Nelja Energia AS

Annual Report of the Consolidation Group

for the financial year ended on 31 December 2017

Translation of the Estonian Original

Annual Report of the Consolidation Group

NELJA ENERGIA AS

Beginning of the financial year:	1 January 2017
End of the financial year:	31 December 2017
Business name:	**Nelja Energia AS**
Registry code:	**11183009**
Address :	Regati pst 1
	Tallinn
	11911
County:	Harju County
Country:	the Republic of Estonia
Phone:	+372 6 396 610
Fax:	+372 6 396 620

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Production

Average wind speed in Nelja Energia's (henceforth, the Group) wind parks in 2017 was above long-term average. Average wind speed in 2017 at hub height of wind farms in Estonia was 6,5 m/s compared to 6,4 m/s in 2016. Average wind speed in 2017 at hub height of wind farms in Lithuania was 6,4 m/s compared to 6,0 m/s in 2016. Western wind dominated in Lithuania and southern winds dominated in Estonia.

Nelja Energia wind farms produced 761 GWh in 2017, 23,7 % more than in 2016. Estonian wind farms produced 330 GWh in 2017, 13,2% more than in 2016 and Lithuanian wind farms produced 432 GWh, 33,2% more than in 2016. Growth was primarily supported by full-year production at Tooma II and Silute wind parks. Electricity generated at comparable wind parks (i.e. excluding Tooma II and Silute) was 521GWh or 9% higher than in 2016.

Production of the wind farms

	Subsidy start	2017	2016	% change
GWh				
Virtsu I	2002	3,4	3,2	*5%*
Virtsu II	2008	16,0	13,8	*16%*
Virtsu III	2010	16,7	14,8	*12%*
Esivere	2005	17,7	15,9	*11%*
Tooma I	2010	37,8	33,3	*14%*
Tooma II	2017	18,3	9,2[2]	*99%*
Viru Nigula	2013	42,2	37,1	*14%*
Vanaküla	2010	17,8	14,4	*24%*
Pakri	2004	44,4	45,8	*-3%*
Paldiski	2013	53,5	40,1	*33%*
Aseri	2012	45,3	48,3	*-6%*
Ojaküla	-	16,3	15,3	*7%*
Sudenai	2009	29,5	26,3	*12%*
Mockiai	2011	36,5	33,5	*9%*
Silale	2011	38,7	37,7	*3%*
Ciuteliai	2013	104,7	96,1	*9%*
Silute	2016	222,3	130,4[2]	*71%*
Total		**761,1**	**615,1**	*24%*
Like-for-like		*521*	*476*	*9%*

Significant events during 2017

In 2017 Nelja Energia finalized the investment projects outlined in the last year's annual report: Tooma II wind park, Broceni CHP[2] and pellet factory. Hence, all parks have at least one full year of production on record. No significant investment projects were started. Although, the Group acquired two development projects in Lithuania during the second quarter.

Tooma II 7.1 MW wind farm: successfully completed grid compliance tests and became subsidy eligible on the 2nd of May.

Biomass 4,0 MWel CHP[1] combined with pellet production facility: During 2017 the pellet plant was also officially commissioned. Moreover, during the fiscal year the CHP's feed in tariff was unpegged from the

[1] Combined heat and power

[2] Both Silute and Tooma II started production in mid-2016.

natural gas price to a fixed value of 143,57 EUR/MWh. However, the 5% renewable energy tax applied until the end of 2017. For 2018 the tax will be expired.

Hiiumaa off-shore wind farm environmental impact assessment (henceforth, EIA) in final stages: EIA is under review by the Estonian Ministry of Environment. Memorandum of Understanding signed with Hiiumaa parish.

Akmene and Kelme development projects in Lithuania: in Q2 2017 the Group acquired two development projects in Lithuania. Both are in early stages with in-depth wind measurement campaigns to be commenced in the immediate future. Total potential capacity for the two parks is 123MW.

Lithuanian offshore wind farm: In 2017 the Lithuanian government decided to centralize development of offshore wind park sites. The fully permitted sites will be tendered to potential investors. Nelja Energia is closely monitoring the process and evaluating the feasbility of participating in the tenders.

Financial results

Main factors having impact to the financial results were the following:

- Wind speed potential is essential for every wind turbine and depends on average wind speed.
- Availability along with efficiency and the wind turbines total effect determines the total electricity production.
- In addition to production volume, revenues are generally a function of the electricity price and other revenue sources such as feed-in tariffs and other subsidies.

Key figures of the financial year 2017

	Unit	2017	2016	Change %
Number of ordinary shares	PCE	8 279 414	8 279 414	0,00%
Number of employees		74	65	13,85%
Revenue	€ 000	69 096	46 352	49,07%
Goodwill impairment*	€ 000	-5 644	-564	900,69%
Depreciation and amortisation	€ 000	-22 767	-17 541	29,80%
Depreciation and amortisation w.o Goodwill impairment	€ 000	-17 123	-16 977	0,86%
Net profit	€ 000	10 685	8 769	21,85%
Net profit w.o Goodwill impairment	€ 000	16 329	9 333	74,96%
EBIT	€ 000	22 470	19 019	18,15%
EBIT w.o Goodwill impairment	€ 000	28 114	19 583	43,57%
EBITDA	€ 000	45 237	36 559	23,74%
Earnings per share	€	1,291	1,059	21,87%
Earnings per share w.o Goodwill impairment	€	1,972	1,127	75,00%
Total assets	€ 000	439 153	454 326	-3,34%
Total liabilities	€ 000	244 820	269 469	-9,15%
Current liabilities	€ 000	33 877	42 886	-21,01%
Interest bearing liabilities	€ 000	231 279	253 187	-8,65%
Trade and other payables+Tax payables	€ 000	8 037	6 737	19,29%
Net debt	€ 000	210 434	231 807	-9,22%
Total equity	€ 000	194 333	184 857	5,13%
Total Equity w.o Goodwill impairment	€ 000	199 977	185 421	7,85%
Shareholders' equity	€ 000	191 852	182 900	4,89%
Shareholders' equity w.o Goodwill impairment	€ 000	197 496	183 464	7,65%
Equity ratio	%	44,25%	40,69%	
Equity ratio w.o Goodwill impairment	%	45,54%	40,81%	
Shareholders' equity per share	€	23,172	22,091	4,89%
Shareholders' equity per share w.o Goodwill impairment	€	23,854	22,159	7,65%

	Unit	2017	2016	Change
Ratios (with Goodwill impairment)				
Return on assets (ROA)	%	2,43%	1,93%	
Return on equity (ROE)	%	5,57%	4,79%	
Return on capital employed (ROCE)	%	5,54%	4,62%	
Net debt to EBITDA		4,652	6,341	-26,63%
Ratios (without Goodwill impairment)				
Return on assets (ROA)	%	3,72%	2,05%	
Return on equity (ROE)	%	8,27%	5,09%	
Return on capital employed (ROCE)	%	6,94%	4,76%	
Net debt to EBITDA		4,652	6,341	-26,63%

EBITDA: Earnings before net financial items, share of profit of equity-accounted investees, taxes, depreciation and amortisation

EBIT: Earnings before net financial items, taxes

Earnings per share: net profit / weighted average number of shares outstanding

Equity ratio: total equity / total assets

Shareholder's equity per share: shareholder's equity / number of shares outstanding

EBITDA margin: EBITDA / net sales

ROA: Net profit /Total assets

ROE: Net profit/Shareholders' equity

ROCE: EBIT /(Total assets-Current liabilities)

Net debt: interest bearing liabilities and trade and other payables less cash and cash equivalents

Net debt to EBITDA: Net debt/12 months EBITDA

*More info on goodwill and goodwill impairment is disclosed in Note 14 to the consolidated financial statements.

Corporate overview

Historical development

Nelja Energia AS (hereinafter: the Company) is incorporated as a public limited company (legal form: aktsiaselts – joint stock company) operating under Estonian legal framework. The Company is the parent company of the Group. The Company's main purpose is to own shares in its subsidiaries, separate juridical bodies that hold the Group's wind and biomass assets. The Company is responsible for the Group's operations, investments and overall management, setting budgets, goals and strategy for the Group and its subsidiaries.

Date of first entry into the Estonian Commercial Register is November 3, 2005.

The Company was established as a result of a structural merger in 2012 between two renewable energy companies that were both actively developing and managing wind energy assets in the Baltic States: Vardar Eurus AS and Freenergy AS.

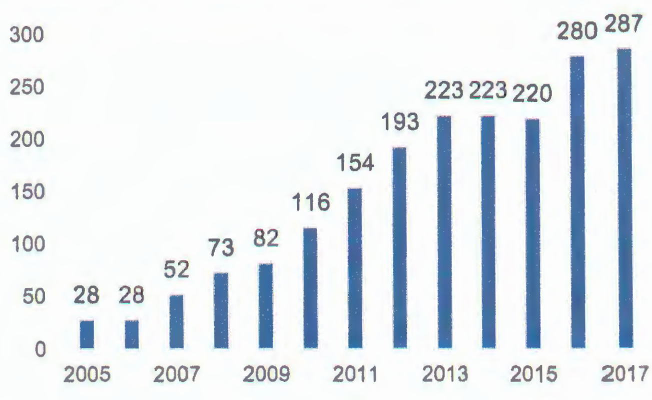
Freenergy AS was an investment holding vehicle that was incorporated in 2005. The company was backed by a group of local investors with interests in developing wind energy assets in the Baltics and Eastern Europe. Historically, the Norwegian Vardar Eurus AS and Estonian Freenergy AS interests' were aligned, thus they developed several assets in co-operation. As a result, an Estonian project management company was founded by the two entities in 2005 – Nelja Energia OÜ. Freenergy AS secured a further equity investment from the European Bank for Reconstruction and Development ("EBRD") in 2009 and from Ambient Sound Investments in 2011.

In the merger process in 2012 Vardar Eurus AS acquired a majority shareholding in Freenergy AS in a non-cash transaction. The holding company was subsequently renamed Nelja Energia AS.

EBRD sold its 11% shareholding in 2014 to current majority shareholder Vardar Eurus AS, as part of a broader sales process. Vardar which exercised its pre-emption rights also acquired 6% of shares from local investors, effectively increasing its total shareholding in the Company to 77%.

The majority of the Group wind assets have been developed by the current management team from pre-permission greenfield sites, the exceptions to which are Virtsu I and Esivere which were acquired as operational assets.

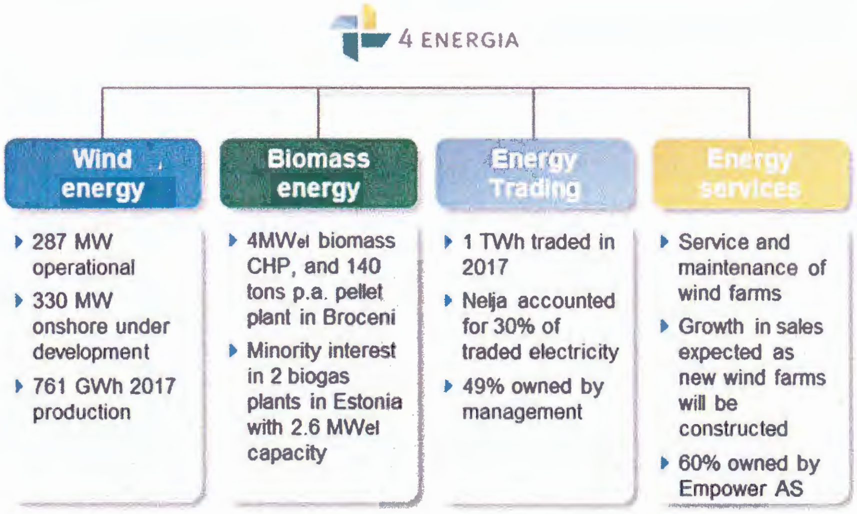
Capacity development timeline (MW)



As of the end of 2017 the Group's assets consisted of 287 MW of operational onshore wind capacity with a substantial development pipeline, and the 4 MWel Broceni CHP and pellet plant. The Group also has a minority shareholding in two biogas plants with a total capacity of 2.6 MWel, and additional interests in one of the region's largest electricity traders (Nordic Power Management AS) and a wind turbine operation & maintenance (O&M) business (Empower 4Wind AS).

Main Business Areas

The Company's main business area is the development, ownership and operation of renewable energy projects in the Baltics. Investments have been primarily carried out in the wind energy segment. In addition to the aforementioned focus, the Group also operates in three related business areas:



Under the biomass energy business area the Group operates biogas plants, one CHP, and one pellet factory. 4E Biofond owns and operates two biogas assets in Estonia: Oisu Biogaas OÜ (1.2 MWel/1.2MWth) and Vinni Biogaas OÜ (1.4 MWel/1.4MWth). Biogas plants utilize biogas from organic waste (such as manure and dung) in a biogas engine, for the production of energy. SIA Pellet 4Energia operates the pellet factory, while SIA Technological Solutions operates the CHP.

The Group's energy trading activities are managed through Nordic Power Management OÜ (hereinafter: NPM), which offers services in all activities related to the purchase and sale of electricity. NPM's electricity portfolio is approximately 1 TWh per annum and the Group's production accounts for close to 30% of traded electricity. Electricity portfolio and balance management make up 80% of NPM's revenues with the remainder being split between certificates trading and advisory services. Advisory services are provided to large industrial clients that wish to optimize their energy costs. NPM also updates its clients on relevant legislative changes as well as grid developments and other market events.

Nelja Energia AS also has interests in a wind service and maintenance company Empower 4 Wind, established based on Empower AS wind energy maintenance division in 2010 as a subsidiary with Empower, one of the largest service providers for telecommunications and energy in Finland and the Baltics. Today the company services and maintains wind parks and provides construction, installation, troubleshooting and other related services to the wind energy sector in Estonia. It provides maintenance to over half of the installed wind capacity in Estonia including part of the O&M for the Group's WinWinD fleet.

Corporate Structure

The Company owns 100% in its entire onshore wind assets portfolio. Assets are held in separate subsidiaries usually associated with project financing arrangements. In addition to the onshore wind assets, the Company also owns 95% in OÜ Hiiumaa Offshore Tuulepark.

The Company's biogas assets are held through 69,9% holding in 4E Biofond OÜ, which in turn owns 40% of Oisu Biogaas OÜ and 46.5% of Vinni Biogaas OÜ. The electricity trading business Nordic Power Management OÜ is owned 51% by the Company with the remainder owned by its management. The Company owns shares in the wind parks' maintenance and service companies: 40% in Empower 4Wind OÜ and 10% in WindController JV Oy.

The Company owns 100% in its Latvian subsidiary 4 Energia SIA and 80% in its Lithuanian subsidiary 4 Energia UAB.

Group company	Country	Ownership	Operation	Capacity, MW	Status
Hanila Tuulepargid OÜ	Estonia	100%	Virtsu I	1,2	Operational
			Virtsu II	6,9	Operational
			Virtsu III	6,9	Operational
			Esivere	8	Operational
			Tooma I	16	Operational
			Tooma II	7,1	Operational
VV Tuulepargid OÜ	Estonia	100%	Viru-Nigula	21	Operational
			Vanaküla	9	Operational
OÜ Pakri Tuulepargid	Estonia	100%	Pakri	18,4	Operational
			Paldiski	22,5	Operational
Aseriaru Tuulepark OÜ	Estonia	100%	Aseri	24	Operational
Oceanside OÜ	Estonia	100%	Ojaküla	6,9	Operational
Iverneta UAB	Lithuania	100%	Mockiai	12	Operational
Sudenu vejo Elektra UAB	Lithuania	100%	Sudenai	14	Operational
Silales vejo Elektra UAB	Lithuania	100%	Silale	13,8	Operational
Naujoji energija UAB	Lithuania	100%	Ciuteliai	39,1	Operational
Šilutes vejo projektai UAB	Lithuania	100%	Šilute	60	Operational
UAB Šilutės vėjo parkas 2	Lithuania	100%	Šilute II	39,6	Development
UAB Šilutės vėjo parkas 3	Lithuania	100%	Šilute III	80	Development
UAB Vejo Parkai	Lithuania	100%	Akmene	63	Development
UAB Energijos Žara	Lithuania	100%	Kelme	60	Development
Silale vejas UAB	Lithuania	100%	Silale II	46,2	Development
Enercom SIA	Latvia	100%	Dundaga	41,3	Development
OÜ Hiiumaa Offshore Tuulepark	Estonia	95%	Offshore	1000	Development
OÜ 4E Biofond	Estonia	69,9%	Biogas plants		Operational
Nordic Power Management OÜ	Estonia	51%	Energy trading		Operational
4energia UAB	Lithuania	80%	Operation		Operational
4energia SIA	Latvia	100%	Operation		Operational
SIA Technological Solutions	Latvia	100%	CHP		Operational
SIA Pellet 4Energia	Latvia	100%	Wood pellet production		Operational

The Group also has interests in the following associates:

Group	Country	Operation	Ownership	Status
Empower 4 Wind OÜ	Estonia	Wind park maintenance	40%	Operational
Marble Invest OÜ	Estonia	Renewable energy technologies	1%	Operational
Marble Management OÜ	Estonia	Management	5%	Operational
Wind Controller JV OY	Finland	Wind park maintenance	10%	Operational
Pakri Energy Island OÜ	Estonia	Renewable energy technologies	20%	Operational
Shareholdings through subsidiaries				
OÜ Oisu Biogaas	Estonia	Biogas plant (4E Biofond OÜ)	40%	Operational
OÜ Vinni Biogaas	Estonia	Biogas plant (4E Biofond OÜ)	46.5%	Operational

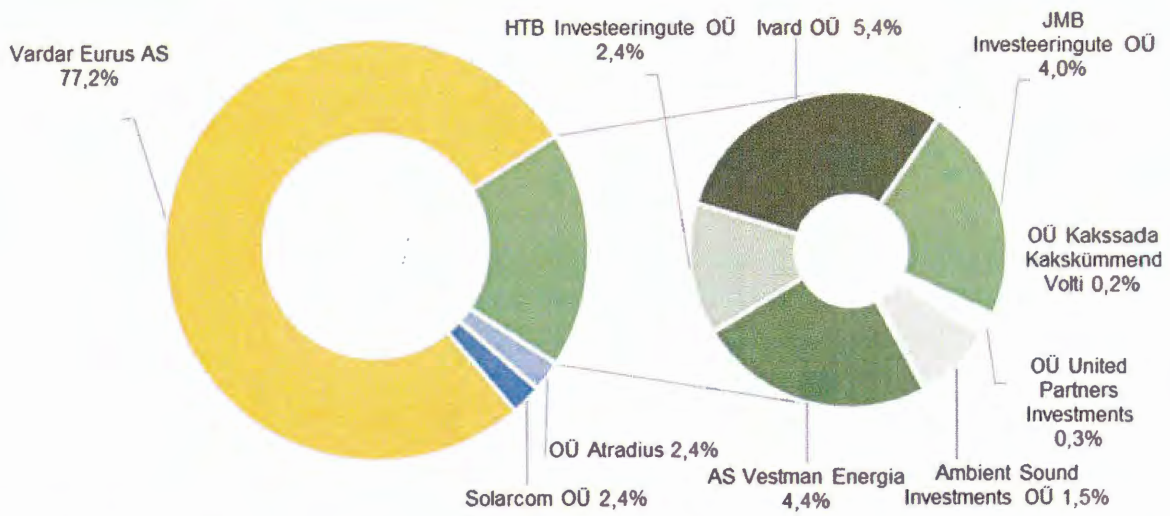
More information on Group composition and investments can be found in Note 5.

Ownership Structure

Vardar Eurus AS is an investment vehicle, owned by Vardar AS (90%) and NEFCO (10%). Vardar AS is a Norwegian utility company owned by Buskerud Fylkeskommune (county) and Norwegian municipalities. Nordic Environment Finance Corporation (NEFCO) is an international finance institution established by Nordic countries.

Management of Nelja Energia AS – CEO Martin Kruus (Solarcom OÜ) and CFO Kalle Kiigske (Atradius OÜ) own a combined 4.8% in the Company.

Ownership structure



Goals and Strategy

The main areas of business of the Group are the development of the renewable energy industry and the operation of power production assets. The Group prefers to focus on four renewable energy sources – wind, water, biomass and solar.

The Group has grown from a greenfield developer of wind projects into a cross-border power producer and trader with revenues of EUR 69 million (2016: EUR 46 million). Although the Group does not foresee such rapid growth going forward, the Company still has a substantial project pipeline to deploy during the next five years.

Medium-term development pipeline

The Group's onshore development pipeline amounts to 330MW, of which ca 290MW is located in Lithuania (Silale II (46MW), Akmene (63MW), Kelme (60MW), Silute II (40MW) and Silute III (80MW)) and in Latvia Dundaga (41MW). Commissioning of the parks is contingent of renewable energy tenders, which in Lithuania are expected to be announced at the end of 2018 or early 2019.

In addition to the development pipeline the Company has plans to develop offshore wind parks, notably a 1000 MW park off the North-Western coast of Hiiumaa in Estonia. Nelja Energia has actively engaged national, international, and local stakeholders to develop the project in a sustainable and responsible manner. In 2017, a thorough Environmental Impact Assessment (EIA) was completed and handed over to the Ministry of Environment for their approval (pending). A Memorandum of Understanding with a local municipality was signed in 2017 to enhance mutual interests of the project.

Employees

By the end of the financial year, the Group had 74 employees (2016: 65 employees), of which 22% were female and 79% were male– 28 in Estonia, 7 in Lithuania and 39 in Latvia. Rise in employees is related to completion of Broceni CHP and pellet production plant in Latvia. The employees were paid salaries in the amount of EUR 3,004 thousand (2016: EUR 2,526 thousand). In the 2017 financial year, the management of Nelja Energia AS consisted of 3 members who were paid remunerations in the total amount of EUR 258 thousand (2016: EUR 258 thousand).

Operating environment

Baltic electricity market

The Baltic States' electricity market is the Group's key operating area.

After accession to the European Union the Baltic countries were required to implement a common energy policy and fulfil the union's internal directives, including common rules for internal market and energy supplies. During this process the local energy markets were dramatically restructured and reoriented. The energy policies focus on security of energy supply by encouraging diversification of energy sources and increased self-provision of power generation as well as the promotion of renewable energy.

The Baltics as a whole, especially Latvia and Lithuania, are dependent on imported energy resources. In 2016 the three countries produced on aggregate of 20.6 TWh of electricity while consuming 25.5 TWh, at a deficit of 4.7 TWh.

Oil shale-based electricity production, albeit with relatively low energy efficiency and heavily polluting, is a dominating energy source in Estonia. Around 80% of all energy was produced from oil shale in Estonia in 2016, followed by biomass with 7% and wind with 5%.

In Lithuania, 35% of produced electricity was from natural gas fired power plants. The reminder 65% was supplied by renewable energy. Led by wind energy 28%, hydropower 28%, biomass 8% and 3% from other renewable sources.

In Latvia electricity is generated mostly by three Daugava hydro power plants and gas plants, followed closely by gas-powered generation. Wind energy contributed a negligible amount of all energy produced.

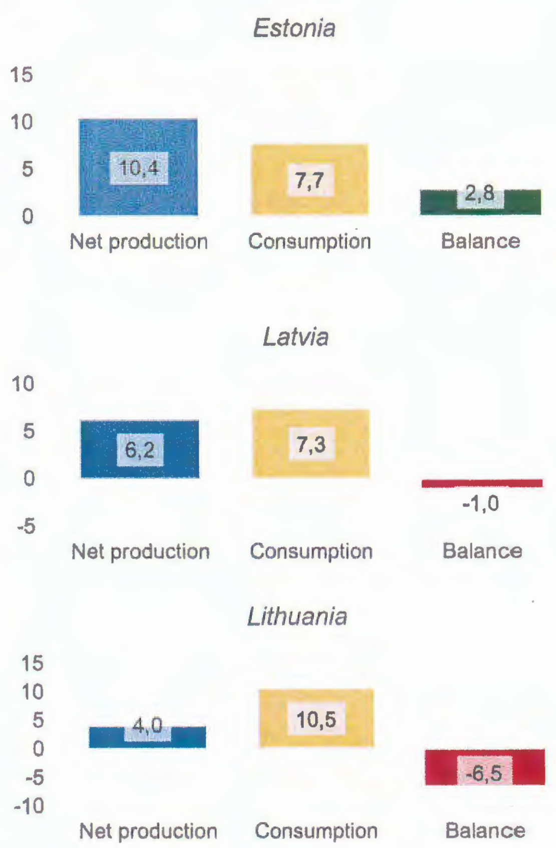
Nord Pool market

The Baltics are part of Nord Pool since June 2013, a single energy market for electricity for Denmark, Sweden, Finland, Norway, Estonia, Latvia and Lithuania. This market incorporates more than 36 million people and more than 70% of the region's total electricity consumption is traded through Nord Pool Spot. Interconnections link the system with neighbouring markets in Germany, Poland, Russia and the Netherlands and forward prices are provided by Nasdaq OMX.

Nord Pool's integrated electricity market has a single system price that is determined hourly by the balance between supply and demand across the market participants. Nord Pool is separated into bidding areas which have their own prices to help regulate the constraints of international transmission systems.

Undersea cables EstLink 1 and 2 (1,000 MW), NordBalt (700MW) connect the Baltic and Nordic power systems, allowing bi-directional trading between the regions. Furthermore, LitPol 1 (500MW) was completed in 2016, thus providing extra interconnections to Central Europe. However, the interconnection capacity is limited at times, based on the Polish electricity production.

Baltic electricity balance, 2016 (TWh)



Source: Baltic TSOs

Furthermore, the Nordic region will be further integrated with Western Europe, thus stabilising prices in the Nordics, and in turn in the Baltics.

Planned new interconnections include:

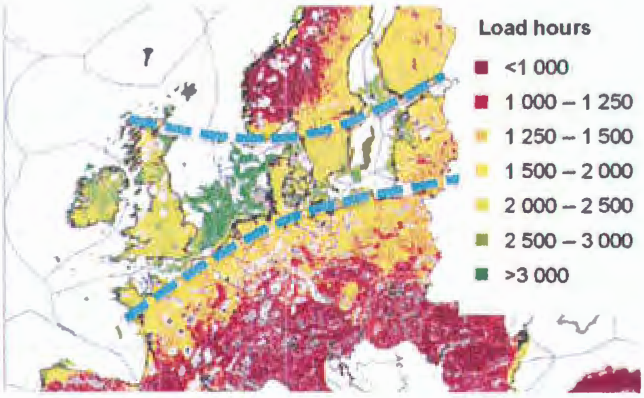
Lithuania-Poland (LitPol 2) 500 MW in 2020
Norway-UK 1,400 MW agreed to be built by 2020
Denmark–Netherlands 700 MW agreed to be built by 2019
Norway–Germany 1,400 MW agreed to be built by 2018

Baltic wind energy market

The Baltic region benefits from a relatively good wind flow characteristics due to the Baltic Sea and North Sea creating a „wind corridor", enabling higher load hours than neighbouring countries. Estimates indicate a possibility of 2,500 – 3,000 full load hours per annum.

Following from that, Baltics as sparsely populated areas and good wind conditions are highly suitable for developing wind energy projects.

Baltic wind load hours



Source: European Environment Agency

European wood pellet market

In 2017 the industrial pellet market has seen a significant price recovery in the 2nd half of the year, with year-end spot assessments at around 125 EUR/ton FOB. In our view the price increase has been fueled by two factors. In late Q2 and early Q3 a significant pellet consumer tested co-firing of biomass at a ca 650MW unit. It was an unexpected event lifting spot prices. Secondly, raw material availability across the Baltics has been hampered due to relatively high temperatures and significant rain fall. Consequently, raw material prices have moved in lock-step with output prices.

In December and early 2018 a cold front alleviated the raw material constraints. Nevertheless, we expect raw material prices to remain elevated due to re-stocking of inventories and additional raw material demand in the Kurzeme region.

Regulatory environment

As part of the European Renewable Energy targets for 2020 the Baltic States started to develop a framework for incentivising investments into green energy production and efficiency. Provisional figures from Eurostat state that Estonia and Lithuania have already met their targets, while Latvia is lagging behind. Consequently, this has impacted the regulatory environment in the Baltic States.

Renewable energy generation in Estonia is supported by a feed-in premium (paid in addition to prevailing market price) of 53,7 EUR/MWh over a 12-year period. Furthermore, for wind energy the subsidy is paid annually for the first 600GWh of output. Given the new EU state aid permit for Estonia, we expect this cap not be breached in the future as the qualification criteria for the aforementioned scheme stipulates that a development has to have land rights, building permits and have made a significant investment by the end of 2017. EU State Aid Guidelines promote the use of underbid tenders. It is likely that the new Electricity Market Act under discussion in the Parliament will be partly based on them. Nevertheless, given that Estonia has met its 2020 targets and there's no immediate need for additional production capacity, then announcement of new tenders remains improbable.

Lithuania, as Estonia, has met its 2020 targets. However, Lithuania's supply security is different as the country is dependent to electricity imports (75% in 2017), as well as, natural gas import. Draft Energy Strategy foresees increase in own generation which relies heavily on renewables. Government has decided to expand renewable energy generation, including wind energy output. Market participants expect another round of tenders for around 250MW to be announced in 2018 or early 2019. The exact terms are yet unknown. Furthermore wind capacity is planned to reach 1.4GW by 2030.

Latvia's existing feed-in tariff scheme for renewable energy generation has been put on hold due to concerns of exceeding the 2020 targets with generation at historically set high feed-in-tariff. However, the current beneficiaries of the scheme remain unaffected of the moratorium (including Broceni CHP). Consequently, there is no subsidy scheme for new renewable energy projects. Nevertheless, the current government has set a task to propose and approve a new act to regulate the support of renewable energy project. Government (MoE) has been passive to deliver a new support scheme, thus president of Latvia has proposed a draft renewable energy law to be designed under his Energy Security Council. A competitive bidding scheme is proposed. However, the agenda does not stipulate, when the act should take effect.

The Group is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which may have significant effects on the Group's financial position or profitability.

Corporate Governance

Pursuant to the Commercial Code and the Nelja Energia AS's Articles of Association, the right of decision and the administration in the Company is divided between the Shareholders represented by the Shareholders' Meeting, the Supervisory Board and Management Board.

General Meeting

Ultimate authority lies with the Company's shareholders, who exercise this authority at the Annual General Meeting. The primary duties of the Annual General Meeting are to approve the annual report and the distribution of dividends, elect members to the Supervisory Board, select auditors and their deputies, and pass resolutions on any increase or decrease in share capital and on any other changes to the Articles of Association.

Share capital and dividends

Equity. The Company operates in a capital-intensive sector and the realisation of the Company's goals and strategies requires that the Company maintains a solid financial position, characterised by an adequate equity ratio, predictable future cash flows and access to adequate liquidity reserves.

Dividend policy. Within 30 days since the annual report for the previous financial year is approved at the annual general meeting of shareholders, the Company shall distribute 100% of the undistributed profit of the previous financial years, if any, between the shareholders of the Company in the form of dividend payments. The said threshold may be in any financial year to be reduced to (i) 50% if decided by a majority vote of 90% of all the votes represented with shares or (ii) 0% upon the unanimous approval of all the shareholders, provided that this is not in violation of the current legislation and agreed project financing or bond covenants (Distributions to shareholder capped at 50% annual consolidated net profit).

Capital increase. The shareholders have not authorized the Supervisory Board to increase the Company's share capital or to acquire treasury shares. In order to adopt the decision to increase the share capital of the Company, it is required that 90% of all the votes represented with shares are in favour of it, unless a larger majority vote is required by the law.

The Supervisory Board

The Supervisory Board engages in oversight and longer-term management activities such as supervising the Management Board and devising business plans. No residency requirements apply to the members of the

Supervisory Board. The Supervisory Board reports to the Shareholders' General Meeting. The Supervisory Board consists of 7 members. Members of the Supervisory Board are elected for periods of five years at a time. The Supervisory Board shall elect one of its members as a Chairman.

The Supervisory Board is responsible for the administration of the Company and the appropriate organization of its operations. The Supervisory Board determines the principles for the Company's strategy, organization, annual operating plans and budgets, financing and accounting. The Supervisory Board elects the members of the Management Board and determines their salaries and benefits.

The Supervisory Board established an Audit Committee in August 2015. The Audit Committee was elected by the members of the Supervisory Board and has the same term of office as the Supervisory Board members. Current Audit Committee members are Solveig Nordström and Iren Bogen, both of whom satisfy the requirements with respect to independence and competence.

The Supervisory Board has at present seven members: Thorleif Leifsen, as the Chairman, Iren Bogen, Ingvild Myhre, Egil Smevoll, Solveig Nordström, Tarmo Kõuhkna, and Sander Rebane. The Supervisory Board convened five times during the 2017 financial year.

The Management Board

The Management Board is an executive body charged with the day-to-day management of the Company, as well as with representing the Company in its relations with third parties, for example by entering into contracts on behalf of the Company. The Management Board must adhere to the lawful orders of the Supervisory Board.

Members of the Management Board are elected by the Supervisory Board for periods of three years at a time. Every member of the Management Board has the right to represent the Company in any legal and business matter. The Supervisory Board has defined regulations in regards the authorization rights of the Management Board.

The Management Board has at present three members: Martin Kruus, the Chairman, Kalle Kiigske, Chief Financial Officer, and Andrus Zavadskis, the Chief Technical Officer.

The Company follows the Corporate Governance Recommendations of Oslo Stock Exchange.

Environmental and Social Management

A thorough assessment of the potential environmental impacts is carried out for all planned wind farms and biogas plants, following the EU and national regulation. The aim is to prevent and be proactive in eliminating and mitigating possible negative impact on environment, such as noise, disturbance of natural habitats of flora and fauna, local communities etc., and create positive socio-economic impacts.

Environmental impact assessments (hereinafter EIA) are conducted as a clear and transparent process, where all potentially affected groups (local communities, all related associations, environmental organizations etc.) are being engaged in order to find suitable and acceptable solution for all the involved parties.

A detailed overview of the Group's social and environmental impact is given in the annual Environmental and Social Report. However, a brief summary is provided below.

The Group has increased its positive impact on the environment with increasing amount of energy projects that contribute to carbon reduction in time. The total reduced annual GHG emission by Group has doubled since 2011. In 2017 764 th tCO_{2eq} emission reduction while generating a total 789 GWh green electricity (of which wind energy produced 761 GWh) covering the power need of ca 266 th households.

Nelja Energia supports activities, social groups, and events, which align with our mission statement and vision. Thus, our aim is to invest in the economic, environmental, cultural or social development of the local municipalities we operate in. In Lithuania and Estonia, we have committed to invest in local community 0,32 EUR per MWh produced. During 2017 total cash based donations to the NPOs and NGOs were 223 th (2016 193 th), from which EUR 82 th (2016: 99 th) and EUR 141 th (2016: 95 th) is attributable to Estonia and Lithuania, respectively. Furthermore, the Group has a tradition to donate to a good cause.

Research, development and innovation activities

The Company actively participated in the offshore working group that is developing a gravity based concrete foundation suitable for the wind turbines in ice conditions. The foundation might be used in Hiiumaa offshore wind farm in the future.

Risk Management

The management of different risks the Group encounters in its everyday activities is a significant and integral part of the Group's business activities. The organization's ability to identify, measure and verify different risks is an important input to the Group's entire profitability.

Risk is defined here as the possibility that an event can occur that affects the Group in a negative manner. The various risk factors affect the Group's ability to service its obligations, development of its financial results and assets, growth opportunities and achievement of strategic goals.

Risk Management consists of:

- Risk Management Governance - defining risks and an acceptable level of risks, making informed decisions about risks, implementing preventive measures and contingency planning
- Risk Assessment – data gathering, risk profile preparing and risk analysis
- Risk Handling- informing about risks, responding to events, risk management

Risk management takes place through strategy, organization, routines and responsible operations.

The Management Board has the overall responsibility for ensuring that the Group has established appropriate and effective processes for risk management and internal control.

Price of electricity

Energy price risk is the risk of variations in the price of electricity, renewable energy subsidy and other benefits. The risk for the Group occurs in cases where and to the extent that the Group's energy sales have not been hedged, in which cases fluctuations in prices in the electricity market would have a direct impact on consolidated operating earnings (currently the electricity market model in Estonia). In 2017 approximately 34% of the Groups electricity sales revenue was exposed to market risk. Generally, there is a risk of a long-lasting decline in or continued low level for energy prices. Further, there is a volume risk if delivery of electricity is hedged prior to relevant electricity production capacity has been commissioned, i.e. if production capacity is delayed or interrupted. In any case, risks associated with variations in the price of electricity and of electricity certificates or continued low level for energy prices could negatively affect the Group's earnings and indicate risk for declining value in existing investments. If the annual cumulative wind production of subsidy eligible wind energy producers is in excess of 600 GWh in Estonia (from time to time) the subsidy payment will stop until the end of the calendar year and thus reduce the Group's earnings. During the past years, parliamentary discussion has taken place in Estonia regarding changing the renewable energy subsidy schemes, resulting in a draft law which has been given state aid approval.

To manage risks from electricity price volatility the Group fixes the electricity price for a share of its market risk exposed production. All such hedging actions are subject to the approval of the Supervisory Board.

Risks related to changes in the subsidy schemes are monitored through participation in industry associations, and being an active and responsible stakeholder in the legislative process. In connection with new investments decisions, the risk related to the 600 GWh cap in Estonia are taken into consideration.

Variations in output

The Group's revenue is dependent on actual output from its operating business, which in turn depends on wind conditions during the actual period in question at the locations concerned, availability of raw material, and the technical availability of the wind farms, CHPs and the pellet plant. The wind conditions vary between seasons over the course of the year but also between individual years. By establishing a portfolio of projects in different geographical locations, performing extensive wind measurements and by evaluating which wind turbines are most suitable for the specific geographical location prior to making decisions regarding investments, the risk of variations in output is reduced. Further, there may be discrepancies between production estimates and actual output from operating wind farms after commissioning. Unfavourable weather conditions, changes in climate, technological failures and/or significant discrepancies between estimates and actual electricity or pellet production may have a negative impact on earnings.

Technological development

The electricity produced from the Group's operations is transported and consumed in the same manner as electricity generated by other energy sources, meaning that different energy sources compete with each other. Technology advances mean that new wind power, biogas or biomass energy may be developed more favourably than already existing technology allows it to and it could also mean that competing electricity-producing technologies could be developed to produce energy in a more favourable manner than both wind power and biomass energy. Within the wind power sector, biogas and biomass energy sector, there is also a risk that the technology chosen by the Group may entail risks that are unknown today or where the known risks have broader consequences than anticipated. Although the Group attaches significant importance to selecting modern but well proven technology, technological development during the cycle of the Group's wind farms, CHP-s and pellet plants might negatively impact its earnings. The choice of different producers mitigates the risks.

Political and regulatory impact

A large number of regulations issued by numerous national, regional and local authorities apply to the business of the Group. In respect to wind and CHP power, even if the marginal cost is low, investments in new power production have historically been and still remain dependent (as is the case for new investments in many other power production technologies) on economic incentives to be competitive with already existing electricity-producing assets in the market. The Group is therefore dependent on the additional revenues it receives from the renewable energy subsidy system in Estonia, the fixed electricity prices in Latvia and Lithuania as well as on the continued pursuit of current objectives by the various governmental authorities and agencies involved in the drive to expand renewable power in the Baltic region. However, the Group will receive the renewable energy subsidy in Estonia and fixed prices for the electricity in Lithuania for the first 12 years (10 years in Latvia in case of CHP). The large number of administrative entities involved can make the process of obtaining permits to construct and operate an energy project long and complex, which could negatively affect the Group's result and expansion of operations.

The expansion of operations is also affected by laws governing environmental permits under the different environmental laws or similar regulations. Revisions to such regulations could thus affect the Group's result and expansion of its operations. Potential amendments to support systems, licensing or other regulatory impacts on the Group's operations might affect the Group's earnings. It is therefore possible that the existing support systems may experience modifications resulting in a decreased amount of the support.

Awarded subsidies are conditional on the producer meeting tight project development deadlines and the subsidies may be cancelled in case the producer fails to meet the project development milestones.

The Group mitigates these risks by monitoring legal discussions relating to the areas of the Group's interests, and participating as an active and transparent stakeholder, where possible. The Baltic States membership in EU is expected to have a positive effect.

Regulatory liabilities

The nature of the Group's operations exposes it to a wide range of environmental, health and safety regulations that could result in significant liabilities. The environmental, health and safety regulation may also become stricter, in which case the Group's operations may become non-compliant with applicable requirements. Wind farms may cause environmental hazards or nuisances to their local human populations, flora and fauna and nature generally. The noise and shadows of turbine blades may cause a nuisance to the local (human) population. The Group does not have in place easements over all properties neighbouring its wind turbines that are being affected by negative influences of the latter (including noise, vibration and shadowing). Given the lack of such easements where under the owners of the neighbouring properties would be obliged to tolerate such negative influences the latter (in some cases also public authorities) may request the Group companies to pay compensation in respect of such negative influences or request the operation of the wind turbines to be temporarily or permanently suspended. The Group's current and future operations that are conducted in the Baltic region are therefore subject to environmental regulations.

In Lithuania in 2011 the maximum noise level of the wind farms in residential areas was reduced from 55 dB to 45 dB. Currently valid requirements for acoustic noise foresee that the wind farms for which building permits were issued prior to 1 November 2011 may exceed the maximum limits of acoustic noise by up to 10 dB until 1 November 2016, and until now did not impact currently operating wind farms. However, upon expiry of the period of exception (i.e November 1st 2016), the wind farms in Lithuania have to comply with the requirements for the reduced noise levels. The practical implications of this requirement are so far unclear, as there is no valid method or procedure for measuring the actual acoustic noise of wind turbines, and the acoustic noise level is based on theoretical calculations, which do not take into consideration the particular environment or other actual or potential sources of acoustic noise. However, compliance with the changed requirements may require reassessment of current sanitary protection zones established for the wind farms, and the costs of compliance associated with changes in noise and environmental regulations could require expenditures, and breaches of such regulations may result in the imposition of material fines and penalties or temporary or permanent suspension of production operations.

Project development

A large part of the Group's operations is to develop wind power projects from the conclusion of a land lease with a landowner to actual commissioning of a turbine or CHP plant. A number of risks are associated with a project's development phase, including that the wind conditions in a specific location are too weak to enable continued development or that a permit cannot be obtained in time. There is also a risk that even if a wind farm has become operational it may take significant additional time to pass grid related compliance tests. Renewable energy subsidy will be paid only to wind farms that have passed such tests and have been declared to meet the applicable requirements by the grid operator. Possible delays in passing such tests or subsequent non-compliance with the applicable requirements may cause delayed commencement or subsequent suspension of payment of renewable energy subsidies, thus having a negative effect on the Group's financial position. The Group's estimates are based on forecasts and models produced by internal and external resources within the relevant area. The estimates are thus based on knowledge and experience but also on assumptions, meaning that there is a risk of significant discrepancies between estimates, measurements and actual outcomes, which could affect the Group's financial position. Further, the Group and its partners are in their project development dependent on the availability of suitable sites for bankable wind turbine projects, including necessary wind resources and grid capacity, permit granted or possible to seek, and suitable ground conditions for foundations, roads and cables. If such availability declines dramatically it could affect the Group's expansion of its operations, which in its turn could have an effect on the Group's financial position.

Conflicts with other cultural and environmental interests as well as with local inhabitants, telecom, military and airport interests may delay or impede the permitting process for new projects. These conflicts centre on issues such as the changes to the landscape or animal life, the impact of noise and shadows on places where people or animals live, the impact on recreational values and the impact on natural and cultural environments. Delays may also result from transportation or construction problems or when connecting turbines to electrical grids, which are areas, where the Group is in many cases dependent on external parties and weather conditions.

To minimize the risks in development projects, long-term wind measurements and proven technology are used. An investment decision will never be taken unless all permits and fundings are in place.

Relations with suppliers

The Group's business includes the development, construction, operation and maintenance of wind energy and biomass energy projects. The Group's operations require delivery and assembly of numerous components of technical equipment, and procurement of raw material (biomass fuelled CHPs and pellet production) from various suppliers. The Group is therefore dependent on agreements with and undertakings by external suppliers and by the suppliers' ability to fulfil the agreements in respect to agreed standards of quality, delivery times and other factors. As delivery periods for the required input goods can be relatively long and some technology is relatively young, construction errors or otherwise incorrect or delayed deliveries or the non-delivery of goods could result in delays or stand-still in the Group's existing and new projects, which in turn might affect the Group's earnings. Delays in the development of the Group's project portfolio could result in an inability to fulfil its obligations under concluded agreements, which might negatively affect the Group's earnings. The Group mitigates such risks by having internal regulations and guidelines in regard to the supplier selection process.

Furthermore, the Group is exposed to short-term wood pellet raw material price volatility, while output prices are fixed for a relatively longer duration. Therefore, fluctuations in raw material demand or lower availability (e.g. due to weather conditions) could have a negative impact on the Group's earnings thorough compressed margins or inability to fulfil contractual pellet delivery obligations. To mitigate such risks the Group monitors operational profitability, the potential value of the risk should it materialize, and continuously scouts and maps the regional raw material basket.

Customers

Electricity generated by the Group is sold on Nord Pool Spot, under bilateral agreements to customers in Estonia and to transmission system operators in Latvia and Lithuania. If the Group's customers fail to meet their obligations, it might negatively affect the Group's sales, financial position and earnings. However, the materiality of this risk is low, as the Group's primary counterparties' in electricity generation by way of subsidies are state owned transmission system operators.

In some cases, the Group has fixed delivery commitments towards its end customers with respect to electricity. In case the actual output falls below the pre-sold output, the Group would be forced to purchase the difference on the power exchange, i.e. Nord Pool, or from other producers. This entails a risk in case the price of the balance exceeds the price of the pre-sold power.

In respect to production of wood pellets the Group bears a commercial risk, which emanates from both sales volume and sales price. Hence, insufficient securing of sales contracts might lead to unsustainable working capital levels, or adverse market price developments might lead to difficulty covering the operational costs of the pellet factory. Therefore, through the business unit the Group has larger exposure to short-term liquidity and wood pellet market risk.

The Group mitigates such risks by having internal regulations and guidelines in regard to selecting customers.

Landowners and leases

The Group has a number of land leases with landowners providing rights but not obligations to erect wind turbines, CHP plants, pellet plants, substations, cable lines, access roads and other necessary infrastructure on the property of such landowners. If a plant's utilisation period was to exceed the contracted duration of the land lease, there is a risk that the Group would be unable to continue to operate the plant in the leased location as the land lease would expire unless a new agreement on extension could be concluded with the landowner. Therefore, material new investments in existing plants are subject to extension of the relevant land lease or conclusion of a new land lease.

In a number of cases the Group does not have direct lease agreements with the landowners, but is subleasing land from the original lessees. As a result, validity of the sublease agreements concluded by the Group is dependent on the validity of the lease agreements concluded by the original lessees and the land owners. The Group has taken measures to protect itself from the effects of termination of the sublease agreements by obtaining additional in rem rights (building rights and/or easements) for the land plots, where wind turbines and transformer substations are erected. However, in case of termination of the lease agreements the landowners may seek remuneration for usage of the land plots, which may not be at the level of current rent fees payable by the Group.

The lease of plant plots may also be lost if the respective subsidiary fails to meet its contractual obligations, in particular if it fails to pay the agreed rent or does not pay it on time.

Access to sites

The Group is reliant on the use of land owned by third parties to develop, construct and operate its wind farms, CHP-s and pellet plants. To develop, build and operate its wind farms, CHP and pellet plants, the Group requires rights of use to a large number of land plots, which are used as an access route, cable route to the feed-in point, a site for technically necessary ancillary facilities or for establishment of sanitary protection zones. None of this land is owned by the Group and is normally secured by lease agreements, easements, building rights, written agreements or unilateral consents of the land owners. Due to the size of the projects and a number of third parties involved, it may be that not all the land required for the relevant wind farm, CHP and pellet plant is covered to the necessary extent. This may have happened for a number of reasons, including (without limitation) because the relevant land plot has been overlooked or because a corresponding right has not been agreed to. The lack of, or cancellation of rights of use to essential and not otherwise replaceable land plots can lead to the operation of wind farm, CHP and pellet plant having to be completely or partially suspended or to additional costs being incurred because existing facilities have to be moved to or new agreements have to be concluded on unfavourable terms. The Group seeks to avoid such cases.

Even if the necessary rights of use have been guaranteed contractually, it cannot be ruled out that such rights of use may be revoked or otherwise terminated prematurely by the respective owner or its creditors. The rights of use a required plant plot may also be lost if the respective subsidiary fails to meet its contractual obligations, in particular if it fails to pay the agreed rent or other fee or does not pay it on time. It may be expected that fee levels related to land use will increase in time which will might affect the earnings of the Group's new projects where such fees would have to be agreed upon at increased levels.

Permits and plans

Environmental impact assessment (or a survey, in cases where EIA is not required), planning and zoning decisions, building permits or other approvals are necessary to build wind farms, CHP-s and pellet plants. Although, the Group attaches significant importance on the quality and correctness of the permitting documentation, it cannot be ruled out that permits, which have been granted will be reassessed within the scope of formal proceedings. Therefore, there is a risk of a permit being revoked in whole or in part, which could lead to a project not being implemented, or not being implemented to the planned extent, or having to partially or fully dismantled. The aforementioned risks could have a material effect on the business activities, assets, financial condition and results of operations of the Group, but the realization of the aforementioned risks is considered low.

Operations and maintenance

The Group's business is exposed to the risks inherent in the construction and operation of wind energy, biogas and biomass energy projects, such as breakdowns, fire, manufacturing defects, natural disasters and certain environmental hazards.

The Group's operations and maintenance activities comprise a number of processes whose primary objective is to prevent any suspension or interruption in, and to optimise, the production of electricity. To secure optimal operations and maintenance of assets, long term service and maintenance agreements (O&M) are entered into with suppliers where possible. Suspensions and interruptions can occur as a result of a breakdown, externally inflicted damage (by fire or otherwise) or scheduled maintenance, and can have consequences for the Group's ability to fulfil its obligations to its customers. Such suspensions or interruptions might affect the Group's operations, financial position and earnings. Insurance agreements are entered into to minimize the aforementioned risks.

The Group has an O&M strategy in place in the absence of WinWinD performing O&M obligations. The Group has installed its own SCADA system and entered into service agreements to provide scheduled and unscheduled maintenance regarding WinWinD projects and to provide other operational services and spare parts procurement services. The Group has established a warehouse to storage spare parts for WinWinD sites to reduce/remove the lead time waiting for spare parts which in turn have a positive effect on long term availability at the WinWinD sites. Furthermore, the Group is committed to improving the quality of the

WinWinD turbine's main components, thus aiming to increase their technical availability. The Group companies are also performing themselves O&M of the biogas stations and CHP plants. Irrespective of the Group taking the described measures to minimize downtime of its production units, suspensions or interruptions in the work of the production units may still occur either due to lack of necessary spare parts, lack of know-how or competence to deal with particular problems, unavailability of necessary repair or maintenance services or other similar reasons. As the full-service agreement with WinWinD and contractor of the biogas stations has been terminated there is no producer's performance guarantee for such downtime in place.

Over time, costs for service and maintenance on the Group's equipment may differ from those on which the cost estimate for the investment is based and actual decommissioning costs could exceed those set aside or budgeted, which might negatively affect the Group's earnings. So far this has not been observed, except for the WinWinD projects which led to the O&M strategy mentioned above.

Grids, wind turbines, CHP-s

The installation of a wind energy, biogas and biomass energy project requires a connection to the power grid in order to transmit and deliver electricity. The Group cannot guarantee that it will obtain sufficient grid connections or capacity for future projects within planned timetables and budgetary constraints. Connecting wind farms, CHP and pellet plants to the grid is a complex and time consuming process and unanticipated delays may occur which may negatively affect the Group's earnings. So far, this has not been a problem for the Group, Transmission and distribution networks may experience congestion, outages or technical incidents and operators of these grids may fail to meet their contractual transmission and distribution obligations or terminate the contracts involved or require payment of additional fees. Such events could affect the Group's operations, financial position and earnings, but are secured through insurance agreements.

If wind turbines, CHP-s, pellet plants, transmission grids or other electrical installations are damaged or destroyed, for instance due to natural catastrophes, fire or other factors beyond the control of the Group, the Group may be unable to deliver electricity to its customers. Under such circumstances, and if the Group is unable to find alternative resources or repair its existing ones, this could adversely affect the Group's operations, financial position, cash flow and earnings. The Group enters into insurance agreement to minimize these risks. Furthermore, the life of a wind turbine is approximately 25 years, and this is the figure on which the cost estimate for the investment is normally based. The life of CHP-s, biogas and pellet plants are approximately 15 to 25 years and this is figure on which the cost estimate for the investment is normally based. In wind turbine cases where the utilization period proves to be less than 25 years and in CHP, biogas and pellet plants cases where the utilization period proves to be less than 15 years could negatively affect the Group's earnings and cash flow.

Impact of market interest rates

In accordance with the objectives defined by the Group, the funding of each wind farm, biogas and biomass energy project includes a large portion of borrowed capital, approximately 60-75 per cent of the total project investment. As a result of this funding arrangement, the Group is exposed to variations in interest rates. Interest risk is defined as the risk of a fall in earnings caused by a change in market interest rates. A significant factor affecting interest risk is fixed-rate periods. The Group's financial policy includes guidelines on fixed-rate periods (interest rate duration). The management of interest risk is aimed at reducing negative effects from changes in market interest rates. The Group strives to achieve a balance between cost-effective borrowing and risk exposure on the one hand, and a negative impact on earnings in the event of a sudden major change in interest rates on the other hand. The exposure is hedged using interest rate swaps, which cover parts of the Group's long-term borrowing. Increased market interest rates over time will increase interest costs for the Group, which means that its operations, earnings and financial position could be negatively affected unless such increased interest costs are compensated by otherwise increased income or reduced costs.

Financing risk

Financing risk is defined as the risk that the Group will be unable to meet its liabilities due to insufficient liquidity or difficulties in obtaining funding. The Group is dependent on its ability to refinance existing facilities at their due date and to obtain additional financing at market terms in connection with new projects. In case the Group is unable to refinance existing facilities at market terms, as a result of a deficiency in the capital market or for any other reason, it could adversely affect the Group's operations, earnings and financial position. The Group is also dependent on its ability to finance short-term fluctuations in cash flow and unforeseen major payment obligations. A situation where the Group is unable to meet its financial obligations towards its creditors due to lack of liquidity could adversely affect the Group's financial position. Further, it could result in the Group being under an obligation to prepay existing financing, which could in turn adversely affect the Group's operations, earnings and financial position. To minimize such risks the Group's project financing agreements take into account the duration and value of subsidies, if any, and the relevant project's production estimate.

Breach of covenants

The Group currently has financing agreements in place with certain banks and financial institutions. Some of these agreements contain certain restrictive financial and non-financial covenants, which have to be maintained and followed throughout the term of the respective financing agreements. There can be no assurance that the Group will be able to comply with these covenants. As a consequence, the Group may be obliged to repay the borrowed facilities prematurely. Financing agreements normally have a cross-default clause, meaning that the breach of one of the financing agreements could result in the termination of other formally unrelated financing agreements. This could have material adverse effect on the business activities, assets, financial condition and the Group's ability to make payments under the Bonds.

Asset pledges

As a rule, all assets and receivables of the Subsidiaries as well as the shares of the Subsidiaries are pledged to secure the financing granted by banks or other financial institutions for the development of a respective wind farm and biogas projects. Furthermore, in some cases the wind turbines are being leased from financial leasing companies, with the ownership of wind turbines retained by the providers of financial leasing until full repayment of the facility. Therefore, unsecured creditors would be entitled to recover their debts from the assets and receivables of the Group only after the claims of existing and future secured creditors would be satisfied in full.

Counterparty risk

Counterparty risk is the risk of incurring a loss if a counterparty fails to meet its obligations. Commercial counterparty risk encompasses the solvency of business partners or customers and is managed by the Group's central finance function through careful monitoring of payment track records, customers' and partner's financial reports as well as good communication. The Group's total counterparty risk will be distributed across several customers, which will account for the Group's trade receivables. Financial counterparty risk arises when temporary excess liquidity is invested for the purpose of obtaining an increased return. Excess liquidity may only be invested in assets with a low counterparty risk that have been approved by the management of the Group and are in accordance with internal regulations If the Group does not succeed in managing its counterparty risks, this might negatively affect the Group's sales, financial position and earnings.

Disputes

The Group is currently not party to any dispute which could adversely affect the Group's earnings or financial position. However, it cannot be excluded that the Group will become involved in disputes in the future. The Group can give no assurances as to the results of any future investigation, proceeding, litigation or arbitration brought by private parties, regulatory authorities, or governments. In addition, if some unfavorable decisions were to be given against the Group, significant fines, damages and/or negative publicity could negatively affect the Group's earnings and financial position.

Taxes

The Group has obtained advice from independent tax advisors on tax-related issues. However, it cannot be excluded that the Group's interpretation of applicable rules and administrative practice is not entirely correct, or that rules and practice may change, possibly with retroactive effect. The decisions of tax authorities could change the Group's previous or current tax situation, which could affect Group's earnings.

Region

The Group's principal assets and operations are located in the Baltic region and it sells all its products and services to this region. Any adverse change in the economic or political environment and future or retroactive amendment of feed-in tariffs and/or premiums, in the Baltic region may, subject to protections afforded to the Group or its subsidiaries under the terms of the licences, would seriously affect the profitability and possibly the viability of the Group's business.

Insurance

The Group has mitigated risks on business critical processes, tangible and intangible assets by insuring for business interruption, property damage, and liability damage. Nevertheless, the Group is unable to insure against all risks and may be exposed under certain circumstances to uninsurable hazards and risks. Accordingly, the Group could incur substantial losses if an event which is not fully covered by insurance occurs, which would have a material effect on the Group's business, results of operations and financial condition.

Disaster

The performance of the Group may be affected by reason of events such as radioactive, chemical or biological contamination, environmental disasters such as fires or earthquakes and acts of terrorism which are outside its control. The occurrence of such events may have a variety of adverse consequences for the Group, including risks and costs related to the damage or destruction of property, suspension of operation and injury or loss of life, as well as litigation related thereto.

Tallinn, 28 February 2018

Member of the Management Board	Member of the Management Board
Chief Executive Officer	Chief Financial Officer
Martin Kruus	Kalle Kiigske

Member of the Management Board

Chief Technical Officer

Andrus Zavadskis

Consolidated financial statements

Consolidated statement of comprehensive income for the year ended 31 December

	Notes	2017 €000	2016 €000
Sale of goods and services	9	69 096	46 353
Revenue		**69 096**	**46 353**
Other operating income	10.1	14 046	14 830
Goods, raw materials and services	10.2	-32 178	-20 457
Employee-related expenses	10.4	-3 004	-2 526
Depreciation, amortization and impairment	12,13	-22 767	-17 541
Other expenses	10.3	-2 723	-1 640
Finance costs	10.5	-10 585	-9 948
Finance income	10.6	33	21
Share of profit of an associate	7	54	74
Profit before income tax		**11 972**	**9 166**
Income tax expense	11	-1 287	-397
Net profit		**10 685**	**8 769**
Other comprehensive income (*to be reclassified to profit or loss in subsequent periods, net of tax)*			
Net movement on cash-flow hedges		3 172	107
Total Comprehensive income for the year		**13 857**	**8 876**
Profit attributable to:			
Equity holders of the parent		10 044	8 433
Non-controlling interests		641	336
		10 685	**8 769**
Total comprehensive income attributable to:			
Equity holders of the parent		13 216	8 540
Non-controlling interests		641	336
		13 857	**8 876**

Consolidated statement of financial position as at 31 December

	Notes	2017 €000	2016 €000
Assets			
Non-current assets			
Property, plant and equipment	12	320 008	334 574
Investment properties		103	103
Intangible assets	13	55 410	60 428
Investment in an associate	7	3 357	3 357
Non-current financial assets	15	9 491	10 030
Deferred tax assets	11	2 180	1 713
		390 549	410 204
Current assets			
Inventories	16	3 871	4 070
Trade and other receivables	17	13 552	9 799
Prepayments	18	2 266	2 135
Other current financial assets	15	33	0
Cash and short-term deposits	19	28 882	28 117
		48 604	44 121
Total assets		439 153	454 326
Equity and liabilities			
Equity			
Issued capital	20	82 794	82 794
Share premium		90 099	90 099
Statutory capital reserve	20	3 898	3 898
Risk hedge reserve	20	31	-3 157
Retained earnings		15 030	9 265
Equity attributable to equity holders of the parent		191 852	182 900
Non-controlling interests		2 481	1 957
Total equity		194 333	184 857
Non-current liabilities			
Interest-bearing loans and borrowings	15	208 429	220 949
Other non-current financial liabilities	15	2 470	5 634
Deferred revenue	23	7	0
Deferred tax liability	11	37	0
		210 943	226 583
Current liabilities			
Trade and other payables	24	6 369	5 093
Interest-bearing loans and borrowings	15	22 850	32 238
Other current financial liabilities	15	2 990	3 911
Tax payable	25	1 668	1 644
		33 877	42 886
Total liabilities		244 820	269 469
Total equity and liabilities		439 153	454 326

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Consolidated statement of cash flows
for the year ended 31 December

	Notes	2017 €000	2016 €000
Operating activities			
Profit before tax		11 972	9 166
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of tangible assets.	12	17 046	16 909
Amortisation and impairment of intangible assets	13	5 721	632
Disposal of fixed assets	12	4	3
Allowance for inventories		277	0
Deferred revenue recognition	23	0	-23
Finance income	10.6	-33	-21
Finance costs	10.5	10 585	9 948
Paid other finance costs	10.5	-13	0
Share of profit of an associate	7	-54	-74
Capitalised revenue (test period)	12	2 251	1 957
Working capital adjustments:			
Decrease (increase) in trade and other receivables*	17,18, 19, 23	-3 885	14 514
Increase in inventories		-79	-2 376
Increase (decrease) in trade and other payables	23,24	677	-4 601
		44 469	46 034
Income tax paid		-1 693	- 741
Net cash flows from operating activities		**42 776**	**45 293**
Investing activities			
Purchase of property, plant and equipment	12	-4 689	-69 549
Purchase of intangible assets	13	-732	-78
Purchase of an investment		-15	-20
Disposal of a non-controlling interest in subsidiary	13	24	0
Loans given	15	-191	-130
Dividends received		106	138
Interest received		3	15
Net cash flows used in investing activities		**-5 494**	**-69 624**
Financing activities			
Issue of shares		80	0
Payment of finance lease liabilities	26	-2 700	-2 835
Proceeds from borrowings		164	66 209
Repayment of borrowings**		-20 050	-14 333
Interest paid**		-10 928	-10 650
Receipt of government grants	22	657	0
Other flows from/to financing activities	15.1.3	730	-4 381
Dividends paid to equity holders of the parent	21	-4 217	0
Dividends paid to non-controlling interests	21	-197	-264
Net cash flows from/(used in) financing activities		**-36 461**	**33 746**
Net increase in cash and cash equivalents		821	9 414
Cash and cash equivalents at 1 January	19	28 061*	18 646*
Cash and cash equivalents at 31 December	19	**28 882***	**28 061***

EY 28.02.2018 KV
FOR IDENTIFICATION

*Restricted Escrow account from bond issue in amount of EUR 0 thousand (2016: EUR 56 thousand), aimed at specific investments, has been excluded from the year-end cash amount.

** More information about non-cash (effective interest rate) changes in Note.15.2.1.

EY FOR IDENTIFICATION 28.02.2018

Consolidated statement of changes in equity
for the year ended 31 December

		Attributable to the equity holders of the parent					
	Notes	Issued capital	Share premium	Statutory capital reserve	Risk management reserve	Currency translation differences	Retaine earninç
Balance as at 1 January 2016		**82 794**	**90 099**	**3 898**	**-3 157**	**0**	
Profit for the period		0	0	0	0	0	
Other comprehensive income	20	0	0	0	107	0	
Total comprehensive income		**0**	**0**	**0**	**107**	**0**	
Dividends	21	0	0	0	0	0	
Other changes in equity		0	0	0	0	5	
Balance as at 31 December 2016		**82 794**	**90 099**	**3 898**	**-3 157**	**0**	
Profit for the period		0	0	0	0	0	
Other comprehensive income	20	0	0	0	3 172	0	
Total comprehensive income		**0**	**0**	**0**	**3 172**	**0**	
Dividends	21	0	0	0	0	0	
Other changes in equity		0	0	0	16	0	
Balance as at 31 December 2017		**82 794**	**90 099**	**3 898**	**31**	**0**	

Notes to the consolidated financial statements

1. Corporate information

The legal address of Nelja Energia AS (hereinafter: the Company) is Regati pst 1 Tallinn 11911, Estonia. Its main activity is investment into renewable energy companies in the Baltics. Nelja Energia AS and its subsidiaries constitute Nelja Energia group (Note 6).

The management board has prepared the financial statements and approved their disclosure on 28 February 2018. The annual report shall be reviewed by the supervisory board and approved by the general meeting of shareholders on 6 March 2018. The latter is entitled to amend the annual report.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements have been prepared on a historical cost basis, except for derivatives, investment property, investment in associates and some financial instruments. The consolidated financial statements are presented in euro and all values are rounded to the nearest thousand (€000), except when otherwise indicated. The consolidated financial statements provide comparative information in respect of the previous period

2.2 Basis of consolidation

The consolidated financial statements consists of the financial statements of the parent and its subsidiaries (hereinafter: the Group) as at 31 December 2017. 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, and;
- The ability to use its power over the investee to affect its returns;

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. In unconsolidated financial statements of the parent (Note 28) the investments in subsidiaries and associates are recorded at fair value.

2.3 Summary of significant accounting policies

a) Business combinations and goodwill

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments*: Recognition and Measurement, is measured at fair value with changes in fair value recognised in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for 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 interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as those of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

c) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

d) Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 15.4.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group 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.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

In most of its sales arrangements the Group is acting as a principal since it is the primary obligor for providing the goods and services, has pricing latitude and is also exposed to inventory and credit risks. In cases where Group has determined that it is acting as an agent, the amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods, incl. revenue from electricity trade, is recognised when all significant risks related to the ownership of the goods are transferred from the seller to the purchaser, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. The goods include the Guarantee of Origin (GoO) sales. GoO is used as proof that power has been generated from renewable sources. One certificate represents the generation of 1 Megawatt hour of electricity. Revenue from selling GoOs is recognised on accrual basis. Electricity sales revenue is recognised on the basis of the actually produced wind energy quantities multiplied by the contractual sales price, plus the grant in the case of state subsidies.

The revenue from the electricity produced during the testing period of the wind farm is recognised as a decrease in the cost of property, plant and equipment.

The expenses of the purchased balance power and the respective return on sales shall be netted in the case of agreements in which the subsidiary Nordic Power Management OÜ is in the position of an agent, that is, will not take the credit or market price risk.

Rendering of services

Revenue from the rendering of services is recorded in the period in which the services are rendered or using the percentage of completion method, when services are performed over a longer period of time, incl. success fees and other services related to selling electricity.

Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in financial income in the statement of comprehensive income.

Dividends

Income is recognised when the Group's right to receive the payment from associated companies is established, which is generally when shareholders approve the dividends, and if collection of the dividends is probable.

Rental income

Rental income arising from rental of investment properties is accounted for on a straight-line basis over the terms of the contract and is included in revenue in the statement of comprehensive income.

f) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is deducted from the carrying amount of the asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

g) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

➢ ***Parent undertaking and subsidiaries registered in Estonia***

According to the Income Tax Act, in Estonia corporate income tax applies not to profit of companies, but to paid dividends. The paid dividends are subject to the tax rate of 20/80 (2016: 20/80) on net dividends. As the subject of income tax is the paid dividends instead of the profit of companies, there are no differences between the tax accounting amount and carrying amount of assets and liabilities from which a deferred income tax asset or liability might arise.

In the balance sheet, the potential corporate income tax liability is not recognised with regard to the retained earnings of the Group that would arise upon the distribution of retained earnings as dividends.

Corporate income tax accompanying the payment of dividends is recorded as an expense in the statement of comprehensive income at the moment the dividends are declared.

➢ ***Subsidiaries registered abroad***

According to the Income Tax Act, net profit of companies adjusted for temporary and permanent differences specified in the Income Tax Act is taxed by corporate income tax in Lithuania (tax rate: 15%) and by corporate income tax in Latvia (tax rate: 15%).

In Latvia legal entities will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognised in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The income tax liability to be paid is recognised as a short-term liability.

Deferred tax

Deferred tax is provided using the balance sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

➢ When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

➢ In respect of taxable temporary differences associated with investments in subsidiaries, associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

➢ When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

➢ In respect of deductible temporary differences associated with investments in subsidiaries, associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Sales tax (Value added tax)

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

h) Cash dividend distribution to equity holders of the parent

The Group recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate laws in Nelja Energia AS, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised as a reduction of retained earnings.

i) Property, plant and equipment

Property, plant and equipment is measured at cost, net of accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are understood as items of assets that have a useful life of over one year. Assets with a useful life of over one year but with an insignificant cost are recorded as low-value items (in inventories) and are fully expensed when the asset is taken into use. Low-value items that have been expensed are accounted for off-balance sheet.

Property, plant and equipment are initially recognised at cost comprising the purchase price and expenses directly attributable to acquisition. Borrowing costs assumed for financing property, plant and equipment constructed for own use (incl. agreement fee, interests and commitment fees) which have accrued from commencement of construction until acceptance of the completed asset are recognised as part of the cost of property, plant and equipment.

An item of property, plant and equipment is subsequently carried in the statement of financial position at its cost less any accumulated depreciation and potential impairment losses.

If an item of property, plant and equipment consists of identifiable components with different useful lives, these components are recorded as separate asset items and depreciated at the rates corresponding to their useful lives.

Any subsequent expenditure related to the recognised property, plant and equipment (e.g. replacement of certain parts of an asset item) is added to the carrying amount of the assets if the following criteria have been met: (a) it is probable that economic benefit from this will flow to the Group (b) their cost can be reliably measured. The replaced parts are derecognised. All other expenditure is expensed in the period when such expenditure was incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the following useful lives: The depreciation rates are individually determined for each property, plant and equipment item, based on their useful lives. The expected useful lives of property, plant and equipment by the classes of property, plant and equipment are as follows:

Land is not depreciated	0
Buildings and facilities	20-30 years
Wind turbines	20 -25 years
Other inventory, tools and fittings	3-10 years

Depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle.
During construction of a wind farm, all direct expenses related to the project (designing, construction, production expenses), borrowing costs and management expenses are capitalised. The revenue of the electricity produced and sold during the testing period is recognised as a reduction of cost of property, plant and equipment.
The depreciation methods, rates and residual values of property, plant and equipment are reviewed at least at the end of each financial year and if new estimates are different from the former ones, the changes will be recognised as changes in accounting estimates, i.e. prospectively.
Recognition of property, plant and equipment is ended upon transfer of the asset or if the Group does not expect to receive any economic benefit from using or selling the asset any longer. Gains and losses arising on derecognition of property, plant and equipment are recognised under "Other operating income" or "Other expenses" in the statement of comprehensive income in the period in which the asset is derecognised of.

j) Investment properties
The Group classifies non-current assets as investment properties if non-current asset (land and/or buildings) are held to earn rentals or for capital appreciation (or both). The Group measures investment properties at fair value at each balance sheet date. External valuers are involved for valuation of significant investment properties. Involvment of external valuers is decided upon annually by the management.

k) Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.
Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.
The useful lives of intangible assets are assessed as either finite or indefinite.
Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.
Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

l) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.The Group has only financial assets at fair value through profit or loss and loans and receivables. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in two categories:

- **Financial assets at fair value through profit or loss**
- **Loans and receivables**

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or otherexpenses for receivables. This category generally applies to trade and other receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or;
- The Group has transferred its rights to receive cash flows from the asset and either

(a) the Group has transferred substantially all the risks and rewards of the asset, or;
(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
When the Group has transferred its rights to receive cashflows from an asset, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to financial costs in the statement of comprehensive income.

m) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- **Loans and borrowings**

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

n) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.
Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

The Group has only cash-flow hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.
Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of comprehensive income as other expenses.
Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs.

o) Inventories

Inventories are valued at the lower of cost and net realisable value.
Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

p) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
In assessing value in use, the estimated future cash flows are discounted to their present value using a after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into

account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

The following asset has specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

r) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts. Cash on Escrow account is restricted for the use of specific investments under certain conditions.

s) Provisions and contingent liabilities

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

Promises, guarantees and other liabilities that may change to liabilities in the future under certain conditions, but the likelihood of realisation thereof is smaller than the likelihood of non-realisation in the judgement of the management, are disclosed as contingent liabilities in the notes to the financial statements.

Statutory capital reserve

According to the Commercial Code of the Republic of Estonia and the articles of association of the parent company, at least 5% of net profit is transferred to the legal reserve each year until the legal reserve accounts for at least 10% of share capital. The legal reserve may not be paid out as dividends, but it may be used to cover loss if losses cannot be covered from retained earnings and other reserves. The legal reserve may be also used to increase share capital.

2.4 Changes in accounting policies and disclosures

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2017:

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)
The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment.

IAS 7: Disclosure Initiative (Amendments)
The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU.

➢ ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The amendments did not have any impact on the financial statements of the Group.

Standards issued but not yet effective

The Group 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:

IFRS 9 Financial Instruments: Classification and Measurement
The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.The Group will adopt IFRS 9 for the financial year beginning as of 1 January 2018 and is currently assessing the impacts of its adoption on the consolidated financial statements. Based on preliminary business model assessment and the assessment of the characteristics of the contractual cash flows (SPPI) made by the Management, implementation of the standard is expect to have limited or no impact as the Group has only the type of financial instruments for which classification and measurement is not expected to change. Since historically there have been very rare cases of impairments of receivables, transferring from incurred credit loss model to simplified approach expected credit loss model is considered to have no impact to the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers
The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not

an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). 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 plans to adopt the standard for the financial year beginning as of 1 January 2018, i. e. the comparable period will be presented in accordance with IFRS 15. Currently, it is expected that changes in the total amount of revenue to be recognised for a customer contract will be very limited. However, for certain types of contracts, the presentation in the statement of comprehensive income might change due to credit risk being removed as one of the key criteria in making the assessment of whether an entity is acting as a principal or agent. The volume of such agreements is very limited therefore the effect on the Group's financial statements is expected to be immaterial. Based on the preliminary analyses performed, the Group does not expect significant impacts on its Consolidated Financial Statements as the Group does not have long-term contracts with multi-element arrangements, no take-or-pay agreements, no sales incentives are provided, no contract costs are generally incurred or upfront payments made, contract modifications are rare etc.

IFRS 15: Revenue from Contracts with Customers (Clarifications)
The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Based on preliminary assessment made by the Management, implementation of the standard is expect to have limited or no impact.

IFRS 16 Leases
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group will adopt IFRS 16 for the financial year beginning as of 1 January 2019, once adopted by the EU, and is currently assessing the impacts of its adoption on the consolidated financial statements. Based on preliminary assessment made by the Management, implementation of the standard is expect to have an effect on the Group's financial statements because the Group has a number of ground lease agreements signed, varying from 20-99 years. These lease agreements have currently been classified as operating leases. Upon implementation of IFRS 16, among other considerations, the Group will make an assessment on the identified lease assets, non-cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments, termination option penalties etc). It is expected that right of use assets and lease liabilities will be recognised in the consolidated statement of financial position, significantly increasing the Group's total assets. Detailed analysis on implementation of IFRS 16 will be made in 2018.

Amendment In IFRS 10 Consolidated Financial Statements and IAS 28 Investments In Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
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 (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments

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have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. Management has assessed that the implementation of this standard will not have an effect on the Group's financial statements because the Group does not have have any share-based payment transactions..

Amendments to IAS 40: Transfers to Investment Property
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. Management has assessed that the implementation of this standard will not have any effect on the financial statements of the Group as there have been no transfers of properties in or out of investment property classification.

IFRS 9: Prepayment features with negative compensation (Amendment)
The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this standard.
IAS 28: Long-term Interests In Associates and Joint Ventures (Amendments)
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this standard.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration
The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. Management has

assessed that the implementation of this standard will not have any effect on the financial statements of the Group as sales and purchases are mainly made in euro only.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. Management has assessed that the implementation of the annual improvements will not have an impact on the Group financial statements as the Group already applies IFRS EU (will not be a first-time adopter) and is not a venture capital organisation. Required IFRS 12 disclosures will be made in the future, should any of the subsidiaries or associates become classified as held for sale or as a discontinued operation.

➢ ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

➢ ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

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3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Segment information

For segment reporting purposes the Group is allocated into operating segments based on the Group's internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the chief operating decision maker.

The Group allocates its operations into two main operating segments – wind energy and sales segment and biomass segment. With the pellet production commencing in 2017, the separation of the business units for reporting purposes has been changed. As at 01 January 2017 biomass segment (pellet production and sales; CHP production and sales) is considered as a separate operating segment and is disclosed separately in the interim condensed consolidated financial statements of the Group.

Assessment of the useful life of property, plant and equipment

The useful life of property, plant and equipment is determined based on the actual period of using the asset as estimated by the management. Recent experience has shown that the actual period of using the assets has sometimes proved to be a little longer than the estimated useful life of the assets. Starting from from 01 January 2017 depreciation period for windfarms was prolonged from 20 years to 25 years. As at 31 December 2017, the residual value of the property, plant and equipment of the Group was EUR 320,008 thousand (31 December 2016: EUR 334,574 thousand), the depreciation cost of the reporting period was EUR 17,046 thousand (2016: EUR 16,428 thousand) (Note 12). If the depreciation rates would decrease by 10%, the annual depreciation charge would decrease by EUR 1,705 thousand (2016: EUR 1,643 thousand).

Impairment of non-financial assets

The Group tests the recoverable amount based on the value in use of the cash generating unit (CGU). The value in use calculation is based on a discounted cash-flow (DCF) model. The cash flows are derived from the budget for the next twenty five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 14.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Please see also Note 11)

Evaluation of efficiency of risk hedge instruments

To hedge the interest risk of long-term loan liabilities, the Group has used hedge accounting on derivative instruments, which means that profit and loss resulting from changes in the fair value of effective risk hedge instruments are recognised in the corresponding equity reserve. If risk hedge instruments prove to be ineffective, the entire profit/loss from changes in fair value should be recognised in profit or loss in the statement of comprehensive income. As at 31 December 2017, the amount of the risk hedge reserve was EUR 31 thousand (31 December 2016: EUR – 3,157 thousand).

Contingent assets and liabilities

Upon estimating the realisation of contingent assets and liabilities, the management uses previous experience, general information on the economic and social environment as well as assumptions and conditions of future events that are based on the best knowledge of the situation. As at 31 December 2017, contingent liabilities in the amount of EUR 10 196 thousand are disclosed in Note 26.3.

Accounting for associates

Significant judgements used in accounting for associates are disclosed in Note 7.

Agent versus principal classification

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that in most of its sales arrangements it is acting as a principal since it is the primary obligor for providing the goods and services, has pricing latitude and is also exposed to inventory and credit risks. Most significant judgment is excercised for recognising the revenues of an indirect subsidiary of Nelja Energia AS - Nordic Power Management UAB - which is an energy trading company in Lithuania. In 2016 the subsidiary acquired the electricity from external producers and from Silutes vejo projektai UAB during its testing period and sold it to Nord Pool Spot (NPS) market. The management has concluded that although the entity does not have the primary responsibility for providing the goods or services and it does not bear significant credit risk, it is responsible for the successful transaction, i.e. bears operational risk. That is, Nordic Power Management UAB is responsible for correct and timely data insertion into the NPS system. In case it fails to properly do that the entity is responsible for covering for the under- or overproduction, and needs to involve other market participants to clear the differences. Thus it is concluded to be acting as a principal.

4. Segment information

The Group allocates its operations into two main operating segments – wind energy and sales segment and biomass segment. With the pellet production commencing in 2017, the separation of the business units for reporting purposes has been changed. As at 1 January 2017 biomass segment (pellet production and sales; CHP production and sales) is considered as a separate operating segment and is disclosed separately in the interim condensed consolidated financial statements of the Group.

2017	**Wind**	**Biomass**	**Total segments**	**Adjustments and eliminations**	**Consolidated**
€000					
Revenue					
External customers	57 799	11 297	69 096	0	69 096
Inter-segment	1 404	0	1 404	-1 404	0
Total revenue	**59 203**	**11 297**	**70 500**	**-1 404**	**69 096**
Other operating income	14 046	0	14 046	0	14 046
Goods, raw materials and services	-23 001	-9 177	-32 178	0	-32 178
Employee-related expenses	-2 272	-732	-3 004	0	-3 004
Depreciation, amortisation and impairment	-20 032	-2 735	-22 767	0	-22 767
Other expenses	-2 408	-315	-2 723	0	-2 723
Finance costs	-10 581	-4	-10 585	0	-10 585
Finance income	33	0	33	0	33
Share of profit of an associate	54	0	54	0	54
Inter-segment	2 211	-2 211	0	0	0
Segment Profit before income tax	**17 253**	**-3 877**	**13 376**	**-1 404**	**11 972**
As at 31 Dec 2017					
Assets	793 863	36 734	830 597	-391 444	439 153
Inter-Segment	39 846	0	39 846	-39 846	0
Total Assets	**833 709**	**36 734**	**870 443**	**-431 290**	**439 153**
Liabilities	242 524	1 353	243 877	943	244 820
Inter-Segment	0	39 846	39 846	-39 846	0
Total Liabilities	**242 524**	**41 199**	**283 723**	**-38 903**	**244 820**

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2016	Wind	Biomass	Total segments	Adjustments and eliminations	Consolidated
€000					
Revenue					
External customers	46 352	0	46 352	0	46 352
Inter-segment	0	0	0	0	0
Total revenue	**46 352**	**0**	**46 532**	**0**	**46 352**
Other operating income	14 830	0	14 830	0	14 830
Goods, raw materials and services	-20 520	63	-20 457	0	-20 457
Employee-related expenses	-2 272	-254	-2 526	0	-2 526
Depreciation, amortisation and impairment	-17 497	-44	-17 541	0	-17 541
Other expenses	-1 574	-66	-1 640	0	-1 640
Finance costs	-9 946	-2	-9 948	0	-9 948
Finance income	21	0	21	0	21
Share of profit of an associate	74	0	74	0	74
Inter-segment	27	-27	0	0	0
Segment Profit before income tax	**9 496**	**-330**	**9 166**	**0**	**9 166**
As at 31 December 2016					
Assets	422 241	34 898	457 139	-2 813	454 326
Inter-Segment	34 537	72	34 609	-34 609	0
Total Assets	**456 778**	**34 970**	**491 748**	**-37 422**	**454 326**
Liabilities	268 494	975	269 469	0	269 469
Inter-Segment	72	34 537	34 609	-34 609	0
Total Liabilities	**268 566**	**35 512**	**304 078**	**-34 609**	**269 469**

5. Capital management

For the purpose of the Group's capital management, capital includes issued capital, convertible preference shares, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Failure to meet the financial covenants would permit the bank to immediately call loans and borrowings.

The Group manages its capital structure and makes adjustments in light of changes in the economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

		2017	2016
	Notes	**€000**	**€000**
Interest-bearing loans and borrowings	15.2	231 279	253 187
Trade and other payables	24, 25	8 037	6 737
Less: cash and short-term deposits	19	-28 882	-28 117
Net debt		210 434	231 807
Equity		194 333	184 857
Equity and net debt		404 767	416 664
Gearing ratio		51,99%	55,63%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

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6. Group information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal Activity	Country of incorporation	% equity interest 2017	% equity interest 2016
Iverneta UAB	Electricity production	Lithuania	100%	100%
Silutes vejo projektai UAB	Electricity production	Lithuania	100%	100%
Naujoji Energija UAB	Electricity production	Lithuania	100%	100%
Silale Vejas UAB	Under development	Lithuania	100%	100%
Sudenu Vejo Elektra UAB	Electricity production	Lithuania	100%	100%
Silale Vejo Elektra UAB	Electricity production	Lithuania	100%	100%
UAB Šilutės vėjo parkas 2	Under development	Lithuania	100%	100%
UAB Šilutės vėjo parkas 3	Under development	Lithuania	100%	100%
UAB Energijos Žara***	Under development	Lithuania	100%	0%
UAB Vejo Parkai***	Under development	Lithuania	100%	0%
4E UAB	Management	Lithuania	80%	81%
Baltic Energy Group UAB	Offshore windpark development research	Lithuania	100%	100%
Enercom SIA	Under development	Latvia	100%	100%
SIA Technological Solutions	CHP	Latvia	100%	100%
SIA Pellet 4Energia	Pellet production	Latvia	100%	100%
4E SIA	Management	Latvia	100%	100%
Hanila Tuulepargid OÜ*	Electricity production	Estonia	100%	100%
Oceanside OÜ	Electricity production	Estonia	100%	100%
Pakri Tuulepargid OÜ	Electricity production	Estonia	100%	100%
Aseriaru Tuulepark OÜ	Electricity production	Estonia	100%	100%
Hiiumaa Offshore Tuulepark OÜ	Under development	Estonia	95%	95%
VV Tuulepargid OÜ	Electricity production	Estonia	100%	100%
Nordic Power Management OÜ Group**	Electricity trading	Estonia	51%	51%
4E Biofond OÜ	Management/Biogas plants	Estonia	69,88%	69,88%

*In 2016 Tooma Tuulepark OÜ was merged with Roheline Ring Tuulepargid OÜ. The new company was renamed to Hanila Tuulepargid OÜ.

**The Nordic Power Management OÜ Group includes Nordic Power Management UAB, Nordic Power Management SIA and Nordic Energy Solutions OÜ. The main area of activity of Nordic Power Management OÜ is portfolio management for electricity producers and acting as a balance provider for electricity producers operating in the Estonian electricity system, incl. wind farms.

***In 2017 two new companies were purchased- UAB Energijos Žara and UAB Vejo Parkai.

The holding company

The ultimate holding company of the Group is Vardar AS.

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Associate and financial investments

The Group has an interest in the following companies.

Name	Principal Activity	Country of incorporation	% equity interest 2017	% equity interest 2016
Empower 4 Wind OÜ	wind park maintenance	Estonia	40%	40%
Marble Invest OÜ*	renewable energy technologies	Estonia	1%	1%
Marble Management OÜ*	management	Estonia	5%	5%
Wind Controller OY	wind park maintenance	Finland	10%	10%
Pakri Energy Island OÜ	Renewable energy technologies	Estonia	20%	20%
Shareholdings through subsidiaries				
Oisu Biogaas OÜ	biogas plant	Estonia	40%	40%
Vinni Biogaas OÜ	biogas plant	Estonia	46,5%	46,5%

Significant influence in 2016 over Marble Invest OÜ, Marble Management OÜ and Wind Controller OY is obtained via additional influential rights set forth in the shareholder agreements, such as participating in policy making process and representation on the Supervisory Board.

In 2017 Marble Invest OÜ and Marble Management OÜ were reclassified as financial investments due to the fact that Nelja Energia AS does not have influential rights in these companies anymore.

7. Investment in an associate

The Group's interest in associate companies is accounted for in the consolidated financial statements using the equity method.
The following table illustrates the summarised financial information of the Group's investments in associate companies.

31 December 2017	Empower 4 Wind OÜ	Oisu Biogaas OÜ	Vinni Biogaas OÜ	Wind Controller OY	Pakri Energy Island OÜ
€000					
Current assets	1 219	334	168	609	44
Non-current assets	136	2 909	2 942	236	1
Current liabilities	-218	-680	-624	-313	-14
Non-current liabilities	-5	-1 793	-1 536	-62	0
Equity	**1 132**	**770**	**950**	**470**	**31**
Incl.loan reserve		**1 563**	**2 184**	0	0
Group's ownership interest	40,00%	40,00%	46,50%	10,00%	20,00%
Carrying amount of the investment	453	1 220*	1 581*	47	6
Purchased shares	0	0	0	50	0
Carrying amount of the investment in the statement of financial position*	453	1 220	1 581	97	6
2017					
€000					
Revenue	2 393	767	912	0	30
Cost of sales	-1 820	-343	-440	0	0
Administrative expenses	-135	-80	-104	0	-104
Depreciation	-34	-264	-272	0	0
Finance costs	-1	-138	-128	0	0
Profit (-loss) before tax	**403**	**-58**	**-32**	**124**	**-74**
Income tax expense	-66	0	0	0	0
Profit (-loss) for the year	**337**	**-58**	**-32**	**124**	**-74**
Group's share of profit for the year	135	-23	-15	12	-15
Group's share of profit for previous periods	0	-17	-19	0	0
Amount through Group statement of comprehensive income*	**135**	**-40**	**-34**	**12**	**-15**

*Carrying amount of the investment in Oisu Biogaas OÜ includes equity reserve in amount of EUR 1 563 thousand which comprises fully of additional investment (converted loan) made by the Group. Associate's equity without the reserve amounted to EUR – 777 thousand. In Vinni Biogaas OÜ the same reserve amounts to EUR 2 184 thousand and the equity value without the reserve amounted to EUR -1244 thousand.

Group received dividends in amount EUR 106 thousand from Empower 4 Wind OÜ and EUR 0 thousand from Wind Controller OY EUR in 2017.

In 2017 Marble Invest OÜ and Marble Management OÜ were reclassified as financial investments due to the fact that Nelja Energia AS does not have influential rights in these companies anymore.

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31 December 2016	Empower 4 Wind OÜ	Marble Invest OÜ	Oisu Biogaas OÜ	Vinni Biogaas OÜ	Wind Controller OY	Marble Management OÜ	Pakri Energy Island OÜ
€000							
Current assets	1 260	493	160	158	473	63	43
Non-current assets	140	109	3 163	3 214	127	35	0
Current liabilities	-330	-1 170	-598	-500	-244	-6	-13
Non-current liabilities	-8	0	-1 939	-1 932	-12	0	0
Equity	**1 062**	**-568**	**786**	**940**	**344**	**92**	**30**
Incl.loan reserve	0	0	1 563	2 184	0	0	0
Group's ownership interest	40,00%	1,00%	40,00%	46,50%	10,00%	5,00%	20,00%
Carrying amount of the investment	425	-6	1 241**	1 596**	34	5	6
Purchased shares	0	0	0	0	50	0	0
Carrying amount of the investment in the statement of financial position*	425	0	1 241	1 596	84	5	6
2016							
€000							
Revenue	2 663	15	803	903	1 871	120	12
Cost of sales	-825	0	-320	-444	-343	0	0
Administrative expenses	-1 330	-125	-84	-125	-1 422	-93	-82
Depreciation	-34	-16	-269	-275	-11	0	0
Finance costs	-1	-604	-140	-130	-4	0	0
Profit (-loss) before tax	**473**	**-730**	**-10**	**-71**	**91**	**27**	**-70**
Income tax expense	-84	0	0	0	-18	0	0
Profit (-loss) for the year	**389**	**-730**	**-10**	**-71**	**73**	**27**	**-70**
Group's share of profit for the year	156	-7	-4	-33	7	1	-14
Group's share of profit for previous periods	0	5	-13	-16	-8	0	0
Amount through Group statement of comprehensive income*	**156**	**-2**	**-17**	**-49**	**-1**	**1**	**-14**

**Carrying amount of the investment in Oisu Biogaas OÜ includes equity reserve in amount of EUR 1 563 thousand which comprises fully of additional investment (converted loan) made by the Group. Associate's equity without the reserve amounted to EUR – 777 thousand. In Vinni Biogaas OÜ the same reserve amounts to EUR 2 184 thousand and the equity value without the reserve amounted to EUR -1244 thousand.

*Entity's share of losses of an associate are recognised to the extent the investment value equals 0.

Group received dividends in amount EUR 135 thousand from Empower 4 Wind OÜ and EUR 3 thousand from Wind Controller OY EUR in 2016.

8. Fair value measurement

Quantitative disclosures on fair value measurement hierarchy as at 31 December 2017:

	Notes	Date valuation	Total	Fair value measurement using: Quoted prices active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			€000	€000	€000	€000
Assets measured at fair value:						
Investment properties		31 Dec.2017	103	0	103	0
Assets for which fair values are disclosed						
Loans to associates	15.1	31 Dec.2017	325	0	0	325
Liabilities measured at fair value:						
Derivative financial liabilities						
Interest rate swap	15.3	31 Dec.2017	5 460	0	5 460	0
Liabilities for which fair values are disclosed						
Loans from banks and other borrowings	15.2	31 Dec.2017	217 179	0	217 179	0
Obligations under finance leases	15.2	31 Dec.2017	14 100	0	14 100	0

Quantitative disclosures on fair value measurement hierarchy as at 31 December 2016:

	Notes	Date valuation	Total	Fair value measurement using: Quoted prices active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			€000	€000	€000	€000
Assets measured at fair value:						
Investment properties		31 Dec.2016	103	0	103	0
Assets for which fair values are disclosed						
Loans to associates	15.1	31 Dec.2016	130	0	0	130
Liabilities measured at fair value:						
Derivative financial liabilities						
Interest rate swap	15.3	31 Dec.2016	9 545	0	9 545	0
Liabilities for which fair values are disclosed						
Loans from banks and other borrowings	15.2	31 Dec.2016	236 168	0	236 168	0
Obligations under finance leases	15.2	31 Dec.2016	17 019	0	17 019	0

Additional information about fair value measurement is disclosed in the Note 15.4.

9. Sale of goods and services

Geographic areas

	2017	2016
	€000	€000
Estonia	17 553	14 145
Lithuania	38 085	26 976
Latvia	3 284	28
Great Britain	1 306	0
Denmark	2 518	0
Netherland	4 100	0
Norway	2 250	5 204
	69 096	**46 353**

Areas of operation

	2017	2016
Sales of electricity	13 575	11 346
Sale of produced electricity	43 765	34 488
Sale of produced electricity (biomass)	3 211	0
Sale of pellets	8 084	0
Financial management and operation service	4	7
Monthly and success fees of energy trade	60	87
Sales of the GoOs*	110	141
Other sales revenue	287	284
	69 096	**46 353**

* GoOs- Guarantees of Origin for electricity from renewable energy sources. GoOs are certificates that prove that one MWh of electricity was produced using renewable energy sources.

10. Other income/expense and adjustments

10.1 Other operating income

	Notes	2017	2016
		€000	€000
Subsidy	22	13 654	13 958
Recognition of deferred income*	23	0	23
Insurance compensation**		309	752
Other		83	97
		14 046	**14 830**

*The last portion of the bank guarantee received in Aseriaru Tuulepark OÜ was recognised as income in 2016 amounting to 23 thousand euros.

** Insurance compensation was received in 2017 in Aseri Tuulepark OÜ in amount 36 thousand euros, in VV Tuulepark OÜ in amount 272 thousand euros. Insurance compensation was received in 2016 in Aseri Tuulepark OÜ in amount 247 thousand euros, in VV Tuulepark OÜ in amount 201 thousand euros and in Pakri Tuulepargid OÜ in amount 304 thousand euros. The last portion

10.2 Goods, raw materials and services

	Notes	2017	2016
		€000	€000
Fixed and open supplies *		-13 089	-11 232
Change in inventory	16	1 250	569
Maintenance		-9 134	-7 530
Raw material		-5 315	-216
Insurance expenses		-937	-736
Transport		-1 868	-36
Phone and communication expenses		-28	-22
Consumption of electricity		-1 487	-171
Land lease and taxes		-882	-818
Other purchased services		-411	-265
Allowance for inventories		-277	0
		-32 178	**-20 457**

* The purchased balance power expenses and the respective return on sales shall be netted in the case of agreements in which the subsidiary Nordic Power Management OÜ is in the position of an agent, that is, will not take the credit or market price risk.

10.3 Other expenses

	2017	2016
	€000	€000
Rent and expenses related to administration of premises	-159	-132
IT and other office expenses	-147	-76
Phone and communication expenses	-75	-46
Training and other employee-related expenses	-39	-27
Business trip expenses	-116	-81
Transport expenses	-296	-285
Accounting and auditing expenses	-138	-130
Bank service	-200	-78
Legal consultations	-244	-62
Technical consultations	-415	-128
Other consultations	-212	-8
Marketing expenses	-84	-87
Other expenses	-598	-500
	-2 723	**-1 640**

10.4 Employee-related expenses

	2017	2016
	€000	€000
Salaries	-2 266	-1 906
Social taxes	-623	-505
Other personnel costs	-115	-115
	-3 004	**-2 526**
Average number of employees	72	46

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10.5 Finance costs

	2017	2016
	€000	€000
Interest on debt and borrowings	-7 527	-6 824
Interest on derivatives	-3 944	-3 732
Ineffective part of derivatives	913	621
Other finance cost	-13	-13
Currency translation differences	-14	0
	-10 585	**-9 948**

10.6 Finance income

	2017	2016
	€000	€000
Interest on loans	32	4
Interest on cash in bank and bank deposits	1	17
Currency translation differences	0	0
	33	**21**

11. Income tax

Consolidated statement of comprehensive income	2017	2016
	€000	€000
Current income tax:		
Current income tax charge	-1 073	-666
Income tax on dividends*	-644	-75
Deferred tax	430	344
Income tax expense reported in the statement of comprehensive income	**-1 287**	**-397**

2017	Latvia	Lithuania	Estonia	Total
	€000	€000	€000	€000
Tax rate	**15%**	**15%**	**20/80***	
Income tax				
Profit before income tax 31 December 2017	-4 110	15 561	149 268	160 719
Subject of the tax for the following reasons				
profit of companies	0	16 039	149 268	165 307
deductible profit	0	0	-149 268	-149 268
loss of previous periods	0	-3 812	0	-3 812
investment incentive	0	-2 513	0	-2 513
testing period profit**	0	-2 799	0	-2 799
non-deductible expenses	0	190	0	190
Profit subject to income tax	0	7 105	0	7 105
Dividends subject to income tax*	0	0	4 367	4 367
Total taxable with income tax	**0**	**7 105**	**4 367**	**11 472**
Calculated income tax	0	1 066	644	1 710
Correction from previous periods	**0**	**7**		**7**
Income tax expense reported in the statement of comprehensive income	**0**	**1 073**	**644**	**1 717**
Deferred income tax:				
Balance as at 31 December 2016	**0**	**1 713**	**0**	1 713
Reported in statement of comprehensive income	0	430	0	430
Asset Balance as at 31 December 2017	**0**	**2 180**	**0**	**2 180**
Liabilities Balance as at 31 December 2017	**0**	**-37**	**0**	**-37**
Subject of the deferred tax for the following reasons				
holiday reserve accrual	0	45	0	45
unrealized gain from reorganisation	0	-523	0	-523
test period sales revenue	0	4 849	0	4 849
investment incentive	0	13 518	0	13 518
accrued loss	0	3 530	0	3 530
fees	0	-4 814	0	-4 814
change in depreciation period	0	-2 318	0	-2 318
Total taxable with deferred income tax	0	14 287	0	14 287
Deferred tax assets	**0**	**2 143**	**0**	**2 143**

* In Estonia, instead of profit, net dividends are subject to income tax
** Revenues and expenses during the test period of the wind farm are capitalized to the property, plant and equipment.

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2016	Latvia	Lithuania	Estonia	Total
	€000	€000	€000	€000
Tax rate	**15%**	**15%**	**20/80***	
Income tax				
Profit before income tax 31 December 2016	-488	6 060	88 626	94 198
Subject of the tax for the following reasons				
profit of companies	0	6 362	89 385	95 747
deductible profit	0	0	-89 385	-89 385
loss of previous periods	0	-1 450	0	-1 450
investment incentive	0	-1 577	0	-1 577
testing period profit**	0	683	0	683
non-deductible expenses	0	419	0	419
Profit subject to income tax	0	4 437	0	4 437
Dividends subject to income tax*	0	0	300	300
Total taxable with income tax	**0**	**4 437**	**300**	**4 737**
Calculated income tax	0	666	75	741
Income tax expense reported in the statement of comprehensive income	**0**	**666**	**75**	**741**
Deferred income tax:				
Balance as at 31 December 2015	**0**	**1 369**	**0**	1 369
Reported in statement of comprehensive income	0	344	0	344
Balance as at 31 December 2016	**0**	**1 713**	**0**	**1 713**
Subject of the deferred tax for the following reasons				
holiday reserve accrual	0	66	0	66
unrealized gain from reorganisation	0	-568	0	-568
test period sales revenue	0	5 177	0	5 177
investment incentive	0	5 242	0	5 242
accrued loss	0	7 111	0	7 111
fees	0	-5 611	0	-5 611
Total taxable with deferred income tax	0	11 417	0	11 417
Deferred tax assets	**0**	**1 713**	**0**	**1 713**

* In Estonia, instead of profit, net dividends are subject to income tax
** Revenues and expenses during the test period of the wind farm are capitalized to the property, plant and equipment.

Potential income tax liability of the Group

	2017	2016
	€000	€000
Retained earnings	15 030	9 265
Potential CIT %*	3 006	1 853
Potential dividends	**12 024**	**7 413**

As in Estonia, instead of profit, dividends are subject to income tax, then potential CIT is calculated based on assumption that full amount of retained earnings is paid out as dividends and CIT.

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12. Property, plant and equipment

	Land	Buildings	Construction in progress	Other tangible assets	Prepay-ments	Total
Notes	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Cost						
At 31 December 2015	**3 075**	**282 126**	**63 791**	**333**	**1 370**	**350 695**
Additions	0	3 928	65 601	20	0	69 549
Disposals	0	0	0	0	-3	-3
Borrowing costs	0	0	477	0	0	477
Reclassification	138	88 148	-88 286	0	0	0
Return on sales on test period	0	0	-1 957	0	0	-1 957
At 31 December 2016	**3 213**	**374 202**	**39 626**	**353**	**1 367**	**418 761**
Additions	0	27	5 180	138	0	5 345
Grants	0	-657	0	0	0	-657
Disposals	0	-31	0	-44	-4	-79
Borrowing costs	0	0	47	0	0	47
Reclassification	197	39 149	-38 124	0	-1 222	0
Return on sales on test period	0	0	-2 251	0	0	-2 251
At 31 December 2017	**3 410**	**412 690**	**4 478**	**447**	**141**	**421 166**
Depreciation and impairment						
At 31 December 2015	**0**	**65 797**	**1 263**	**218**	**0**	**67 278**
Impairment**	0	481	0	0	0	481
Depreciation for the financial year	0	16 382	0	46	0	16 428
At 31 December 2016	**0**	**82 660**	**1 263**	**264**	**0**	**84 187**
Disposal amortisation	0	-31	0	-44	0	-75
Depreciation for the financial year	0	16 976	0	70	0	17 046
At 31 December 2017	**0**	**99 605**	**1 263**	**290**	**0**	**101 159**
Net book value						
At 31 December 2017	3 410	313 085	3 215	157	141	**320 008**
At 31 December 2016	3 213	291 542	38 363	89	1 367	**334 574**

In 2017, the net book value of assets acquired with finance lease amounted to EUR 27 560 thousand (2016: EUR 29 326 thousand) (Note 26.2).

**Together with impairment testing of goodwill, the Group has tested impairment of property, plant and equipment by testing the recoverable amounts of the cash-generating units the assets belong to. These cash-generating units consist of wind parks as well as separate entities. As a result of this test no impairment for assets was detected in 2017, an impairment was detected for assets of subsidiary Aseriaru Tuulepark OÜ in amount EUR 481 thousand in 2016. Please refer to note 14 for further details.

12.1 Accepted wind farms

	Capacity MW	Accepted	Depreciation start
Šilutes vejo projektai UAB (Silute wind farm)	60	July 2016	Aug 2016
Hanila Tuulepargid OÜ (Tooma2 wind farm)	7.1	May 2017	May 2017

13. Intangible assets

	Other intangible assets	Prepayments	Goodwill*	Total
	€000	€000	€000	€000
Cost or valuation				
At 1 January 2016	**478**	**59**	**88 051**	**88 588**
Additions	0	78	0	78
At 31 December 2016	**478**	**137**	**88 051**	**88 666**
Reclassification	73	-73	0	0
Additions	9	29	695	733
Disposal	0	0	-24	-24
At 31 December 2017	**560**	**93**	**88 722**	**89 375**
Amortisation and impairment				
At 31 December 2015	**116**	**0**	**27 491**	**27 607**
Amortisation and impairment	68	0	564	632
At 31 December 2016	**184**	**0**	**28 055**	**28 239**
Reclassification	5	0	0	5
Amortisation and impairment	77	0	5 644	5 721
At 31 December 2017	**266**	**0**	**33 699**	**33 965**
Net book value				
At 31 December 2017	294	93	55 023	55 410
At 31 December 2016	294	137	59 996	60 428

* Please refer to Note 14 for additional information on Goodwill.

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14. Goodwill

An impairment test was carried out at the balance sheet date to determine the recoverable value of the goodwill that arose upon gaining control over previous joint ventures and business combinations and the recoverable value of property, plant and equipment.

	2017	2016
	€000	€000
Goodwill at the beginning of the period	59 996	60 560
Additions from aquisition	695	0
Impairment of Goodwill	- 5 644	-564
Impact of subsidiary share sales	-24	0
Goodwill at the end of the period	**55 023**	**59 996**

The Group has allocated the goodwill to a number of cash generating units which consists of wind parks as well as separate entities. The recoverable value of the tested cash generating unit (CGU) is determined as a value in use. The test is based on budgeted cash flows for the next 12 - 25 years, depending on the acceptance date of a specific wind park, approved by the Supervisory Board of Nelja Energia AS. In 2016 the useful life of windparks with WinWind turbines was extended to 25 years, to reflect the Groups commitment to upgrade the turbines. For accounting assessment please refer to note 3 "Significant accounting judgements, estimates and assumptions".

The value in use of each CGU is found by the discounted cash flow method and the recoverable amount is compared to the carrying amount of the CGU.

Below is the description of assumptions and estimates made by the management:

- Forecast period: 2018-2048 (2016: 2017-2045);
- Discount rate: 6,5%-9,9% (2016: 7,0%-10,8%);
- Price of loan capital is based on the actual loan interests of the Company;
- Change in sales and production forecasts is based on the analysis conducted by an independent expert, the forecast of sales price is based on the legislation regulating subsidies granted to renewable energy in the country of location of the Company and the forecasts of sales price of electricity prepared by the management board;
- General administration expenses: the forecast is based on historical data, the budgets approved by the management for 2018 and the annual growth rate of 2-3%.

Sensitivity of goodwill to a change in revenues has been tested and below is a numerical sample of sensitivity test:

2017 (€000)	**Discount rate**	**WACC**	**Discount rate**
Sensitivity for impact on profit	**0,50%**	**0,00%**	**-0,50%**
Change in revenue -10%	-63 756	-59 626	-55 571
Revenue remains the same	-2 033	0	0
Change in revenue +10%	0	0	0

Main factor to impairment in 2017 was the change in the long term prognosis of electricity prices and revisions done to long term energy yield forecasts (Paldiski wind farm's long term forecast lowered causing the majority of the impairment). The prognosises used in the valuation were prepared by independent consulting companies. Same consulting company provided the electricity price prognosis also for 2016 test. The energy yield forecasts were provided by an internationally acclaimed consultant during the Group's portfolio review. In 2017 WACCs' for all CGU's were lowered on positive global financial market backdrop. The Broceni pellet factory's and CHP's WACC saw decrease from 8.9% to 7,4% due development risk reduction. No other significant changes in assumptions were made in 2017 impairment test.

15.Financial assets and financial liabilities

15.1 Financial assets
as at 31 December

	Notes	2017 €000	2016 €000
Loans and receivables			
Loans to associates	15.1.1	325	130
Accrued interest	15.1.2	33	4
Security deposits	15.1.3	9 162	9 892
Other		4	6
Total loans and receivables		9 524	10 030
Total other financial assets		**9 524**	**10 030**
Total current		**33**	**0**
Total non-current		**9 491**	**10 030**

15.1.1 Loans to associates
as at 31 December

	Notes	Lender	Amount	Maturity	Interest
2017			€000		
Oisu Biogaas	27	4E Biofond OÜ	245	2024	12,00%
Vinni Biogaas OÜ	27	4E Biofond OÜ	80	2024	12,00%
			325		
2016					
Vinni Biogaas OÜ	27	4E Biofond OÜ	130	2023	12,00%
12			**130**		

15.1.2 Accrued interest
as at 31 December

	Notes	Lender	2017 €000	2016 €000
Loan interest from Vinni Biogaas OÜ	27	4E Biofond OÜ	19	4
Loan interest from Oisu Biogaas OÜ	27	4E Biofond OÜ	14	0
			33	**4**

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15.1.3 Security deposits

as at 31 December

2017	Bank	Amount	Maturity	Interest
		€000		
Hanila Tuulepargid OÜ	SEB	650	05 Jul.2025	0,00%
Iverneta UAB	Swedbank	300	30 Mar.2023	0,05%
Oceanside OÜ	SEB	66	28 Jul.2021	1,35%
Naujoji Energija UAB	SEB	1 145	03 Apr.2025	0,00%
Pakri Tuulepargid OÜ	SEB	676	3 Dec..2021	0,00%
Sudenu Vejo Elektra UAB	Swedbank	300	01 Apr.2019	1,02%
Silale Vejo Elektra UAB	SEB	418	19 Dec.2024	0,00%
Silute vejo projektai UAB	SEB	3 751	31 Jul.2028	0,00%
Nordic Power Management OÜ	Nordea	32	02.Jan.2019	0,09%
Aseriaru Tuulepark OÜ	Swedbank	1 500	30 Jun.2022	0,01%
Pakri Tuulepargid OÜ	SEB	324	25 Sep.2021	0,00%
		9 162		

2016	Bank	Amount	Maturity	Interest
		€000		
Hanila Tuulepargid OÜ	SEB	650	05 Jul.2025	0,00%
Iverneta UAB	Swedbank	300	30 Mar.2023	0,05%
Oceanside OÜ	SEB	66	28 Jul.2021	1,35%
Naujoji Energija UAB	SEB	1 192	28 Jun.2018	0,00%
Pakri Tuulepargid OÜ	SEB	676	25 Sep.2021	0,00%
Sudenu Vejo Elektra UAB	Swedbank	300	01 Apr.2019	1,02%
Silale Vejo Elektra UAB	SEB	452	21 Dec.2017	0,00%
Silute vejo projektai UAB	SEB	4 400	31 Jul.2028	0,00%
Nordic Power Management OÜ	Nordea	32	02.Jan.2018	0,09%
Aseriaru Tuulepark OÜ	Swedbank	1 500	30 Jun.2022	0,01%
Pakri Tuulepargid OÜ	SEB	324	25 Sep.2021	0,00%
		9 892		

15.2 Financial liabilities
as at 31 December

2017		**Current**	**Non-current**	**Total**
Other financial liabilities	**Notes**	**€000**	**€000**	**€000**
Financial instruments at fair value through OCI				
Derivatives	15.3	2 990	2 470	5 460
Total financial instruments at fair value through OCI		2 990	2 470	5 460
Total other financial liabilities		**2 990**	**2 470**	**5 460**
Interest bearing loans and borrowings				
Loans from banks	15.2.1	19 917	149 152	169 069
Obligations under finance leases	26	3 046	11 054	14 100
Other borrowings	15.2.2	-113	48 223	48 110
Total interest bearing loans and borrowings		**22 850**	**208 429**	**231 279**

2016		**Current**	**Non-current**	**Total**
Other financial liabilities	**Notes**	**€000**	**€000**	**€000**
Financial instruments at fair value through OCI				
Derivatives	15.3	3 911	5 634	9 545
Total financial instruments at fair value through OCI		3 911	5 634	9 545
Total other financial liabilities		**3 911**	**5 634**	**9 545**
Interest bearing loans and borrowings				
Loans from banks	15.2.1	29 403	158 759	188 162
Obligations under finance leases	26	2 940	14 079	17 019
Other loans	15.2.2	-105	48 111	48 006
Total interest bearing loans and borrowings		**32 238**	**220 949**	**253 187**

15.2.1 Loans from banks

as at 31 December

	Lender	Interest rate	Agreement date	Repayment date	Loan amount	Loan liability	
						2017	2016
					€000	€000	€000
Hanila Tuulepargid OÜ	SEB	3 month Euribor + 1,80%	8 Oct.2012	30 Sep.2019	18 860	7 010	8 930
Hanila Tuulepargid OÜ*	SEB	EIR 1,918%	3 Jul.2015	1 Jul.2021	10 272	6 038	7 718
Hanila Tuulepargid OÜ**	SEB	EIR 1,918%	3 Jul.2015	1 Jul.2025	9 100	7 680	8 361
Pakri Tuulepargid OÜ	SEB, Pohjola	3 month Euribor + 2,2%	21 Nov.2012	25 Sep.2021	15 230	6 110	7 790
Oceanside OÜ	SEB	3 month Euribor + 1,72%	2 Aug.2011	28 Jul.2021	3 500	1 821	2 132
Pakri Tuulepargid OÜ	SEB, Pohjola	3 month Euribor + 2,2%	18 Oct.2011	25 Sep.2021	24 300	14 699	16 525
Aseriaru Tuulepark OÜ	Swedbank	1 month Euribor + 3,5%	27 Oct.2010	30 Jun.2022	28 000	17 421	19 626
Aseriaru Tuulepark OÜ	Swedbank (overdraft)	1 month Euribor + 3,00%	21 Nov.2012	15 Dec.2017	1 500	191	226
Naujoji energija UAB	SEB, Pohjola	6 month Euribor + 1,45 %	29 Jun.2011	03 Apr.2025	42 000	25 311	28 176
Silales vejo elektra UAB	SEB	6 month Euribor + 1,5%	22 Dec.2010	19 Dec.2024	16 254	9 733	10 921
Silutes vejo projektai UAB***	KFW-IPEX, SEB AG	EIR 2,547%	23 Mar.2015	30 Jun.2025	66 800	58 810	61 669
Silutes vejo projektai UAB****	KFW-IPEX, SEB AG	EIR 2,880%	23 Mar.2015	31 Dec.2025	16 568	14 245	16 088
						169 069	**188 162**

Due to using effective interest rate method in accounting for liabilities at amortised cost contractual interest rate and loan balances differ from the above as follows:

*Contractual interest rate is 1,80% + 6 month Euribor. Remaining contractual loan balance as at 31 December 2017 amounts to EUR 6 051 thousand.

**Contractual interest rate is 1,8% + 6 month Euribor. Remaining contractual loan balance as at 31 December 2017 amounts to EUR 7 684 thousand.

***Contractual interest rate is 1,2% + 6 month Euribor. Remaining contractual loan balance as at 31 December 2017 amounts to EUR 63 250 thousand.
****Contractual interest rate is 2,05% + 6 month Euribor. Remaining contractual loan balance as at 31 December 2017 amounts to EUR 14 618 thousand.

Bank loans are secured by a first mortgage on wind farms land and buildings in the net book value of EUR 269 228 thousand, shares of subsidiaries and guarantees (Note 26.3)

15.2.2 Other borrowings

as at 31 December

	Lender	Interest rate	Agreement date	Repayment date	Loan amount	Loan liability	
						2017	**2016**
					€000	**€000**	**€000**
Nelja Energia AS*	Oslo Bors ASA	EIR 6,996%	2 Jun.2015	2.Jun.2021	50 000	48 110	48 006
						48 110	**48 006**

On 02 June 2015 Nelja Energia AS launched a bond offering to international investors. The proceeds of the bond issue was used for refinancing existing loans and financing Broceni CHP/pellet project.

*Nelja Energia AS contractual interest rate for bond issue of EUR 50 000 thousand is 6,5% + 6 month Euribor. Outsanding bonds balance as at 31 December 2017 amounts to EUR 48 500 thousand. For accounting purposes bonds are accounted for using the effective interest rate method (EIR).

15.3 Financial instruments

as at 31 December

2017	Bank	Loan Interest rate	SWAP fixed rate	SWAP notional amount	SWAP agreement date	SWAP maturity date	SWAP market value
				€000			€000
Hanila Tuulepargid	SEB	3 month Euribor + 1,80%	1,70%	11 760	29 Apr.2013	28 Oct.2019	151
Hanila Tuulepargid OÜ	SEB	6 month Euribor + 1,8%	4,49%	9 076	28 Dec.2015	25 Jun.2021	512
Oceanside OÜ	SEB	3 month Euribor + 1,72%	2,99%	3 231	4 Nov.2011	4 Aug.2021	152
Pakri Tuulepargid OÜ	SEB	3 month Euribor + 2,2%	2,17%	23 643	26 Mar.2012	27 Sep.2021	1 062
Aseriaru Tuulepark OÜ	Swed-bank	1 month Euribor + 3,5%	2,46%	27 835	22 Nov.2012	25 Jun.2022	1 373
Pakri Tuulepargid OÜ	Pohjola	3 month Euribor + 2,2%	1,32%	2 167	19 Jun.2013	25 Sep.2021	83
Pakri Tuulepargid OÜ	SEB	3 month Euribor+ 2,2%	1,32%	7 382	27 Jun.2013	27 Sep.2021	128
Naujoji energija UAB	SEB	6 month Euribor + 1,45 %	3,20%	27 316	5 Jul.2011	25 Jun.2018	446
Silales vejo elektra UAB	SEB	6 month Euribor + 1,5%	3,33%	5 996	10 Mar.2011	12 Sep.2018	135
Iverneta UAB	Swed-bank	6 month Euribor + 1,99%	3,50%	4 362	1 Oct.2009	30 Oct.2019	177
Sudenu vejo elektra UAB	Swed-bank	6 month Euribor + 1,99%	2,30%	5 427	21 Sep.2011	30 Mar.2019	142
Silutes vejo projektai UAB	SEB	6 month Euribor + 1,2%	0,88%	29 829	22 Apr.2015	30 Jun.2028	550
Silutes vejo projektai UAB	KFW-IPEX	6 month Euribor + 1,2%	0,88%	29 829	22 Apr.2015	30 Jun.2028	549
Total liabilities							**5 460**

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2016	Bank	Loan Interest rate	SWAP fixed rate	SWAP notional amount	SWAP agreement date	SWAP maturity date	SWAP market value
				€000			€000
Hanila Tuulepargid	SEB	3 month Euribor + 1,80%	1,70%	11 760	29 Apr.2013	28 Oct.2019	279
Hanila Tuulepargid	SEB	6 month Euribor + 1,80%	4,27%	2 725	3 Sep.2007	1 Sep.2017	18
Hanila Tuulepargid OÜ	SEB	6 month Euribor + 1,8%	4,49%	9 076	28 Dec.2015	25 Jun.2021	835
Oceanside OÜ	SEB	3 month Euribor + 1,72%	2,99%	3 231	4 Nov.2011	4 Aug.2021	225
Pakri Tuulepargid OÜ	SEB	3 month Euribor + 2,2%	2,17%	23 643	26 Mar.2012	27 Sep.2021	1 527
Aseriaru Tuulepark OÜ	Swed-bank	1 month Euribor + 3,5%	2,46%	27 835	22 Nov.2012	25 Jun.2022	2 004
Pakri Tuulepargid OÜ	Pohjola	3 month Euribor + 2,2%	1,32%	2 763	19 Jun.2013	25 Sep.2021	129
Pakri Tuulepargid OÜ	SEB	3 month Euribor+ 2,2%	1,32%	7 382	27 Jun.2013	27 Sep.2021	197
Naujoji energija UAB	SEB	6 month Euribor + 1,69 %	3,20%	30 565	5 Jul.2011	25 Jun.2018	1 390
Silales vejo elektra UAB	SEB	6 month Euribor + 2,45%	3,33%	8 149	10 Mar.2011	12 Sep.2018	380
Iverneta UAB	Swed-bank	6 month Euribor + 1,99%	3,50%	6 544	1 Oct.2009	30 Oct.2019	381
Sudenu vejo elektra UAB	Swed-bank	6 month Euribor + 1,99%	2,30%	6 989	21 Sep.2011	30 Mar.2019	293
Silutes vejo projektai UAB	SEB	6 month Euribor + 1,2%	0,88%	32 484	22 Apr.2015	30 Jun.2028	945
Silutes vejo projektai UAB	KFW-IPEX	6 month Euribor + 1,2%	0,88%	32 484	22 Apr.2015	30 Jun.2028	942
CAP (Pakri Tuulepargid OÜ)*	SEB		4,30%	-6 111	20 Apr.2006	20 Oct.2017	0
Total assets							**0**
Total liabilities							**9 545**

*To hedge an interest rate risk arising from a loan contract with a floating interest rate concluded with Pakri Tuulepargid OÜ, a derivative instrument (Interest Rate Cap) was used. The amount of the agreement is changing over time and the underlying amounts of the hedged instrument are not equal to the loan balance.

To hedge the interest risk arising from a loan agreement with floating interest rate, derivative instruments - Interest Rate Swaps have been used.

If a cash flow hedge meets the conditions for hedge accounting for the reporting period, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity (without any impact on profit or loss) and the ineffective portion (over-hedge above 100%) of the gain or loss on the hedging instrument is recognised in the income statement. In case a cash-flow hedge does not meet the conditions for hedge accounting, the cumulative gain or loss of the hedging instrument that has been recognised in revaluation reserve (equity) from the period when the hedge was effective is released to the profit (-loss) immediately.

15.4 Fair values
as at 31 December

Set out below, is a comparison by class of the carrying amounts and fair values of the Group's financial instruments those where carrying amounts are reasonable approximations of fair values

	Carrying amount		Fair value	
	2017	**2016**	**2017**	**2016**
	€000	**€000**	**€000**	**€000**
Assets				
Receivables from buyers	13 552	9 799	13 552	9 799
Short-term and long-term receivables				
Long-term loans	325	130	325	130
Short-term financial investments	33	0	33	0
Cash	28 882	28 117	28 882	28 117
Total	**42 792**	**38 046**	**42 792**	**38 046**
Liabilities				
Trade and other payables	6 369	5 093	6 369	5 093
Short-term loans and borrowings	22 850	32 238	22 850	32 238
Finance lease liabilities	14 100	17 019	14 100	17 019
Long-term loan loans and borrowings	194 329	203 930	194 329	203 930
Derivative instruments	5 460	9 545	5 460	9 545
Total	**243 108**	**267 825**	**243 108**	**267 825**

Cash, short-term and long-term receivables, loans, borrowings, finance lease liabilities and bonds are recognised in the consolidated statements by the amortised cost method and are assessed to be close to the market value.

Upon calculating fair value, the following methods have been used:

Cash, short-term deposit and security deposits, accounts receivables, other short-term receivables, supplier payables and other short-term financial liabilities and payables are deemed to be equal to their fair value because they can be realised within one year.

Other short-term financial liabilities, incl. derivative instruments are recognised at fair value in the consolidated financial statements (see Note 15).

Fair value of long term loans and borrowings are determined by using discounted cash flow method using the prevailing market interest rate as at the end of reporting period. Due to the fact that all the borrowings are related to EURIBOR, the difference between estimated fair value and carrying amount were assessed to be insignificant.

15.5 Financial risk management objectives and policies

The management of different risks the Group encounters in its everyday activities is a significant and integral part of the Group's business activities. The organisation's ability to identify, measure and verify different risks is an important input to the Company's entire profitability. Risk is defined by the management as a potential negative deviation from the expected financial results. The main risk factors include: market risk (incl. currency risk and interest risk), credit risk and liquidity risk.
The Group's risk management is based on the requirements arising from the legislation, accounting standards as well as internal regulations and risk policies of the organisation. The risk management at a general level includes identification, measurement and supervision of risks.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of three types of risks: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits and derivative financial instruments.

Interest risk
As at 31 December 2017, all long-term bank loans of the Group had a floating interest rate based on 1 month, 3 month or 6 month EURIBOR. As the Group uses derivative instruments, specifically swap-contracts and cap-contracts, to manage the interest risk of long-term bank loans, the financial expense does not depend on the movement of the European financial markets.

Foreign currency risk
The activities of the Group are aimed at the market of the Baltic States, the currencies of which are related to the euro. Thus, no significant currency risk exists and no separate instruments were used for hedging the currency risk in 2017.

Credit risk
No significant credit risk related to clients exists as electricity produced by the Group is paid for by the Estonian, Latvian and Lithuanian state companies, solvency of which cannot be doubted. Where needed credit risk insurance is purchased.

		2017	2016
	Notes	**€000**	**€000**
Security deposits	15.1.3	9 162	9 892
Trade receivable	17	13 552	9 799
Other short term receivables	15.1	4	4
Long-term loans granted	15.1.1	325	130
Cash at bank and short term deposits	19	28 882	28 117
Total		**51 925**	**47 942**

Liquidity risk
Liquidity risk is a possible risk that the Group has limited or insufficient financial resources to fulfil the liabilities arising from the Group's activities. The management continuously monitors forecast cash flows by using the existence and sufficiency of the Group's financial resources to finance the assumed liabilities and fulfil the Group's strategic objectives. To manage the liquidity risk, the Group uses different financing sources, such as bank loans and owners' loans.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual payments.that have not been discounted.

Year ended 31 December 2017		**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
	Notes	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Trade and other payables	24	0	5 301	1 068	0	0	6 369
Interest-bearing loans and borrowings	15.2	0	8 081	21 454	170 214	61 659	261 408
Other financial liabilities	15.2	0	938	2 052	1 778	692	5 460
		0	**14 320**	**24 574**	**171 992**	**62 351**	**273 237**

Year ended 31 December 2016		**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
	Notes	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Trade and other payables	24	0	4 315	778	0	0	5 093
Interest-bearing loans and borrowings	15.2	0	7 749	31 857	181 591	68 662	289 859
Other financial liabilities	15.2	0	823	3 088	3 994	1 640	9 545
		0	**12 887**	**35 723**	**185 585**	**70 302**	**304 497**

16. Inventories

	2017	**2016**
	€000	**€000**
Supplies	2 684	2 059
Raw material	216	1 431
Unfinished production	0	11
Finished production	971	569
	3 871	**4 070**

17. Trade and other receivables

		2017	**2016**
	Notes	**€000**	**€000**
Trade receivables		12 736	8 967
Receivables from an associate	27	122	82
Other receivables		694	750
		13 552	**9 799**

Trade receivables are non-interest bearing and are generally with terms of 7 to 30 days.

As at 31 December, the ageing analysis of trade receivables is, as follows:

			Past due but not impaired				
	Total	**Neither past due nor impaired**	**<30 days**	**30-60 days**	**61-90 days**	**91-120 Days**	**>120 days**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
2017	13 552	13 537	2	13	0	0	0
2016	9 799	9 794	4	1	0	0	0

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18. Prepayments

as at 31 December

	Notes	2017	2016
		€000	€000
Prepayments for services*		1 428	1 273
Prepayments and reclaims of taxes	18.1	838	862
		2 266	**2 135**

Prepayments for services contain prepayments to windfarm service and maintenance providers.

18.1 Prepayments and reclaims of taxes

as at 31 December

	2017	2016
	€000	€000
Value added tax	729	657
Other taxes	109	40
Balance of the tax prepayment account	0	165
	838	**862**

19. Cash and short-term deposits

as at 31 December

	2017	2016
	€000	€000
Cash at banks and on hand	28 882	28 029
Short-term deposits	0	32
Escrow account*	0	56
	28 882	**28 117**

*Escrow account is restricted to the usage of bond emission money for specific investments and conditions.

20. Issued capital and reserves

	Ordinary shares	
	pcs	€000
At 31 December 2016	8 279 414	82 794
At 31 December 2017	8 279 414	82 794

Ordinary shares	unit price	pcs
2017	10	8 279 414
2016	10	8 279 414

Shareholder	Ordinary shares			
	2017		2016	
	pcs	share %	pcs	share %
VARDAR EURUS AS	6 389 418	77,17%	6 389 418	77,17%
AS VESTMAN ENERGIA	360 602	4,35%	360 602	4,35%
HTB INVESTEERINGUTE AS	201 465	2,43%	201 465	2,43%
IVARD OÜ	446 243	5,39%	446 243	5,39%
JMB INVESTEERINGUTE OÜ	331 177	4,00%	331 177	4,00%
OÜ ATRADIUS	196 976	2,38%	196 976	2,38%
OÜ SOLARCOM	196 976	2,38%	196 976	2,38%
AMBIENT SOUND INVESTMENTS OÜ	121 694	1,47%	121 694	1,47%
OÜ KAKSSADA KAKSKÜMMEND VOLTI	12 532	0,15%	12 532	0,15%
OÜ UNITED PARTNERS INVESTMENTS	22 331	0,27%	22 331	0,27%
Total	**8 279 414**	**100%**	**8 279 414**	**100%**

	Notes	Risk hedge reserve €000
At 1 January 2016		**-3 264**
Change due to financial instruments revaluation	14.3	-514
Ineffective part of derivatives	10.5	621
At 31 December 2016		**-3 157**
Change due to financial instruments revaluation	14.3	4 085
Ineffective part of derivatives		-897
At 31 December 2017		**31**

Statutory capital reserve

According to the Commercial Code of the Republic of Estonia and the articles of association of the parent company, at least 5% of net profit is transferred to the legal reserve each year until the legal reserve accounts for at least 10% of share capital. The legal reserve may not be paid out as dividends, but it may be used to cover loss if losses cannot be covered from retained earnings and other reserves. The legal reserve may be also used to increase share capital.

21. Distributions made and proposed

	2017	2016
	€000	€000
Cash dividends on ordinary shares declared and paid		
Final dividend for 2016: 0,51 cents per share	4 217	0
Final dividend for 2015: 0,00 cents per share	0	0
	4 217	0
Proposed dividends on ordinary shares	0	0

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 December.

22. Government grants

	2017	2016
	€000	€000
At 1 January	**0**	**0**
Received subsidy*	13 654	13 958
Released subsidy to the statement of comprehensive income	-13 654	-13 958
Received grants	657	0
Reclassified to fixed assets**	-657	0
At 31 December	**0**	**0**
Current	0	0
Non-current	**0**	**0**

*In accordance with the Electricity Market Act § 59 and § 108 (3), Elering AS (Estonian transmission system operator) pays subsidy for electricity produced in the working wind farms and put to the network.

In Lithuania Feed in Tarif is used.

**Grant was received by SIA Pellet 4Energia.

23. Deferred revenue

	2017	2016
	€000	€000
At 1 January	**0**	**23**
Released to the statement of comprehensive income	0	-23
Other	7	0
At 31 December	**7**	**0**
Current	0	0
Non-current	**7**	**0**

The bank quarantee received in Aseriaru Tuulepark OÜ was recognised as income in amount equal to windfarm service expenses that in 2016 the residual amounting to EUR 23 thousand was recognised in income.

24. Trade and other payables
as at 31 December

	2017	2016
	€000	€000
Trade payables	3 365	3 178
Interest payable	1 193	840
Payables to associates (Note 26)	138	193
Payables to employees	457	535
Other payables	1 216	347
	6 369	**5 093**

25. Tax payable
as at 31 December

	2017	2016
	€000	€000
Value added tax	1 244	1 349
Land and property tax	5	15
Individual income tax	19	33
Corporate income tax	359	176
Unemployment insurance payments	7	11
Social tax	34	60
	1 668	**1 644**

26. Commitments and contingencies

26.1 Operating lease commitments - Group as lessee

The Group has entered into commercial leases on certain motor vehicles, items of office equipment and office rentals. These leases have an average life between two and five years, with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

The Group has a number of ground lease agreements varying from 20-99 years.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows

	2017	2016
	€000	€000
Within one year	996	979
After one year but not more than five years	3 921	3 989
After five years**	47 260	48 031
	52 177	52 999

**The ground lease payments in Naujoji Energija UAB for the next 93 years are estimated to be in amount EUR 30 946 thousand euros.

26.2 Finance lease commitments

as at 31 December

The Group has finance lease contracts for wind parks

	Lender	Interest rate	Agreement date	Repayment date	Lease amount	Lease liability 2017	Lease liability 2016
					€000	€000	€000
Iverneta UAB	Swedbank Lizingas UAB	6 month Euribor + 2,19%	27 May 2009	30 Mar.2023	21 564	8 718	10 159
Sudenu vejo elektra UAB	Swedbank Lizingas UAB	6 month Euribor + 2,19%	09 Jan.2009	30 May 2021	14 256	5 206	6 661
SIA Pellet 4Energia	SIA SEB Lizings	Fix 2,30%	09 Aug.2016	25 Aug.2021	140	103	133
SIA Pellet 4Energia	SIA SEB Lizings	Fix 2,25%	18 Aug.2016	25 Aug.2020	80	52	66
UAB Nordic Power Management						21	0
					35 820	14 100	17 019

Future minimum lease payments as at 31 December are, as follows

	2017	2016
	€000	€000
Within one year	3 048	2 940
After one year but not more than five years	10 597	11 820
More than five years	455	2 259
Total minimum lease payments	**14 100**	**17 019**

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26.3 Guarantees
as at 31 December

Shares of the subsidiaries secure the loans which are related to the project financing of wind farms:	**Lender**	**Nominal value of shares**
		€000
Hanila Tuulepargid OÜ	SEB	32
Pakri Tuulepargid OÜ	SEB, Pohjola	32
Oceanside OÜ	SEB	213
Aseriaru Tuulepark OÜ	Swedbank	7 989
Naujoji energija UAB	SEB, Pohjola	9 818
Silales vejo elektra UAB	SEB	5 160
Iverneta UAB	Swedbank Lizingas UAB	3 739
Sudenu vejo elektra UAB	Swedbank Lizingas UAB	1 710
Silutes vejo projektai UAB	KFW-IPEX, SEB AB	8 468
Total		**37 161**

Other guarantees	**Receiver**	**Amount**	**End date**
		€000	
Company guarantee to secure Nordic Power Management OÜ balance administration contract	AS Elering	32	2 Jan.2019
Silutes Vejo Projektai UAB to Lithuanian Military Forces	SEB AB	904	9 Feb.2019
Parent company quarantee	SIA Pellet 4Energia customer 1	2 360	16 Feb.2018
Parent company quarantee	SIA Pellet 4Energia customer 1	4 900	31 Dec.2022
Parent company quarantee	SIA Pellet 4Energia customer 2	2 000	30 Apr.2018
		10 196	

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27. Related party transactions

Note 6 provides the information about the Group's structure including the details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year

	Sales to related parties	Purchase from related parties	Amounts owed by related parties* *as at 31 December*	Amounts owed to related parties* *as at 31 December*
2017	**€000**	**€000**	**€000**	**€000**
Empower 4 Wind OÜ	25	1 360	0	65
Oisu Biogaas OÜ	36	276	50	23
Vinni Biogaas OÜ	28	336	72	37
Wind Controller JV OY	0	402	0	13
	89	2 374	122	138

	Sales to related parties	Purchase from related parties	Amounts owed by related parties* *as at 31 December*	Amounts owed to related parties* *as at 31 December*
2016	**€000**	**€000**	**€000**	**€000**
Empower 4 Wind OÜ	14	1 862	0	104
Marble Invest OÜ	26	0	0	0
Oisu Biogaas OÜ	54	327	29	31
Vinni Biogaas OÜ	40	343	53	34
Wind Controller JV OY	0	427	0	24
	134	2 959	82	193

* The amounts are classified as trade receivables and trade payables

2017	**Notes**	**Interest income** €000	**Interest expense** €000	**Loan amounts owed by related parties **** *as at 31 December* €000	**Loan amounts owed to related parties **** *as at 31 December* €000
Oisu Biogaas OÜ	15.1.1				
	15.1.2	14	0	259	0
Vinni Biogaas OÜ	15.1.1				
	15.1.2	16	0	99	0
		30	0	358	0

2016	**Notes**	**Interest income** €000	**Interest expense** €000	**Loan amounts owed by related parties **** *as at 31 December* €000	**Loan amounts owed to related parties **** *as at 31 December* €000
Oisu Biogaas OÜ	15.1.1				
	15.1.2	0	0	0	0
Vinni Biogaas OÜ	15.1.1				
	15.1.2	3	0	134	0
		3	0	134	0

Transactions with key management personnel

In the 2017 financial year, the management of Nelja Energia AS consisted of 3 members who were paid remunerations in the total amount of EUR 258 thousand (2016: EUR 258 thousand). Members of the management have not received any pension-related rights from the Group.

28. Unconsolidated statements of the parent

The unconsolidated main accounts of the parent undertaking have been prepared in concordance with the Accounting Act and are not separate financial statements in the meaning of IAS 27 " Separate Financial Statements".

Unconsolidated statement of comprehensive income of the parent

for the year ended 31 December

	2017	2016
	€000	€000
Sale of goods	1 261	1 081
Revenue	**1 261**	**1 081**
Goods, raw materials and services	0	0
Other expenses	-954	-695
Employee-related expenses	-1 280	-1 191
Depreciation of fixed assets	-85	-78
Impairment of intangible assets	0	0
Finance costs	-4 110	-4 049
Finance income	4 747	5 399
Profit / loss from subsidiaries and associates	142 569	86 496
Profit before income tax	**142 148**	**86 963**
Income tax	-607	0
Net profit	**141 541**	**86 963**
Other comprehensive income	0	0
Total Comprehensive income for the year	**141 541**	**86 963**

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Unconsolidated statement of financial position of the parent as at 31 December

	2017	2016
	€000	€000
Assets		
Non-current assets		
Property, plant and equipment	31	41
Intangible assets	2 621	2 651
Investment in subsidiaries	441 337	299 001
Investment in associates	556	520
Non-current financial assets	68 319	66 325
	512 864	368 538
Current assets		
Inventories	1 994	1 425
Trade and other receivables	9 087	7 170
Prepayments	34	60
Other current financial assets	8 996	5 672
Cash and short-term deposits	613	11 716
	20 724	26 043
Total assets	533 588	394 581
Equity and liabilities		
Equity		
Issued capital	82 794	82 794
Share premium	90 099	90 099
Statutory capital reserve	3 898	3 898
Retained earnings	294 249	156 925
	471 040	333 716
Non-current liabilities		
Interest-bearing loans and borrowings	59 657	59 553
	59 657	59 553
Current liabilities		
Trade and other payables	2 738	1 268
Tax payable	153	44
	2 891	1 312
Total liabilities	62 548	60 865
Total equity and liabilities	533 588	394 581

Unconsolidated statement of cash flows of the parent
for the year ended 31 December

	2017	2016
	€000	€000
Operating activities		
Profit before tax	142 148	86 963
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of fixed assets	27	30
Amortisation and and impairment of intangible assets	58	48
Finance income	-4 747	-5 399
Finance costs	4 110	4 049
Dividend income from subsidiaries and associates	-1 603	-1 618
Fair value measurement of subsidiaries and associates	-140 966	-84 878
Working capital adjustments:		
Decrease (increase) in trade and other receivables*	-1 860	16 289
Increase in prepayments	26	-28
Increase in inventories	-569	-342
Increase (decrease) in trade and other payables	414	-286
	-2 962	14 828
Income tax paid	-607	0
Net cash flows from operating activities	**-3 569**	**14 828**
Investing activities		
Purchase of property, plant and equipment	-17	-10
Purchase of intangible assets	-28	-78
Disposal of subsidary	25	0
Investment in associate	-15	-20
Acquisition of subsidiary	-574	-3
Interest received	1 352	3 643
Loans given	-7 350	-22 632
Repayment of loans given	4 851	10 547
Dividends received	1 709	1 615
Net cash flows used in investing activities	**-47**	**-6 938**
Financing activities		
Proceeds from borrowings	0	3 700
Repayment of borrowings	0	0
Interest paid	-3 214	-3 205
Dividends paid	-4 217	0
Net cash flows from/(used in) financing activities	**-7 431**	**495**
Net increase in cash and cash equivalents	-11 047	8 385
Cash and cash equivalents at 1 January	11 660*	3 276
Cash and cash equivalents at 31 December	**613**	**11 660***

*Restricted Escrow account from bond issue in amount of EUR 0 thousand (2016: EUR 56 thousand), aimed at specific investments, has been excluded for the year-end cash amount.

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Unconsolidated statement of changes in equity of the parent for the year ended 31 December

	Issued capital	Share premium	Statutory capital reserve	Retained earnings	Total
Balance as at 1 January 2016	**82 794**	**90 099**	**3 898**	**69 962**	**246 753**
Total profit of the financial year	0	0	0	86 963	**86 963**
Other comprehensive income	0	0	0	0	**0**
Total comprehensive income	**0**	**0**	**0**	**86 963**	**86 963**
Dividends	0	0	0	0	**0**
Changes in statutory reserve	0	0	0	0	**0**
Balance as at 31 December 2016	**82 794**	**90 099**	**3 898**	**156 925**	**333 716**
Total profit of the financial year	0	0	0	141 541	**141 541**
Other comprehensive income	0	0	0	0	**0**
Total comprehensive income	**0**	**0**	**0**	**141 541**	**141 541**
Dividends	0	0	0	-4 217	**-4 217**
Changes in statutory reserve	0	0	0	0	**0**
Balance as at 31 December 2017	**82 794**	**90 099**	**3 898**	**294 249**	**471 040**

The adjusted unconsolidated equity of the parent is as follows as at 31 December:

	2017	**2016**
	€000	**€000**
Unconsolidated equity capital of the parent undertaking	471 040	333 716
Value of subsidiaries and associates in the unconsolidated balance sheet of the parent (minus)	-441 337	-299 521
Value of subsidiaries and associates accounted in the equity method (plus)	162 149	148 705
	191 852	**182 900**

Confirmation of the management board to the 2017 annual report

Hereby, I confirm the correctness of the information disclosed in the 2017 annual report of the consolidation group of Nelja Energia AS.

Member of the Management Board

Chief Executive Officer

Martin Kruus

Member of the Management Board

Chief Financial Officer

Kalle Kiigske

Member of the Management Board

Chief Technical Officer

Andrus Zavadskis

Tallinn, 28 February 2018

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Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Eesti

Tel: +372 611 4610
Faks: +372 611 4611
Tallinn@ee.ey.com
www.ey.com

Äriregistri kood: 10877299
KMKR: EE 100770654

Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Estonia

Phone: +372 611 4610
Fax: +372 611 4611
Tallinn@ee.ey.com
www.ey.com

Code of legal entity: 10877299
VAT payer code: EE 100770654

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Nelja Energia AS

Opinion

We have audited the consolidated financial statements of Nelja Energia AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of as the Group as at 31 December 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *"Auditor's responsibilities for the audit of the consolidated financial statements"* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the code of ethics.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements

1. Impairment assessment of goodwill

Goodwill amounts to 55 023 thousand euros in the consolidated statement of financial position of the Group as of 31 December 2017 (Note 14). The Group has allocated the goodwill to a number of cash generating units, which are comprised of wind producing and energy trading entities. The Group performed an impairment test of goodwill based on the value in use estimation as disclosed in Notes 13 and 14 to the consolidated financial statements. Additional impairment recorded for the year 2017 amounted to 5 644 thousand euros. This annual impairment test was significant to our audit as it involves significant management's judgment in relation to the assumptions applied to cash flow forecasts used in the value in use estimations as disclosed in Note 14. Furthermore, the goodwill represents more than 13% of the total assets of the Group as of 31 December 2017.

We included in our team a valuation expert to assist us with the assessment of the discount rates and electricity price forecast scenarios used by the management in the impairment test. We also reviewed other significant assumptions used by the management in the estimation of cash flow forecasts as follows: the useful life of the assets, uncertainties involving subsidy schemes and long term technical availabilities. We tested the sensitivity of value in use of the cash-generating units considering if a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and also assessed the historical accuracy of management's estimates. Finally, we evaluated the adequacy of the Group's disclosures included in Note 14 about the assumptions used in the impairment test and the outcome of the test.

2. Impairment assessment of property, plant and equipment

As of 31 December 2017, the Group had property, plant and equipment amounting to 320 008 thousand euros reported in the consolidated statement of financial position and disclosed in Note 12. The Group performed an impairment test of property, plant and equipment, together with the above mentioned impairment test of goodwill, based on the value in use estimation as disclosed in Note and 14 to the consolidated financial statements. Since property, plant and equipment amount to more than 73% of the total assets of the Group as of 31 December 2017, impairment can have significant effect on the consolidated financial statements of the Group.

As each cash-generating unit of the Group comprises a separate wind producing or energy trading entity, management uses the same value in use estimates as in the goodwill impairment test to assess the need for impairment of property, plant and equipment. We challenged significant assumptions used by the management in the estimation of cash flow forecasts as follows: the useful life of the assets, uncertainties involving subsidy schemes and long term technical availabilities.

Other information

Management is responsible for the other information. Other information consists of management report, but does not consists of the consolidated financial statements and our auditor's report therefon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise pofessional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Company's consolidated financial statements the first time in 2006. Our appointment to carry out the audit of

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Company's consolidated financial statements in accordance with the decision made by shareholder has been renewed annually and the period of total uninterrupted engagement is 11 years.

Consistence with Additional Report to Supervisory Board and Audit Committee

Our audit opinion on the annual consolidated financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non audit services

We confirm that in light of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, EY has provided tax compliance services to the Company, other than that we have not provided any other services except for audit of consolidated financial statements.

The responsible certified auditor on the audit resulting in this independent auditors' report is Stan Nahkor.

Tallinn, 28 February 2018

Stan Nahkor
Authorised Auditor's number 508
Ernst & Young Baltic AS
Audit Company's Registration number 58

Remo Kuldkepp
Authorised Auditor's number 662