907	73,972	504	94,691
<b>Accumulated depreciation</b>						
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
Depreciation for the period	142	591	260	3,167	123	4,283
Write-offs and disposals	-	-	-	(48)	(79)	(127)
Balance as at 31 December 2014	468	2,173	716	11,653	235	15,245
<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>
<b>Net book value as at 31 December 2014</b>	<b>2,545</b>	<b>11,122</b>	<b>3,191</b>	<b>62,319</b>	<b>269</b>	<b>79,446</b>

\*Land balance represents capitalised financial land lease.

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 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
Additions	-	-	58	58
Write-offs and disposals	-	(48)	(66)	(114)
Balance as at 31 December 2014	3,907	-	421	4,328
<b>Accumulated depreciation</b>				
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
Depreciation for the period	260	2	115	377
Write-offs and disposals	-	(48)	(66)	(114)
Balance as at 31 December 2014	716	-	178	894
<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>
<b>Net book value as at 31 December 2014</b>	<b>3,191</b>	<b>-</b>	<b>243</b>	<b>3,434</b>

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2014 amounts to LTL 4,283 thousand and LTL 377 thousand, respectively (LTL 4,313 thousand and LTL 416 thousand in the year 2013, respectively). These amounts are included into the general and administrative expenses in the statement of comprehensive income except for the amount of LTL 3,899 in 2014 (LTL 3,757 thousand in 2013), which is included in the cost of sales in the Group's statement of comprehensive income.

Land was leased under finance lease agreements (Note 13) in 2014 and 2013. 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 73,441 thousand are 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 2014 and 2013.

## 6 Interest in a joint venture

As at 31 December 2014 and 2013 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:

	As at 31 December 2014	As at 31 December 2013
Joint venture's statement of financial position		
Current assets	1,354	2,202
Non-current assets	50	68
Current liabilities	(54)	(382)
Non-current liabilities	-	-
<b>Equity</b>	<b>1,350</b>	<b>1,888</b>
Share of joint venture's equity	675	944
Joint venture's revenue and profit		
Revenue	665	1,398
Profit (loss)	364	(26)

## 7 Other non-current financial assets

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
Non-current deposit	3,453	1,726	-	-
Non-current receivables	209	60	-	5
Non-current guarantees	576	-	576	-
Available-for-sale investments	-	119	152	114
	<b>4,238</b>	<b>1,905</b>	<b>728</b>	<b>119</b>

As at 31 December 2014 other non-current assets of the Group comprise two 4% and 0,45% annual interest deposits in equal amounts of LTL 1,726 thousand in Swedbank AB till 2016, which are a mandatory guarantee under the credit agreement, which is disclosed under Note 12. As at 31 December 2013 other non-current assets of the Group mainly comprised a 4 % annual interest deposit in Swedbank AB.

## 8 Trade receivables

As at 31 December 2014 and 2013 the Group's and the Company's trade receivables consisted of receivables for supplied electricity.

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
Trade receivables, gross	59,532	50,103	52,860	45,257
Less: allowance for doubtful trade receivables	(10)	(4)	(10)	(4)
	<b>59,522</b>	<b>50,099</b>	<b>52,850</b>	<b>45,253</b>

Increase in trade receivables in 2014 is mainly related to increased sales in December comparing to prior year.

The Group and the Company as at 31 December 2014 had LTL 10 thousand of doubtful receivables (LTL 4 thousand as at 31 December 2013).

There were no significant past due trade receivables as at 31 December 2014 and 2013 in the Group and in the Company.

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

**9 Accrued income and other receivables**

As at 31 December 2014 the other receivables of the Group mainly consisted of accrued income amounting to LTL 6,695 thousand (2013 – LTL 4,494 thousand), which represent earned but not invoiced electricity sales revenues. 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 2014 and 2013.

**10 Cash and cash equivalents**

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
Cash at bank	38,767	15,202	28,838	3,418
	<b>38,767</b>	<b>15,202</b>	<b>28,838</b>	<b>3,418</b>

The significant increase in Group's and Company's cash at bank is mainly related to significantly increased profitability.

**11 Reserves**

Legal reserve

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 2014 and 2013 the Company's legal reserve was fully formed.

In 2014 the Company's subsidiary Vydantai wind park, UAB made a transfer to legal reserve in the amount of LTL 754 thousand.

Cash flow hedge reserve

This reserve represents the effective part of the change in fair value of the derivative financial instruments (interest rate swaps and electricity forward contracts), used by the Group and the Company to secure the cash flows from interest rate and electricity price change risk, at the reporting date. The reserve is accounted for according to the requirements of IAS 39 (Note 14).

## 12 Borrowings

As at 31 December the financial debts consisted of:

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
Non-current borrowings	58,870	70,264	-	-
Current portion of non-current borrowings	11,394	11,746	-	-
Other current financial debts (a)	10,536	17,182	10,536	17,182
	<b>80,800</b>	<b>99,192</b>	<b>10,536</b>	<b>17,182</b>

In 2013 upon the merger of Vydmantai wind park, UAB and UAB IRL Wind (Note 1), 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 73,441 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 2014 was 2.84 % (4.1% as at 31 December 2013).

Future loan payments under the above mentioned loan contracts as at 31 December 2014 and 2013 are as follows:

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
Within one year	21,930	28,928	10,536	17,182
From one to five years	45,577	45,577	-	-
After five years	13,293	24,687	-	-
Total financial lease obligations	<b>80,800</b>	<b>99,192</b>	<b>10,536</b>	<b>17,182</b>

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 2014 and 2013 the company did not comply with this ratio. However, till 31 December 2014 and 2013 the bank had confirmed in writing 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 2014 and in 2013. The loans which were outstanding as at 31 December 2013 were repaid in 2014 and new loans withdrawn in 2014. 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 2015. Interest rate applicable as at 31 December 2014 was 2.19% (1.91% as at 31 December 2013).



### 13 Financial lease

The Group leases land under financial lease contracts with the net book value of LTL 2,545 thousand as at 31 December 2014 (LTL 2,687 thousand As at 31 December 2013). 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%.

Future minimal lease payments under the above mentioned financial lease contracts as at 31 December 2014 and 2013 are as follows:

	As at 31 December 2014	As at 31 December 2013
Within one year	235	241
From one to five years	1,205	1,205
After five years	2,606	2,847
<b>Total financial lease obligations</b>	<b>4,046</b>	<b>4,293</b>
Interest	(1,366)	(1,469)
<b>Present value of financial lease obligations</b>	<b>2,680</b>	<b>2,824</b>

Financial lease obligations are accounted for as:

- current	235	237
- non-current	2,445	2,587

Financial lease obligations are denominated in LTL.

### 14 Derivative financial instruments

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
Derivative financial instruments (non-current part) - assets	88	-	91	-
Derivative financial instruments (current part) - assets	195	-	195	-
Derivative financial instruments (non-current part) - liabilities	(1,644)	(385)	-	-
Derivative financial instruments (current part) - liabilities	(1,116)	(1,141)	(119)	-
<b>Total derivative financial instruments</b>	<b>(2,477)</b>	<b>(1,526)</b>	<b>167</b>	<b>-</b>

As at 31 December 2014 and 2013, the Group's company Vydmantai wind park, UAB 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 (see Note 1) 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 12).

In 2014 the Group's company OU INTER RAO Eesli signed electricity forward contracts for the purposes of future cash flow hedge. The forward contracts are for 2015, 2016 and 2017 years.

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

#### 14 Derivative financial instruments (cont'd)

The fair values of interest rate swap contract designated to hedge interest rate risk and electricity forward contract of the Group are presented below:

	As at 31 December 2014		As at 31 December 2013	
	Assets	Liabilities	Assets	Liabilities
<b>Interest rate swap contract</b>				
Fair value	-	2,760	-	1,526
<b>Electricity forward contract</b>				
Fair value	283	-	-	-

The fair values of electricity forward contract of the Company are presented below:

	As at 31 December 2014		As at 31 December 2013	
	Assets	Liabilities	Assets	Liabilities
<b>Electricity forward contract</b>				
Fair value	286	119	-	-

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

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
<b>Recognised:</b>				
Gain (loss) on interest rate swap contract	(1,234)	1,001	-	-
Gain (loss) on electricity forward contract	752	-	310	-
<b>Recognised in the statement of comprehensive income:</b>				
Accrued interest expenses	20	(126)	-	-
Realized part of electricity forward contract	469	-	143	-
<b>Recognised in other comprehensive income:</b>				
Gain (loss) on interest rate swap contract (effective part)	(1,254)	1,127	-	-
Gain (loss) on electricity forward contract (effective part)	283	-	167	-
Income tax effect	188	(169)	-	-

#### 15 Trade payables

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
Payables to electricity suppliers	54,287	45,644	54,208	45,494
Payables to other suppliers	1,220	3,132	725	2,893
	<b>55,507</b>	<b>48,776</b>	<b>54,933</b>	<b>48,387</b>

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

#### 16 Advances received

The decrease in advances received comparing to 2013 is due to netted advance received from electricity customer.

**17 Other current liabilities**

	Group		Company	
	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
VAT payable	12,315	9,713	10,041	8,125
Employment related liabilities	556	585	482	516
Other current liabilities	662	592	208	135
	<b>13,533</b>	<b>10,890</b>	<b>10,731</b>	<b>8,776</b>

**18 Sales**

	Group		Company	
	2014	2013	2014	2013
Revenue from sales of electricity	709,316	740,761	651,695	710,514
Revenue from produced electricity sales	16,945	17,102	-	-
Other sales revenue	76	19	-	-
	<b>726,337</b>	<b>757,882</b>	<b>651,695</b>	<b>710,514</b>

The decrease in revenue of the Group and the Company comparing to 2013 is due to decrease in electricity prices.

**19 Cost of sales**

	Group		Company	
	2014	2013	2014	2013
Cost of purchase of electricity*	635,839	716,088	582,091	681,949
Transmission network service cost	8,989	9,708	8,989	9,708
Depreciation on wind park	3,757	3,757	-	-
Other expenses**	2,589	2,523	-	-
	<b>651,174</b>	<b>732,076</b>	<b>591,080</b>	<b>691,657</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 Group and the Company comparing to 2013 is due to decrease in electricity prices.

**20 General and administrative expenses**

	Group		Company	
	2014	2013	2014	2013
Wages, salaries and social security	7,504	7,136	6,066	6,048
Depreciation and amortization	4,636	4,784	442	461
Support (charity)	3,979	3,120	3,973	3,084
Electricity selling expenses	2,377	1,716	1,112	1,081
Consulting services expenses	982	1,313	598	989
Transport expenses	950	1,004	911	898
Goodwill impairment loss (Note 4)	-	1,000	-	-
Professional services expenses	518	738	362	676
Business trips	420	482	403	472
Repair and maintenance	130	283	118	273
Tax expenses	237	243	159	145
Bank services	146	216	133	192
Rent	180	196	50	55
Trainings and seminars	44	175	44	174
Representation expenses	224	137	224	137
Other general and administrative expenses	932	804	747	677
	<b>23,259</b>	<b>23,347</b>	<b>15,342</b>	<b>15,362</b>

**21 Finance income and expenses**

In 2014 and 2013 the Group's finance expenses mainly comprise interest expenses – LTL 3,394 thousand and LTL 4,068 thousand, respectively.

In 2014 Company's finance expenses mainly are comprised of impairment of investments – LTL 1,000 thousand (in 2013 finance income mainly comprised of dividends income - LTL 1,460 thousand).

**22 Income tax**

	Group		Company	
	2014	2013	2014	2013
<b>Components of income tax expenses</b>				
Current year income tax expenses	6,577	1,058	6,577	849
Deferred income tax (benefit) expenses	388	(5,334)	-	-
Income tax (benefit) expenses charged to statement of comprehensive income	<b>6,965</b>	<b>(4,276)</b>	<b>6,577</b>	<b>849</b>

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

As at 31 December 2014 and 2013 the deferred income tax asset and liability was accounted for at 15 % and consisted of:

**Group**

		<b>As at 31 December 2014</b>	<b>As at 31 December 2013</b>
<b>Deferred income tax asset</b>			
Tax deductible goodwill recognized upon merger	a)	5,130	5,389
Cash flow hedge		311	122
Less: valuation allowance		-	-
Deferred income tax asset, net of valuation allowance		<u>5,441</u>	<u>5,511</u>
<b>Deferred income tax liability</b>			
Equity method		(101)	(142)
Intangible assets	b)	(3,759)	(4,387)
Depreciation differences		(4,457)	(3,658)
Deferred income tax liability		<u>(8,317)</u>	<u>(8,187)</u>
Deferred income tax, net		<u>(2,876)</u>	<u>(2,676)</u>

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

Deferred income tax asset	-	-
Deferred income tax liability	(2,876)	(2,676)

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. The decrease represents amortisation of tax goodwill during 2014.

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 2014 comparing to 2013 represents the amortisation of the related intangible assets during 2014.

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

Group	Recognised in			Balance as at 31 December 2014
	Balance as at 31 December 2013	other comprehensive income	Recognised in profit or loss	
Equity method	(944)	-	269	(675)
Intangible assets	(29,247)	-	4,188	(25,059)
Tax deductible goodwill recognized upon merger	35,926	-	(1,724)	34,202
Depreciation differences	(24,389)	-	(5,321)	(29,710)
Cash flow hedge	815	1,254	-	2,069
Total temporary differences	<u>(17,839)</u>	<u>1,254</u>	<u>(2,588)</u>	<u>19,173</u>
Deferred income tax, net	(2,676)	188	(388)	(2,876)

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

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 recognised 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	<u>(52,268)</u>	<u>(1,127)</u>	<u>37,157</u>	<u>(1,601)</u>	<u>(17,839)</u>
Deferred income tax, net	(7,840)	(169)	5,574	(240)	(2,676)

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	
	2014	2013	2014	2013
Profit (loss) before tax	49,581	(1,592)	45,250	4,920
Income tax expenses computed at 15% in 2014 and 2013	7,437	(239)	6,787	738
Tax deductible goodwill recognized upon merger	-	(5,574)	-	-
Deferred tax assets not recognized	-	1,088	-	-
Permanent differences	(472)	449	(210)	111
Income tax (benefit) expenses charged to statement of comprehensive income	<u>6,965</u>	<u>(4,276)</u>	<u>6,577</u>	<u>849</u>

The amount of deferred asset not recognized in financial statements of the Group is LTL 732 thousand and it has no expiry date.

**23 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.

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

Group	2014	2013
Net profit attributable to the shareholders	42,616,000	2,684,000
Number of shares, opening balance	20,000,000	20,000,000
Number of shares, closing balance	20,000,000	20,000,000
Weighted average number of shares	20,000,000	20,000,000
Basic and diluted earnings per share (LTL)	<u>2.13</u>	<u>0.13</u>

## 24 Dividends per share (LTL)

### Company

	2014	2013
Approved dividends (LTL)*	13,000,000	27,000,000
Number of shares (units)**	20,000,000	20,000,000
Approved dividends per share (LTL)	0.65	1.35

\* The year when the dividends are approved.

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

## 25 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 approximately 50% of the total Group's and Company's trade receivables as at 31 December 2014 (46% to 44%, respectively, as at 31 December 2013). 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 2014 and 2013 the Group had borrowings which were subject to variable rates related to EURIBOR and created interest rate risk (Note 12).

The following table demonstrates the sensitivity of the Group's 2014 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.

2014	Increase/decrease in basis points	Effect on the profit before the income tax
EUR	+50	(351)

As at 31 December 2014 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 14). 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 2014 and 2013 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 2014 and 2013 were 1.12 and 0.86, respectively. The Company's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2014 and 2013 were 1.2 and 0.87 respectively.

## 25 Financial assets and liabilities and risk management (cont'd)

The tables below summarise the maturity profile of the Group's financial liabilities as at 31 December 2014 and 2013, 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	-	3,327	20,420	49,510	13,458	86,715
Derivative financial instruments (net)	-	477	644	1,622	17	2,760
Financial lease obligations	-	196	45	1,115	2,690	4,046
Trade payables	-	55,507	-	-	-	55,507
Other current liabilities	-	662	-	-	-	662
<b>Balance as at 31 December 2014</b>	-	<b>60,169</b>	<b>21,109</b>	<b>52,247</b>	<b>16,165</b>	<b>149,690</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	-	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>54,577</b>	<b>26,871</b>	<b>48,498</b>	<b>32,444</b>	<b>162,390</b>

The tables below summarise the maturity profile of the Company's financial liabilities as at 31 December 2014 and 2013 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	-	-	10,561	-	-	10,561
Trade payables	-	54,933	-	-	-	54,933
Derivative financial instruments	-	-	119	-	-	119
Other current liabilities	-	208	-	-	-	208
<b>Balance as at 31 December 2014</b>	-	<b>55,141</b>	<b>10,680</b>	-	-	<b>65,821</b>

	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>48,522</b>	<b>17,263</b>	-	-	<b>65,785</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.



## 25 Financial assets and liabilities and risk management (cont'd)

### 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:

- (a) The carrying amount of current trade and other accounts receivable, current accounts payable and current borrowings approximates fair value;
- (b) 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 (level 1). 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 (interest rate swap) is defined as level 2, while fair value of electricity forwards is defined as level 1 (Note 14). The interest rate swap is valued using discounted cash flow or present value calculation method and pricing is based on market observable inputs. Electricity forward value is based on market value.

There were no movements of financial instruments between the levels during 2014 and 2013.

## 26 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. 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 their equity at not less than 50 % of share capital, as imposed by the Law on Companies of the Republic of Lithuania. As at 31 December 2014 and 2013 the Company was in line with this regulation. There were no other externally imposed capital requirements on the Company and the Group.

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 2014. 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.

## 27 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);  
Sp z o.o. IRL Polska (subsidiary);  
Vydmantai wind park, UAB (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.

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FOR THE YEAR ENDED 31 December 2014  
(all amounts are in LTL thousand unless otherwise stated)

27 Related party transactions (cont'd)

2014

Group		Purchases	Sales	Declared dividends/(received)	Receivables	Payables
OJSC INTER RAO UES	a)	456,107	2,083	-	142	48,793
Oy RAO Nordic	b)	138	-	6,630	-	6,717
UAB Scaent Baltic	c)	125	-	3,770	-	3,819
UAB Alproka		-	-	(450)	-	-
Other related parties	d)	228	-	2,210	-	22
		<b>456,598</b>	<b>2,083</b>	<b>12,160</b>	<b>142</b>	<b>59,351</b>

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		-	-	(450)	-	-
Other related parties	d)	302	-	5,400	1	28
		<b>511,879</b>	<b>4,348</b>	<b>26,550</b>	<b>146</b>	<b>58,857</b>

2014

Company		Purchases	Sales	Declared dividends/(received)	Receivables and prepayments	Payables
OJSC INTER RAO UES	a)	456,107	2,083	-	142	48,793
Oy RAO Nordic	b)	138	-	6,630	-	6,717
UAB Scaent Baltic	c)	125	-	3,770	-	3,819
UAB Alproka		-	-	(450)	-	-
SIA INTER RAO Latvia	e)	-	47,597	-	12,396	478
OU INTER RAO Eesti		-	327	-	2,003	40
Vydmantai wind park, UAB		-	62	-	8	-
Other related parties	d)	228	-	2,210	-	22
		<b>456,598</b>	<b>50,069</b>	<b>12,160</b>	<b>14,549</b>	<b>59,869</b>

2013

Company		Purchases	Sales	Declared dividends/(received)	Receivables and prepayments	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)	-	-
SIA INTER RAO Latvia		-	4,927	(210)	8,577	-
OU INTER RAO Eesti		-	-	-	1,355	-
UAB IRL Wind		-	-	(500)	-	-
Vydmantai wind park, UAB		-	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>

## 27 Related party transactions (cont'd)

- a) The Group and the Company performs electricity purchase and sales transactions with OJSC INTER RAO UES.
- b) The main part of the payables to Oy RAO Nordic in 2014 and 2013 consists of the loan (Note 12) provided as a transfer from dividends payable (Note 28).
- c) The main part of the payables to UAB Scaent Baltic in 2014 and 2013 consists of the loan (Note 12) provided as a transfer from dividends payable (Note 28).
- d) In 2014 and 2013 the Company paid dividends to other shareholders.
- e) In 2014 the Company started to sell the electricity to SIA INTER RAO Latvia through a power exchange.

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 2015.

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. The balances outstanding with related parties of the Group and the Company were not overdue as at 31 December 2014 and 2013.

### 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 2014 and 2013 for the management of the Group were as follows: LTL 3,122 thousand and LTL 3,134 thousand, respectively.

The Company's management includes managing director, deputy director and board members. Amounts of salaries and bonuses calculated during the years 2014 and 2013 for the management of the Company were as follows: LTL 2,835 thousand, and LTL 2,754 thousand, respectively.

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.

## 28 Non-monetary transactions

In April 2014 the general shareholders meeting decided to pay LTL 13,000 thousand dividends to the shareholders. LTL 10,400 thousand dividends payable were transferred to loans payable to Oy RAO Nordic and UAB Scaent Baltic (Note 12).

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 12).

During 2014 and 2013 the following amounts of Group's income tax were set off against other taxes: LTL 5,584 thousand and LTL 148 thousand, respectively.

## 29 Subsequent events

1 January 2015 is the day of introduction of EUR in the Republic of Lithuania, therefore as at this day the functional currency of the Company will change accordingly. The exchange rate of LTL 3.45280 for 1 EUR which was irrevocably set by the Council of Europe will be applied while converting LTL to EUR.

There were no other subsequent events, which could materially influence the financial statements for the year ended as of 31 December 2014.

## I. General Information

### Reporting period

Year ended 31<sup>st</sup> December 2014

### 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 str. 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 other electricity suppliers, 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 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 sells all of the electricity it cross-border from the third countries to the Lithuanian internal market on the power exchange since, in accordance with respective regulations, all electricity cross-border delivered to the Lithuanian internal electricity market has to be sold on the power exchange. Then the Group buys the electricity on the power exchange in a volume corresponding to its contractual obligations with clients. Sale and purchase orders are submitted for the same prices and trades are executed at the market price. Some portion of electricity is also sold through Nord Pool Spot AS in Lithuania 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 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 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.

The Group is also present in the electricity trading market in Poland, where it started its operations this year and is involved in buying and selling electricity on the Polish Power Exchange.

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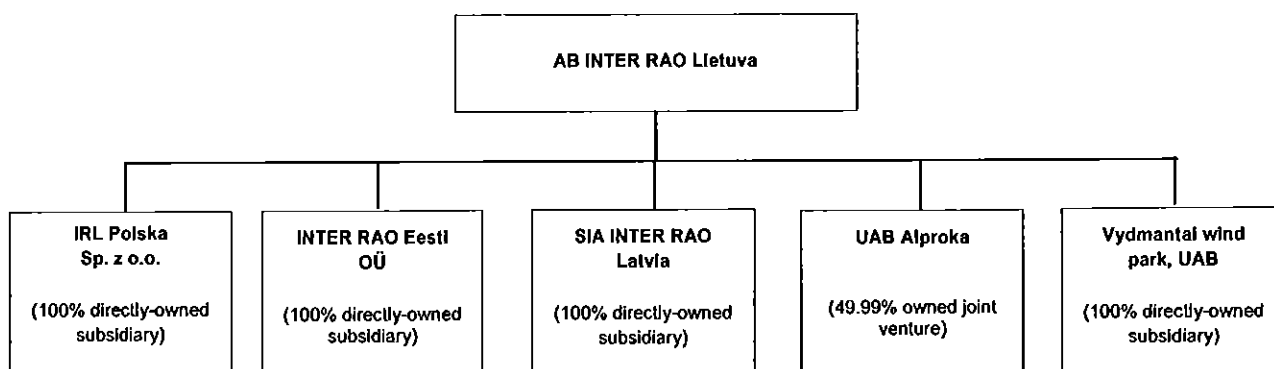
(all amounts are in LTL thousand unless otherwise stated)

**The Group structure**

As on 31<sup>st</sup> December 2014, 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 2014	Registration address	Activity
INTER RAO Eesti OÜ - subsidiary	11879805	100%	555	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100%	(4,794)	Ropažu 10, LV 1039, Riga, Latvia	Trade of electricity
IRL Polska Sp. z.o.o.	0000436992	100%	7,359	Emilii Plater 53. Warsaw, Poland	Trade of electricity
UAB Alproka - joint venture	125281684	49,99%	1,351	Verkių Str. 25C, Vilnius, Lithuania	Operations with real estate
Vydmantai Wind Park, UAB - subsidiary	302666616	100%	36,520	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:



**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 Eesti 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.

On 30<sup>th</sup> of April 2014, the General Annual Meeting of shareholders has adopted the decision to pay dividends to the shareholders of the Company in the amount of 13 million Litass.

On 22<sup>nd</sup> of May 2014, IRL Polska Sp. z o.o. begins electricity trading operations.

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

Since 29<sup>th</sup> October 2012 the Company and UAB FMJ 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.

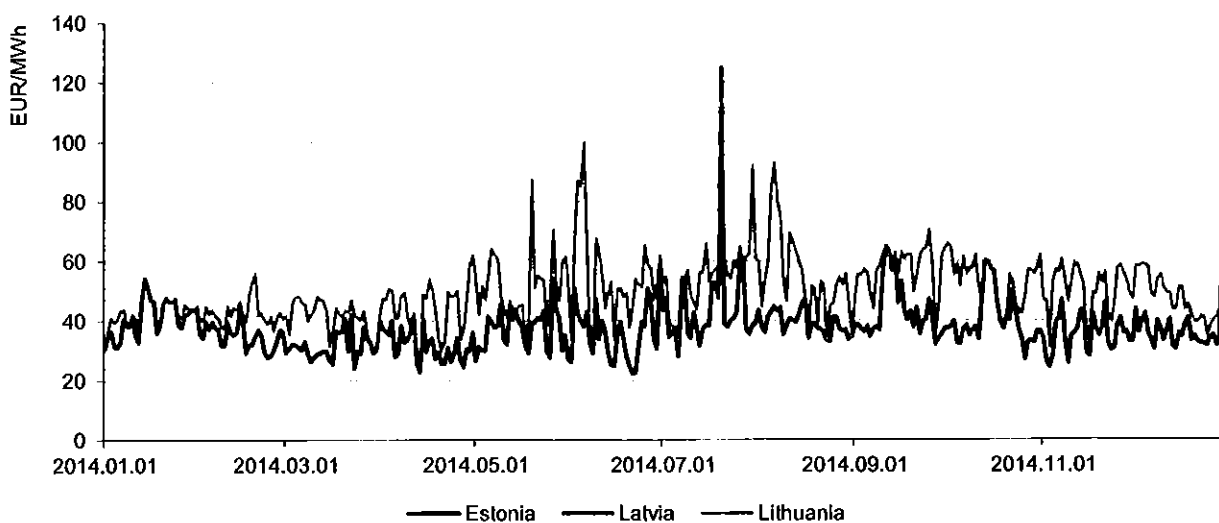
Securities of the Group's subsidiaries are not traded publicly.

## II. Financial Information

The Company's and the Group's sales in 2014 reached LTL 651,7 million and LTL 726,3 million and they were lower by 8.3% and 4.2% respectively in comparison with the sales revenue in 2013.

Despite the lower sales revenue that the Company and the Group generated during the 2014, which were mainly caused by risk measures, implemented by the Company and the Group as a response to the potential risks arising from the possible limitation of electricity transmission capacities from third countries (Russia and Belarus) into the Baltics<sup>1</sup>, which persisted throughout the entire year of 2014, the Company and the Group managed to avoid the potential losses and generate industry normal 9,3% and 10,4% general profitability respectively.

### Electricity price in NordPoolSpot exchange



During the period of 2014, the Company and the Group delivered electricity to all of its clients and fulfilled all of its contractual obligations of electricity sales at prices, agreed upon in the contracts. The Company and the Group fulfilled all of its contractual obligations to its Clients in 2014 without any delays and disturbances and remains as a trusted counterparty and reliable electricity supplier.

From the third quarter of 2013 and throughout the entire 2014 the Company and the Group implemented a set of risk management measures, which resulted in avoiding loss-making situation as was faced in the third quarter of 2013.

Due to the absence of severe electricity prices fluctuations in Lithuanian and Latvian electricity markets, if compared with 2013, and lower amount of electricity traded, which was caused by the persisting risk of possible limitation of electricity transmission capacities from third countries to Baltics, the Company's and the Group's cost of sales were lower by 14,5% and 11%, comparing to the year 2013. As described above, the set of risk management measures, implemented by the Company and the Group allowed to avoid potential loss making situation in the 2014. Consequently the Company's and the Group's gross profitability increased.

The Company's and the Group's EBITDA for the year 2014 was LTL 46.913 million and LTL 61.368 million. Company's EBITDA margin increased from 0.79% in 2013 to industry normal 7.20% in 2014 and the Group's from 1.45% in 2013 back to industry normal 8.45% in 2014.

During 2014 the Company and the Group fulfilled all of its contractual obligations to the Clients, and despite the reduced amount of electricity sold, its client's base during the course of 2014 increased substantially: from 693 in 2013 to 831 in 2014. The Company and the Group improved relationships with the largest electricity trading customers in the region,

<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, but there were no legal certainty that these limitations couldn't have been introduced again throughout the entire year of 2014.



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started electricity trading operations in Poland. These events are positively reflected in the financial results of the year 2014 and most likely will be the important factor for income generation in the coming years.

Wind park located in Vydmantai, owned by the Group over a year generated and sold 56,48 GWh, which was 0.92% lower than in 2013. The decline in electricity production was mainly caused by the technical works, which were done for installation of technical upgrades to the transformer substation in order to increase its reliability and during which the park was not generating electricity. This has led to slightly 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**

Financial figures	2014	2013	2012	2011	2010
Sales (LTL thousand)	726,337	757,882	897,435	919,080	750,389
Gross profit (LTL thousand)	75,163	25,806	96,697	91,965	79,462
Gross profit margin (%)	10.35%	3.41%	10.80%	10.00%	10.60%
Operating profit (LTL thousand)	51,904	2,459	73,129	73,264	68,531
Operating profit margin (%)	7.15%	0.32%	8.10%	8.00%	9.10%
EBITDA (LTL thousand)	61,368	11,024	81,506	78,800	69,439
EBITDA profit margin (%)	8.45%	1.45%	9.10%	8.60%	9.30%
Net profit (LTL thousand)	42,616	2,684	58,114	61,200	59,061
Net profit margin (%)	5.87%	0.35%	6.50%	6.70%	7.90%
Number of shares (thousand)	20,000	20,000	20,000	1,000	1,000
Earnings per share (LTL)	2.13	0.13	2.91	61.2	59.06

Financial ratios	2014	2013	2012	2011	2010
Return on capital employed (%)	41%	2%	48%	44%	107%
Return on assets (%)	19%	1%	28%	27%	38%
Return on shareholders' equity (%)	69%	8%	103%	95%	93%
Gearing ratio	1.35	3.08	1.67	1.63	0
Net financial debt to equity	0.72	2.62	1.47	1.1	-1.29
Equity to assets ratio	0.28	0.16	0.27	0.28	0.4
Current ratio	1.12	0.86	1.32	1.49	1.62
Rate of turnover of assets (%)	31%	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

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**Revenues**

The total consolidated Group's sales revenue in 2014 was equal to LTL 726 million, a 4.2% less than in 2013. Total revenue declined due to lower amount of electricity traded in all Baltic countries, which was facilitated by relatively low electricity prices in the Nordpool system as well as risk persisting due to the uncertainties associated with possible technical limitation of interconnection links. In addition to that, higher electricity sales in the Baltic countries by Estonian oil shale based producer resulted in smaller demand for imported electricity.

Sales revenues by operating segments, thous. LTL	2014	2013
Electricity purchases and sales	709,316	740,761
Electricity production and sales	17,021	17,121
<b>Total</b>	<b>726,337</b>	<b>757,882</b>

Group's revenue from sales of electricity in the 2014 amounted to LTL 709 million. Revenue from produced electricity sales accounted for LTL 17 million, which is approximately equal to the sales a year ago. The decline in electricity production was mainly caused by maintenance works ensuring the further reliable operation of wind turbines, that were carried out in Vydmantai wind park during 2014.

The tables below present data on the electricity trading activities of the Group for the 2013 and 2014 and the 4<sup>th</sup> quarter of 2013 and 2014, with a breakdown by each country for the periods indicated (S - sale, P - purchase).

	For 2014		For 2013	
	S	P	S	P
	GWh		GWh	
Lithuania*	3,600	191	3,616	410
Latvia	532	269	640	356
Estonia	148	148	220	49
Russia	43	3,215	99	3,568
Belarus	-	500	115	307
Poland	51	51		
<b>Total*</b>	<b>4,374</b>	<b>4,374</b>	<b>4,690</b>	<b>4,690</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 2014		For the 4 <sup>th</sup> quarter of 2013	
	S	P	S	P
	GWh		GWh	
Lithuania*	1,124	37	1,078	119
Latvia	150	40	121	116
Estonia	40	40	13	13
Russia	9	1,110	8	839
Belarus		96		133
Poland	31	31		
<b>Total*</b>	<b>1,354</b>	<b>1,354</b>	<b>1,220</b>	<b>1,220</b>

\* Excluding equivalent trades on the power exchange

The average annual electricity price in 2014 in Lithuanian Nord Pool Spot zone was equal to 50.13 EUR/MWh, which was 2.5% higher than in 2013. The average weekly electricity price on the power exchange was fluctuating between 35.99 and 70.15 EUR/MWh in 2014.

#### Cost of sales

The Company's and the Group's cost of purchase of electricity in 2014 decreased by 14.6% and 11.2% respectively if compared to 2013 and amounted to LTL 582 million and LTL 636 million. Cost of purchase of electricity constituted 98.5% and 97.7% of total cost of sales for the Company and for the Group respectively in 2014.

Transmission network service cost (i.e., input fee) for the Company and for the Group declined by 7.4% and amounted to LTL 9 million.

Gross profit in 2014 returned to industry normal level after the severe slump in 2013, caused by then unexpected limitations of transmission capacities from the third countries. It increased over the year by 221.5% and amounted to LTL 60.6 million for the Company, increased by 191.3%, and amounted to LTL 75.2 million for the Group, if compared to LTL 18.9 million and LTL 25,8 million respectively in 2013. Gross profit margin in 2014 returned to healthy levels and increased to 9.3% for the Company and to 10.4% for the Group from 2.7% and 3.4% in 2013.

#### General and administrative expenses

Total general and administrative expenses of the Company and the Group in 2014 were approximately equal to total general and administrative expenses a year ago and amounted to LTL 15.3 million and LTL 23.3 million respectively. The most significant costs' groups within the general and administrative expenses in the Company and the Group 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 0.3% and 5.2%. The increase was mainly caused by larger headcount: the total number of employees in INTER RAO Lietuva Group increased by 2, up to 42 in the end of 2014. 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 2014 increased by 28.8% and 27.5% and amounted to LTL 3.97 million and LTL 3.98 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 main areas: communities, education and culture/ sports.

Electricity selling expenses for the Company increased by 2.9% in 2014 and for the Group increased by 38.5% and accounted for LTL 1.1 million and LTL 2.4 million respectively. The expenses are payments to Nord Pool Spot AS as well as to the Polish Electricity Market - POLPX. The increase for the Group is mainly associated with payments to the latter.

#### Earnings

Profit from operations for the Company and for the Group for year 2014 were equal to LTL 45.3 million and LTL 51.9 million, compared to the profit from operations of LTL 3.5 million and LTL 2.5 million in 2013. Operating profit margin for the Company and for the Group returned to industry normal level of 6.95% and 7.15% compared to 0.49% and 0.32% a year ago.

Net result from financial and investing activities for the Company in 2014 was by 147.8% lower than a year ago and amounted to LTL (-0.7) million. Net consolidated result from financial and investing activities for the Group increased by 25.8% compared to 2013 and amounted to LTL (-3.0) million. Better overall result for the Group from financial activities was mainly caused by year-on-year 20.5% lower interest expenses, which in 2014 totalled to LTL 3.4 million.

As a result, profit before tax for the Company and for the Group in 2014 amounted to LTL 45.25 million and LTL 49.58 million respectively.

The net profit of the Company and the Group in 2014 amounted to LTL 38.7 million and LTL 42.6 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.

The net profit margins for the Company and for the Group in 2014 were returned to healthy 5.9% and 5.9% (compared to 0.5% and 0.35% year ago).

## **Investments**

During 2014 the Group has not made any significant investments. In total LTL 282 thousand were invested into non-current assets compared to LTL 362 thousand in 2013.

## **Balance sheet and cash flow**

During January-December 2014 total assets of the Company increased by 25.6% and of the Group increased by 10.8%. The most significant influence to the assets was caused by increase of cash and cash equivalents in the Company and in the Group.

Total non-current assets of the Company decreased by 1% and of the Group decreased by 5%. The most significant change in assets in the Group was related to depreciation of patents and licenses held by subsidiary Vydmantai wind park. Total non-current assets amounted to 31% of the total assets for the Company and to 52% of total assets for the Group.

During the year, shareholders' equity of the Company and of the Group increased by 73.6% and 85.8% and amounted to 43% of the total assets of the Company and to 28% of the total assets of the Group. Increase in equity was caused by the better operating activities of the Company and the Group for the year of 2013. Total dividends distributed in 2014 reached LTL 13 million.

At the end of December 2014, total amount of borrowings, including financial liabilities related to finance lease and bank financing, amounted to LTL 10.5 million for the Company and LTL 83.5 million for the Group. Cash, cash equivalents amounted to LTL 28.8 million for the Company and LTL 38.8 million for the Group.

Net cash flow from operating activities for the Company and for the Group in 2014 were by 232.9% and 116.4% higher than a year ago and amounted to LTL 45.1 million and LTL 58.3 million respectively (compared to LTL 13.6 million and LTL 27 million a year ago).

During 2014 net cash flow from investing and financing activities amounted to negative LTL (-19.7) million for the Company and negative LTL (-34.8) million for the Group (compared to negative LTL (-15.5) million for the Company and to negative LTL (-23) million for the Group in 2013). Negative result from financing activities is related to the loans repaid and 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);
- IRL Polska Sp z o.o. (subsidiary);
- Vydmantai wind park, UAB (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 2014.

## **Other material information**

No other material information occurred after the balance sheet date.

#### Recent events

1 January 2015 is the day of introduction of EUR in the Republic of Lithuania, therefore as at this day the functional currency of the Company will change accordingly. The exchange rate of LTL 3.45280 for 1 EUR which was irrevocably set by the Council of Europe will be applied while converting LTL to EUR.

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 2014 the total amount of borrowings of the Group amounted to LTL 83.5 million compared to LTL 102 million as of 31<sup>st</sup> December 2013.

As at 31<sup>st</sup> December 2014, 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).

In 2014 the Group's company INTER RAO Eesti OÜ signed electricity derivative agreements for the purposes of future cash flow hedge. The derivative agreements are for 2015, 2016 and 2017 years.

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 2014 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 2014:

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 2014, 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 2014, 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 str. 9, LT-01116, Vilnius, the Republic of Lithuania.

As of 31<sup>st</sup> December 2014, free float represents 20% of the outstanding share capital.

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\* 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 2014, the block of voting rights is held by:

<b>Specification of voting rights held by Jonas Garbaravičius as of 31<sup>st</sup> December 2014</b>					
	Number of shares (units)	Number of voting rights (units)		Number of voting rights (%)	
	Directly	Directly	Indirectly	Directly	Indirectly
Ordinary registered shares of AB INTER RAO Lietuva (ISIN code LT0000128621)	62,607	62,607	6,032,729	0.31	30.16

<b>Specification of voting rights indirectly held by Jonas Garbaravičius as of 31<sup>st</sup> December 2014</b>				
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 str. 4-38, Vilnius, the Republic of Lithuania	134,523	134,523	0.67	
UAB „East Europe Investment Group“, code 300606588, address A. Tumėno str. 4, Vilnius, the Republic of Lithuania	22,856	22,856	0.11	
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)	34,000	34,000	0.17	
Vidas Cebatariunas (management board member of the issuer)	41,350	41,350	0.21	
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 str. 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 2014		
	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 2014, the Company has not purchased any treasury stock. As of 31<sup>st</sup> December 2014, 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 FMJ 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 FMJ 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.

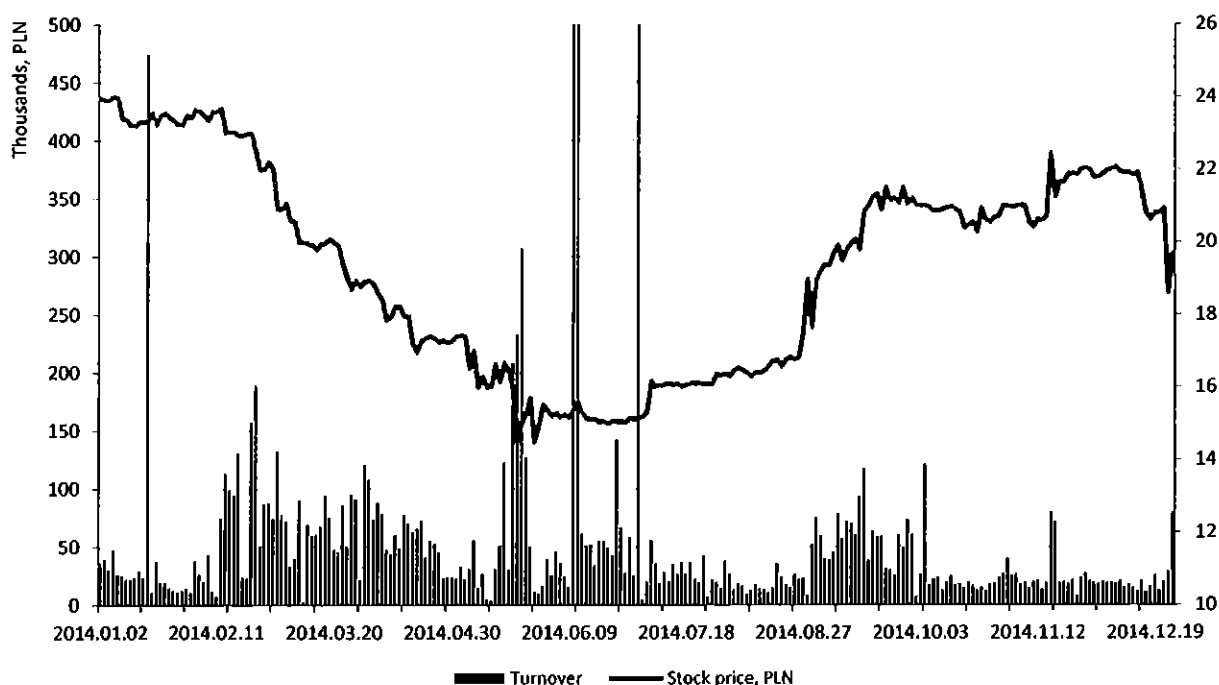
**Information about trading in the Company's securities**

Information about trading in the Company's shares on Warsaw stock exchange in 2012-2014:

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
2014	PLN	23.97	24.00	14.50	19.69	19.32	15,620,599

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

IRL market capitalization as of 31<sup>st</sup> December 2014 reached PLN 393,8 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 2013, 2012, 2011, 2010 and 2009 was equal to LTL 0.65, LTL 1.35, LTL 60.79 thousand, LTL 28.98 thousand and LTL 35 thousand respectively.

Dividends for 2013, 2012, 2011, 2010 and 2009 amounted to LTL 13.0 million, LTL 27.0 million, LTL 64.0 million, LTL 60.8 million and LTL 29.0 million respectively.

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	2013	2012	2011	2010	2009
Net profit, mLTL	4	58	61	59	15
Dividends declared, mLTL	13	27	64	61	29
Dividend pay-out ratio	325%	46%	105%	103%	193%

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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**Natalia Ananieva**  
Member of the Supervisory Council at INTER RAO Lietuva

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**Education:**

Higher education degree in accounting and audit at Moscow State University of Applied Biotechnology

**Career over the last five years:**

2011 - present: Head of Internal Audit, Controlling and Risk Management Block, Head of Operational Controlling and Audit Support Department, Head of Foreign Assets Audit Department, Head of Foreign Assets Audit Directorate at INTER RAO  
2010 - 2011: Head of Internal Audit Section, Moscow Branch of OAO OGC-1  
2005 - 2010: Head of Internal Audit Department, Head of Financial Controlling and Audit Directorate, Senior Manager of Internal Audit Department at INTER RAO UES

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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 Electrogenation  
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						
	Natalia Ananieva						
	Nerijus Dagilis						
	Dmitrijus Dutovas						
	Jonas Garbaravičius*	62,607	0.31%	6,032,729	30.16%	6,095,336	30.47%
	Michail Konstantinov						
	Alexander Pakhomov						
Management board	Karina Tsurkan						
	Ilnar Mirsiyapov						
	Dmitrij Palunin						
	Giedrius Balčiūnas		0.00%	34,000	0.17%	34,000	0.17%
Administration	Vidas Cebatariūnas	41,350	0.21%		0.00%	41,350	0.21%
	Giedrius Balčiūnas, CEO		0.00%	34,000	0.17%	34,000	0.17%
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 2014, 2013, 2012, 2011, 2010 and 2009, the Group spent LTL 3.98 million, 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	
	2014	2013
Management	8	8
Sales Managers, including Traders	8	5
PR & Marketing Staff	2	3
Project managers	1	1
Technical staff	1	1
Office Staff	6	6
<b>Total</b>	<b>26</b>	<b>24</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	3.1
Sales Managers, including Traders	8	0.54
PR & Marketing Staff	2	0.17
Project managers	1	0.07
Technical staff	1	0.05
Office Staff	6	0.59
<b>Total</b>	<b>26</b>	<b>4.52</b>

On 31<sup>st</sup> December 2014 26 employees were employed in the Company. Company's personnel consisted of 8 managers and 18 specialists. Average annual employment expenses per employee in 2014 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	
	2014	2013
Management	8	8
Sales Managers, including Traders	15	11
PR & Marketing Staff	2	3
Project managers	4	4
Technical staff	2	3
Office Staff	11	11
<b>Total</b>	<b>42</b>	<b>40</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 2014	
	Headcount	Expenses, LTL million
Management	8	3.1
Sales Managers, including Traders	15	1.2
PR & Marketing Staff	2	0.17
Project managers	4	0.22
Technical staff	2	0.08
Office Staff	11	0.8
<b>Total</b>	<b>42</b>	<b>5.57</b>

Once grouped by broad categories, on 31<sup>st</sup> December 2014 Group's personnel consisted of 8 managers and 34 specialists. Average employment expenses per employee in 2014 amounted to LTL 400 thousand for managers and LTL 76 thousand for specialists.

As of 31<sup>st</sup> December 2014, 32 of the Group's employees were employed in Lithuania, 5 were employed in Latvia, 3 were employed in Estonia and 2 were 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 2014, the Group's employees, except for Mr Jonas Garbaravičius, Mr Giedrius Balčiūnas, Mr Vidas Čebatariūnas, Mr Saulius Garbaravičius, Mr Nerijus Veikša, Mr Paulius Vazniokas, Mr Edvardas Važgėla, Mr Edvardas Norkeliūnas and Ms Loreta Šertvytytė 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"):

<b>Name</b>	<b>Position/Function</b>
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 are two women in governing bodies of the Company, Ms Karina Tsurkan, is the chairwoman of the Management Board and Ms Natalia Ananieva on 30 April 2014 was elected to Supervisory Board of the Company. 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 2014 to 31<sup>st</sup> December 2014 Company publicly announced and broadcasted through Warsaw Stock Exchange information system and on own webpage the following information:

Title	Category of announcement	Language	Date
AB INTER RAO Lietuva subsidiary in Poland IRL Polska Sp.z o.o. was granted the licence for the trade in electricity in Poland	Notification on material event	EN, LT	7-Jan-2014
Announcement of the acquisition of block of voting rights in AB INTER RAO Lietuva	Notification of major holdings	EN, LT	7-Jan-2014
Publication date of the results for the 4th quarter of 2013 and the Annual Information for 2013 of AB INTER RAO Lietuva	Investor news	EN, LT	26-Feb-2014
Announcement of the results for the 4th quarter of 2013 and the Annual Information for 2013 of AB INTER RAO Lietuva	Annual information	EN, LT	28-Feb-2014
Statement on corporate governance	Investor news	EN, LT	3-Mar-2014
AB INTER RAO Lietuva announces about repayment of loans' amounts to its major shareholders	Notification on material event	EN, LT	1-Apr-2014
AB INTER RAO Lietuva decisions of the Management Board	Notification on material event	EN, LT	4-Apr-2014
Notice on convocation of the Annual General Meeting of Shareholders	Notification on material event	EN, LT	8-Apr-2014
AB INTER RAO Lietuva decisions of the Supervisory Board	Notification on material event	EN, LT	9-Apr-2014
The decisions adopted by the Annual General Meeting of Shareholders of AB INTER RAO Lietuva	Notification on material event	EN, LT	30-Apr-2014
Publication date of the results for the 1st quarter of 2014	Investor news	EN, LT	12-May-2014
Notice on the procedure for the payment of dividends	Notification on material event	EN, LT	13-May-2014
Announcement of the results for the 1st quarter of the year 2014 of AB INTER RAO Lietuva	Interim information	EN, LT	14-May-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	27-May-2014
AB INTER RAO Lietuva announces about financing received from its major shareholders	Notification on material event	EN, LT	28-May-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	30-May-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	9-Jun-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	11-Jun-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	17-Jun-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	20-Jun-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	26-Jun-2014

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Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	01-Jul-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	03-Jul-2014
Publication date of the results for the for the 6 month period ended 30 June 2014	Investor news	EN, LT	27-Aug-2014
Announcement of the results for the 6 month period ended 30 June 2014 of AB INTER RAO Lietuva	Interim information	EN, LT	29-Aug-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	08-Sep-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	11-Sep-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	15-Sep-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	19-Sep-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	24-Sep-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	30-Sep-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	06-Oct-2014
Publication date of the results for the 3rd quarter of 2014	Investor news	EN, LT	12-Nov-2014
Announcement of the results for the 3rd quarter of the year 2014 of AB INTER RAO Lietuva	Interim information	EN, LT	14-Nov-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	21-Nov-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	02-Dec-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	05-Dec-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	23-Dec-2014
Announcement of the transactions concluded by managers in AB INTER RAO Lietuva securities	Notification on transactions concluded by managers	EN, LT	30-Dec-2014

Contents of above mentioned announcements can be obtained on Company's webpage <http://www.interrao.lt/eng/For-Investors2/Reports/Current-Reports/2014>.

## VII. 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 approved by the Bank of Lithuania, 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 2014 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

