Creditreform Corporate Issuer / Issue Rating

Lietuvos Energija UAB

Creditreform Rating

Rating object	Rating information	
Lietuvos Energija UAB	SME / Corporate Issuer Rating: **BBB+ / stable**	Type: Initial rating unsolicited
Creditreform ID: 400981259 Incorporation: 28 August 2008 Based in: Vilnius, Lithuania (Main) Industry: distribution of electricity and gas CEO: Darius Maikštėnas	LT Senior Unsecured Issues, LC: **BBB+ / stable**	Other: **n.r.**
Rating objects: Long-term Corporate Issuer Rating: Lietuvos Energija UAB Long-term Local Currency (LT LC) Senior Unsecured Issues	Rating date: 20 August 2019 Monitoring until: withdrawal of the rating Initial rating: www.creditreform-rating.de Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Government-Related Companies" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

Analysts
Elena Alexeenco
Lead Analyst
E.Alexeenco@creditreform-rating.de

Natallia Berthold
Co-Analyst
N.Berthold@creditreform-rating.de

Neuss, Germany

Summary

Company

Lietuvos Energija Group (the Group) and its holding company Lietuvos Energija UAB (the Company), located in Vilnius, Lithuania, is the primary distributor of electricity and gas in Lithuania and one of the largest state-owned groups of energy companies in the Baltic countries. Along with electricity and gas distribution, the Group's main activities include the generation and supply of electricity and heat, trade of electricity and natural gas, as well as the servicing and development of the energy sector in line with the Lithuanian National Energy Strategy. With more than 3,800 employees, the Group operates the nation-wide electricity distribution network, provides services to more than 1.6 million customers across Lithuania, offers electricity supply services abroad, and operates 8.5 thousand kilometers of distributor gas pipelines, supplying gas to 570 thousand consumers.

In the year ended on 31 December 2018, Lietuvos Energija generated consolidated revenues of EUR 1,208 million (2017: EUR 1,081 million) and reported an annual result of EUR -7.9 million (2017: EUR 93.5 million), which was affected by a range of non-recurring effects (please refer to "Business development and outlook").

Rating result

The current rating (BBB+, stable outlook) attests a highly satisfactory level of creditworthiness to Lietuvos Energija UAB, representing a low-to-medium default risk for the Company.

Lietuvos Energija is of strategic importance for the Republic of Lithuania, as its electricity and gas distribution grid operator and as one of the most relevant domestic energy suppliers. The Group benefits from the stable and supportive regulatory framework, generating around a half of its revenues in a regulated environment, bringing solid and predictable cash flows. Given the fact that the Republic of Lithuania owns 100% of the Company's shares, and based on our rating methodology for government-related companies, we assume that the Lithuanian government would be willing to support the Company in meeting any extraordinary financial shortfall. For this reason, and because of the direct correlation between the country's GDP growth and the energy consumption, the rating of Lietuvos Energija UAB is linked to the sovereign rating of the

Republic of Lithuania (CRA rating A / positive as of 23 November 2018). Any change in the sovereign rating could have an impact on Lietuvos Energija's corporate rating.

At the same time, the share of the Group's commercial activities with their intrinsically elevated market, price and climate volatility risks has been on the increase in recent years. The Group's strategy focuses, among others, on strengthening its generating capacity and on its commercial activities, and envisages - from today's perspective - sizeable capital expenditure. Additionally, the Group aims to achieve 50% of its revenues abroad in the future, which is associated with country and integration risks, among others. The further increase in riskier commercial activities, together with the Group's investment plans could bring a deterioration of the Group's financials, putting a strain on our rating assessment.

Outlook

The one-year outlook of the rating is stable. This assessment takes into account the low business risk profile of the Company's distribution business with increasing revenues as a result of investments into renewal and modernization of distribution networks, and overall stable development in the trade and generating segments in 2019. We also assume a support of the Company's shareholder in the event of distress.

Relevant rating factors

Excerpts from the financial key figures analysis 2018

+ increase in sales
+ solid equity ratio

- negative one-off effects from revaluation and recalculation of earnings
- increased Net total debt / EBITDA adj.
- profitability ratios

Table 1: Financials of Lietuvos Energija UAB (Group) I Source: Lietuvos Energija UAB annual report 2018, standardized by CRA

Lietuvos Energija UAB Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS, Group)	CRA standardized figures[1]	
	2017	2018
Sales (million EUR)	1,081.22	1,208.44
EBITDA (million EUR)	225.99	142.16
EBIT (million EUR)	138.63	54.70
EAT (million EUR)	94.53	-7.94
EAT after transfer (million EUR)	94.53	-7.94
Total assets (million EUR)	2,496.52	2,832.80
Equity ratio (%)	58.93	50.78
Capital lock-up period (days)	33.47	28.38
Short-term capital lock-up (%)	22.84	18.28
Net total debt / EBITDA adj. (factor)	3.79	8.33
Ratio of interest expenses to total debt (%)	0.89	1.07
Return on Investment (%)	4.06	0.19

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, with the calculation of the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity. Deferred tax liabilities and grants (partly) are added to the equity. With the calculation of Net total debt all balance sheet liabilities are taken into account. As a result, the key financial figures shown often deviate from the original values of the company.

General rating factors

Please note:
General rating factors summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

+ Strategic importance for the country
+ Government-related company, 100% state-owned
+ Transparent and supportive regulatory framework
+ Monopoly status as a distribution network operator
+ Earnings differentiation
+ Good access to financial markets

– Growing share of riskier business
– High capital intensity
– Exposure to price and demand fluctuations on the energy markets
– Dependency on weather and other exogenous conditions
– Dependency on energy imports
– Geopolitical risks
– Single significant geographical segment

Current rating factors are the key factors that have, in addition to the underlying rating factors, an impact on the current rating.

Current rating factors (rating 2019)

+ Increased revenues

– Recalculation of the regulated revenues
– Negative effects from the assets revaluation in the profit and loss statement

Prospective rating factors are factors and possible events that – according to the analysts as per the date of the rating – would most likely have a stabilizing or positive effect (+) and a weakening or negative effect (-) on future ratings, if they occurred. This is not a full list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

Prospective rating factors

+ Commencement of cogeneration power plants in Vilnius and Kaunas
+ Diversification of gas supplies through launch of LNG-projects
+ Chances from expanding international operations

– Risks connected to delays in construction, or cost overrun at the cogeneration power plants and other ongoing projects
– Risks associated with expanding international operations

Best-case scenario	A-
Worst case scenario:	BBB

Please note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Best-case scenario

In our best-case scenario for one year, we assume a rating of A-. Taking into consideration the Group's investment plans for the next years, we do not expect improvements of Lietuvos Energija's financials. The rating could improve following an improvement of the sovereign rating of the Republic of Lithuania.

Worst-case scenario

In our worst-case scenario for one year, we assume a rating of BBB. It could be the case if the Group's financials deteriorate following a decline of its earnings capacity due to the unfavourable developments in trading or generating business activities or following a substantial increase in debt due to cost overruns and/or significant delays in construction works. Another factor could be the downgrade of the sovereign rating of the Republic of Lithuania.

Business development and outlook

In the financial year 2018, the consolidated revenue of Lietuvos Energija increased by 11.7% and totalled EUR 1,208 million (2017: EUR 1,081 million). The increase in revenues was mainly driven by higher revenues from trade in electricity and gas (by EUR 87.3 million and by EUR 46.3 million respectively). In both operating segments, growth was influenced by rising market prices. The average electricity price on the Nord Pool exchange for Lithuania price area increased by 42.1% and was 49.96 EUR/MWh (2017: 35.15 EUR/MWh). The price increase was influenced by repairs on NordBalt electricity link with Sweden, unfavourable weather conditions for electricity generation, repairs on nuclear power plants in Scandinavia, and higher energy consumption. The sale price of gas grew due to changes in the gas market and the full utilisation of a Gazprom discount for the gas price in the middle of 2017. Another reason for the growth of trade revenues was an increase in the number of consumers in both segments.

The volume of distributed electricity increased slightly in 2018 compared to 2017, totalling 9.59 TWh (+0.37 TWh). The volume of electricity sold increased by 7% to 5.82 TWh. Due to the repair works on the Kruonis Pumped Storage Hydroelectric Plant, and the unfaivourable weather conditions which affected wind farms and hydroelectric power, the generation of electricity decreased to 1.01 TWh (2017: 1.28 TWh). The distribution of gas increased in 2018 by 3.2% to 7.6 TWh, while the volume of gas sold in the retail market decreased by 6.1% to 10.8 TWh in 2018 due to the lower level of consumption.

The Group's earnings from operating activities decreased significantly to EUR 54.7 million (2017: EUR 138.6 million), and its EBITDA decreased to EUR 142.2 million (2017: EUR 226.0 million). The main reasons behind this development was the recalculation of regulated revenues aimed at the elimination of the effects of the difference between the actual profit earned during the reporting period and earlier periods, and the allowable return on investments for respective periods as established by the Lithuanian National Commission for Energy Control and Prices (the Commission). These recalculations totalled EUR 88.9 million through all the Company's subsidiaries. Generally, the differences between the permitted return on investments set by the Commission and the actual return on investments in prior periods may have both positive and negative impact on the current year's results. The management's comparable EBITDA, adjusted for the recalculations and other smaller one-off effects, amounted to EUR 225.2 million (2017: EUR 238.7 million) in 2018.

The annual result (EUR -7.9 million, 2017: EUR 94.5 million) was further negatively affected by the increased financial costs (EUR 14.9 million, 2017: EUR 9.1 million) due to higher indebtedness and the effects of revaluation of property, plant and equipment (EUR -76.6 million). In 2018, the Group's management performed a valuation of the assets attributed to the electricity distribution network according to IAS 16 to determine their fair value. The valuation was based on the reports of independent experts and showed that the fair value of the assets was higher than the net book value by EUR 46.3 million. The Group accounted for this change as follows: an increase of EUR 122.6 million was recognized directly in equity, and a decrease of EUR 76.3 million (net of write-off of grants of EUR 8.9 million) was recognized in profit or loss. In our structured financial statements, we have recognized this revaluation as extraordinary expenses.

Table 2: The development of individual segments in 2018 I Source: Consolidated annual accounts of Lietuvos Energija

Lietuvos Energija according to individual business segments								
In million EUR	Electricity supply and distribution and gas distribution		Electricity generation		Trade in gas		Trade in electricity	
	2017	2018	2017	2018	2017	2018	2017	2018
Total revenue	612	693	159	140	328	394	111	200
Management adjustments	11	80	(17)	-	18	9	(1)	(15)
Adj. EBITDA (man.)	151	169	62	53	16	13	6	(5)
Net profit (loss)	78	(18)	23	30	2	9	5	6
Total assets (31 Dec)	1,278	1,592	700	757	129	177	60	133

The main business segment with regard to revenues and total assets remains the electricity and gas distribution segment. According to the management's adjusted information, it was the only segment, which showed growth compared to 2017. Trade in electricity had negative EBITDA, taking into consideration the change in market value of derivative financial instruments (EUR -14,702) and also due to increased electricity prices.

The Group's investments amounted to EUR 411.3 million in 2018, 62.3% more than in the previous year (EUR 253.4 million). The majority of investments was allocated for the renewal and development of the electricity and gas distribution networks (63%). Investments in co-generation power plants in Vilnius and Kaunas increased significantly, from EUR 10.1 million in 2017 to EUR 92.2 million in 2018, accounting for 22% of the total investments. The launch of the Vilnius cogeneration power plant is expected for the end of 2019. The new plant, using bio-fuel and municipal waste, should cover 80% of the electricity demand of households in Vilnius and 50% of the entire heating demand. In 2018, the Company invested approx. EUR 37 million in wind farms.

In implementing its strategy for 2018-2030, the Group aims to focus on the diversification of its activities, increasing green generation capacities, expanding its operations in international markets, and enhancing operative efficiency and safety. It also envisages the implementation of distribution network intelligence (digitisation) projects. At the same time, the Group aims to maintain the relatively low electricity prices for residents. The Group envisaged dividend payments of EUR 1.6 billion for this period, half of which should come from international activities, and to invest EUR 6.0 billion.

By preparing synchronization of the electricity grids with the West European network, the electricity and gas distribution company Energijos Skirstymo Operatorius and the electricity transmission system operator Litgrid will implement a joint project to ensure the reliable supply of electricity to Eastern Lithuania. Lithuania has planned to synchronise its electricity grids with those of continental Europe by 2025. All high-voltage transmission lines connecting Lithuanian and Byelorussian electricity grids are to be disconnected by that time. Construction costs for this were initially estimated at EUR 20.36 million, but the Company has meanwhile stated it has found a significantly cheaper solution.

In 2018, the Group achieved generally positive results after adjustments for tariff recalculations and revaluation of assets. Nevertheless, the development of the financials has shown the Company's vulnerability to such exogenous factors as unfavourable weather conditions, demand, and the overall energy price levels, especially in its unregulated business, which accounted for roughly the half of the total revenues in 2018. This is why we consider the Company's investment plans for the renewal and modernisation of distribution networks and the development of diversified efficient energy sources and as plausible despite that they are associated with construction and financing risks. The envisaged commencement of Vilnius and Kaunas cogeneration plants should help to decrease supplies from third parties and enhance the security of supply, thus strengthening its generation and supply business. Lietuvos Energija generates the majority of revenues in its distribution business, which is subject to regulations. The tariff system in Lithuania is generally supportive and ensures sufficient levels of return on investments; however, major deviations between actual and expected return on investments could have a negative impact on the Group's financials in a particular period.

Structural risk

Lietuvos Energija UAB is a private limited liability company registered on 28 August 2008 in the Republic of Lithuania and located in Vilnius. As of 31 December 2018, the Company's share capital amounted to EUR 1,212,156 and was divided into 4,179,849,289 ordinary registered shares.

The Company's shareholder is the Republic of Lithuania, which controls 100% of its shares. The rights and obligations of the shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, which adopts the main decisions relating to the implementation of the ownership rights and obligations. Certain activities planned by the Group, including mergers and acquisitions, establishment of new legal entities, reorganisations and equity injections into the Group's principal subsidiaries require the approval of the Government.

At the end of the reporting period, the Lietuvos Energija Group consisted of 24 companies: the parent company and 23 directly and indirectly controlled companies, which are active in the main business areas of the Group, i.e: the generation of electricity and heat, electricity trading, distribution and supply, and trade in natural gas as well as its distribution. The Company's subsidiaries also provide services connected to ITT, real estate, transport, repair of energy facilities, public procurement, accounting, and other services.

Lietuvos Energija UAB as a holding company, analyses the activities of the Group, represents the Group, implements rights and obligations of the shareholder, establishes operational guidelines and rules, and coordinates activities in the areas of production, commerce, finance, law, strategy and development, human resources, risk management, audit, technology, communication and others.

Given the systemic relevance of the Group as the owner of the Lithuanian gas and electricity distribution networks, and bearing in mind the tight organizational and ownership links between the Group and the state, no core risks can, in our opinion, be associated with the structure of the Group. The operational and organizational structures are in accordance with current laws, which brings particular transparency and stability to the Group's structure. Further growth and development of international activities can be associated with country or integration risks.

Business risk

Revenue from the segment of electricity supply and distribution and gas distribution (EUR 582.7 million during 2018) remains the Group's largest business segment and constitutes 46% of the Group's total revenue (2017: 51%). Revenue from the segment trade in electricity and gas (EUR 527.8 million in 2018) represents 42% of the total revenue (36% in 2017). The share of revenue from electricity generation in the total revenue structure accounts for 10% (2017: 10%).

Electricity and gas distribution and the public supply of electricity are licensed activities in Lithuania and are regulated by the Lithuanian Law on Energy, the Lithuanian Law on Electricity, the Lithuanian Law on Natural gas, and other regulatory legislation. Operating licenses are issued and licensed activities are controlled by the National Commission for Energy Control and Prices (NCC, the Commission). The distribution of electricity, gas and public supply are subject to tariff regulation by NCC, which sets price caps for the provision of network services in the electricity sector for five-year periods on the basis of a long-run average incremental cost ("LRAIC") model. The NCC also sets price caps for public supply services and purchase prices for electricity in public supply as well as regulates the gas distribution.

The Group owns and operates several generation facilities: the Elektrėnai Complex, which contains three gas and oil-fired power units with a combined installed capacity of 1,055.0 MW; two hydroelectric power plants with total installed capacity of 1,000.8 MW; and four wind farms in Lithuania and Estonia with total installed capacity of 76 MW. Lietuvos Energija is the second-largest wind power producer in the Baltic countries and holds approximately a 9% share of the market. The Group generates roughly 33% of all electricity produced in Lithuania, and plays a substantial role in the energy supply of the country. The Group will strengthen its position after the launch of the Vilnius and Kaunas cogeneration power plants. These power plants have been conceived to operate using city waste and bio fuel; hence, a high level of efficiency is expected. On the other hand, participation in such major infrastructure projects expose Lietuvos Energija to construction and financing risks. The Group faces additional financial pressure as a result of of dismantling its older facilities, as well as from the need to replace them in order to ensure a constant energy supply.

The Group's trading activities comprise sales of generated electricity, purchase of electricity for its consumer supply business, as well as hedging and wholesale trading of electricity and natural gas. The Group operates in the deregulated energy markets in Europe, including the Nord Pool Exchange, Nasdaq Commodities Exchange and Get Baltic Exchange and is exposed to price fluctuations in the wholesale energy markets. In its consumer supply segment, the Group is exposed to a high level of competition and to retail price fluctuations due to the fully liberalized electricity supply market.

We assess the business risks of Lietuvos Energija as moderate. Around half of the Group's revenues is derived from the generally supportive regulated business with strong and predictable cash flows, so that the main risks associated with changes in government regulation policy are not currently likely in our view. However, its generation and trading businesses are vulnerable to energy supply prices and electricity, gas and fuel prices, as well as fluctuations in demand, and to exogenous factors such as hydrology and general climatic conditions. In line with the Group's strategy, it intends to expand its commercial activities. Thus, the Group's exposure to market price fluctuations will likely intensify in the future. On the other hand, the Company is systemically important as the operator of electricity and gas distribution grids, and as a substantial local supplier of electricity for the Lithuanian market. We expect the Company's position in the generation market to strengthen after the commencement of the cogeneration plants in Vilnius and Kaunas, and in the course of the further development of its green power business. Along with the operating and maintenance of the Lithuanian electricity and gas distribution grids, the Company is entitled to other projects, which are of strategic relevance for the country, e.g. ensuring the synchronization and connection to the European electricity market or ensuring independent service of frequency regulation inside the country after the disconnection from BRELL. That is why we assume that the state will give systemic support to the Group if needed.

Financial risks

For analytical purposes, the CRA adjusted the original values in the financial statements in the context of financial ratio analysis.

The total adjusted assets amount increased by EUR 390 million to EUR 2,833 million, primarily due to the increase in fixed assets as a result of the revaluation and of the investments. The Group's operations are capital intensive, with fixed assets representing 78% of the consolidated total assets. The Group's business focusing on the production and distribution of energy requires a high level of capex in connection with enlargement and maintenance of the power greed and generating facilities to ensure an adequate and reliable infrastructure.

Adjusted equity decreased to EUR 1,438 million (2017: EUR 1,471 million) as of 31 December 2018, mainly due to dividend payments (EUR 80.8 million), as did the adjusted equity ratio (50.8%, 2017: 58.93%), which was enhanced by the increase in total assets. The equity ratio is solid in our view.

Net financial debt of Lietuvos Energija increased significantly from EUR 442 million to EUR 736 million as of 31 December 2018 as a result of increased long- and medium-term bond and bank liabilities in the course of financing ongoing investments (411.3 million, 62.3% more than in 2017, please refer to "Business development and outlook"). The maturity profile of financial debt improved, with the average repayment period of the borrowings amounting to 7.6 years (31 December 2017: 6.2 years).

The main external financing instruments of the Group are bank borrowings and bonds. The Group and one of its subsidiaries have to comply with several covenant commitments, arising from the agreement with the European Investment Bank during the financing of Vilnius cogeneration power plant. According to the Group's consolidated annual report, all of the covenants were met as of 31 December 2018. The Group has two bonds in place at EUR 300 million each under its EMTN programme, amounting to EUR 1,500 million. The first was issued in July 2017 and is to be redeemed in July 2027. The second one was issued in July 2018, also with a duration of ten years.

In 2018, the Company increased the amount of its overdraft agreement with Swedbank from EUR 100 million to EUR 130 million. As of 31 December 2018, the Group's undrawn credit line facilities amounted to EUR 157.7 million, cash and cash equivalents of EUR 128 million, so that the liquidity situation was stable.

Currently, the financing structure of the Group is appropriate, taking into consideration the comfortable maturity profile of its financial debt and its net financial debt / EBITDA of 4.8 (3.3 after management adjustments). However, according to the Group's strategy for 2018-2030, it will invest a total of roughly EUR 6.0 billion in this period, which is approximately EUR 500 million per year. So far, the Group's consolidated EBITDA has amounted to around EUR 240 million. The envisaged investments, should the Company's earnings remain at the same level, could lead to a deterioration of the Group's financials. Growth possibilities arise primarily from its trading and generation activities, both inherently vulnerable to market fluctuations and climate risks. It remains to be seen how the Group's financials will change in the course of implementing its strategy.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Lietuvos Energija UAB (the Issuer), which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The issues have been issued under the EMTN programme with its latest prospectus from 21 June 2018 and supplement dated 2 July 2018. This EMTN programme amounts to EUR 1.5 billion. The notes and coupons under the EMTN programme constitute direct, general, unsubordinated, and unsecured obligations of the Issuer, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the Issuer. Additionally, the notes benefit from a negative pledge provision and a cross default mechanism. A change of control put option has to be specified in the final terms of the Note.

Corporate issue rating result

We have provided the debt securities issued by Lietuvos Energija UAB with a rating of BBB+ / stable. The rating is based on the corporate rating of Lietuvos Energija UAB. Other types of debt instruments or issues denominated in other currencies by the Issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 3: Overview of CRA Ratings I Source: CRA

Rating objects	Details	
	Date	Rating
Lietuvos Energija UAB (Issuer)	20 August 2019	BBB+ / stable
Long-term Local Currency (LT LC) Senior Unsecured Issues	20 August 2019	BBB+ / stable
Other	--	n.r.

Table 4: Overview of 2018 Euro Medium Note Programme I Source: Lietuvos Energija

Overview 2018 EMTN Programme			
Volume	EUR 1,500,000,000	Maturity	Depending on the respective bond
Issuer	Lietuvos Energija UAB	Coupon	Depending on the respective bond
Arrangers	BNP Paribas, J.P. Morgan	Currency	Depending on the respective bond
Credit enhancement	none	ISIN	Depending on the respective bond

All future LT LC senior unsecured Notes that will be issued by Lietuvos Energija UAB and that have similar conditions to the current EMTN programme, denominated in euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes and issues that do not denominate in euro will not be assessed. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Financial ratio analysis

Table 5: Financial key ratios I Source: Lietuvos Energija UAB consolidated annual report 2018, structured by CRA

Asset Structure	2015	2016	2017	2018
Fixed asset intensity (%)	73.12	76.20	73.43	78.48
Asset turnover	--	0.45	0.44	0.45
Asset coverage ratio (%)	98.83	92.64	85.82	97.26
Liquid funds to total assets (%)	7.04	7.36	6.88	4.54
Capital Structure				
Equity ratio (%)	63.14	61.66	58.93	50.78
Short-term-debt ratio (%)	15.68	14.63	15.25	13.42
Long-term-debt ratio (%)	9.13	8.93	4.09	25.56
Capital lock-up period (in days)	32.08	33.05	33.47	28.38
Trade-accounts-payable ratio (%)	3.95	4.00	3.97	3.32
Short-term capital lock-up (%)	20.12	20.37	22.84	18.28
Gearing	0.47	0.50	0.58	0.88
Leverage	--	1.60	1.66	1.83
Financial Stability				
Cash flow margin (%)	--	18.25	20.35	13.96
Cash flow ROI (%)	--	8.06	8.81	5.95
Total debt / EBITDA adj.	6.17	4.07	4.56	9.17
Net total debt / EBITDA adj.	4.99	3.29	3.79	8.33
ROCE (%)	3.77	8.29	7.21	3.00
Total debt repayment period	--	3.50	51.36	6.09
Profitability				
Gross profit margin (%)	23.55	32.05	31.51	19.36
EBIT interest coverage	9.94	21.57	15.24	3.67
EBITDA interest coverage	21.28	32.98	24.84	9.54
Ratio of personnel costs to total costs (%)	8.94	8.04	7.52	6.60
Ratio of material costs to total costs (%)	76.45	67.95	68.49	80.64
Cost income ratio (%)	94.06	86.58	87.43	95.64
Ratio of interest expenses to total debt (%)	0.76	0.74	0.89	1.07
Return on investment (%)	2.41	5.01	4.06	0.19
Return on equity (%)	--	7.98	6.37	-0.55
Net profit margin (%)	5.28	11.06	8.74	-0.66
Operating margin (%)	6.21	13.82	12.82	4.53
Liquidity				
Cash ratio (%)	44.94	50.35	45.11	33.63
Quick ratio (%)	92.80	93.85	113.64	105.16
Current ratio (%)	171.47	162.73	174.20	160.36

Appendix

Rating history

The rating history is available under:
https://www.creditreform-rating.de/de/ratings/published-ratings/

Table 6: Corporate issuer Rating of Lietuvos Energija UAB

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	20.08.2019	www.creditreform-rating.de	Withdrawal of the rating	BBB+ / stable

Table 7: LT LC Senior Unsecured issues issued by Lietuvos Energija UAB

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	20.08.2019	www.creditreform-rating.de	Withdrawal of the rating	BBB+ / stable

Regulatory requirements

The present rating[2] is an unsolicited rating. Creditreform Rating AG was not commissioned by the Issuer with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The rating was conducted based on Creditreform Rating AG's "Corporate Ratings" methodology, the "Government-Related Companies" methodology and the "Non-Financial Corporate Issue Rating" methodology, as well as on the "Rating Criteria and Definitions".

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies. A complete description of Creditreform Rating AG's rating methodologies and Creditreform Rating AG's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Elena Alexeenco (e.alexeenco@creditreform-rating.de) and Natallia Berthold (n.berthold@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 20 August 2019. The company has previously received the rating result, along with the key reasons that led to the rating prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

The rating will be monitored until Creditreform Rating AG removes the rating and sets it to non-rated (n.r.).

[2] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Please note:

This report exists in an English version only.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Creditreform Rating AG

Contact information

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

CEO: Dr. Michael Munsch

E-Mail: info@creditreform-rating.de
www.creditreform-rating.de

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522