EPSOG
ENERGETIKOS EVOLIUCIJA

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019, CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT

"This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation."

These financial statements were approved on 15 April 2020.

Rolandas Zukas
General Manager

Žydrūnas Augutis
Chief Financier

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of EPSO-G UAB:

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of EPSO-G UAB (the Company) and consolidated financial statements (together with the separate financial statements - the Financial statements) of the Company and its subsidiaries (the Group), which comprise the statements of financial position of the Company and the Group as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the Financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2019, and its financial performance and its 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 (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. 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 Financial statements of the current period. These matters were addressed in the context of our audit of the Financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of property, plant and equipment (Group's consolidated financial statements)	
Refer to Note 2.23 of the notes to the Financial statements The Group accounts for property, plant and equipment (hereinafter - PPE) at revalued amounts. During the year ended 31 December 2019, the Group performed the valuation of electricity and natural gas transmission system operators (hereinafter – TSO) of PPE and did not identify significant differences from the carrying	We assessed design and implementation of key controls management has established over the PPE revaluation process, including the following areas: - validation of assumptions, - budgeting, - segregation of duties,

amount of PPE, which as at 31 December 2019 amounted to EUR 523,938 thousand. The Group's management determines value of TSO PPE using the income approach, which forecasts future cash flows from TSO's activities and discounts them using the appropriate discount rate. Therefore it requires the management to apply significant level of judgement in evaluating the following critical areas: - required levels of capital investments to maintain the existing electricity as well as natural gas grid levels, - current level and future regulatory development of return on investment approved by the regulator (National Energy Regulatory Council, 'NERC'), - determination of the discount rate, which is a respective TSO's weighted average cost of capital, - determination and application of the annual growth rate to perpetuity, and - evaluation of present regulatory environment as well as anticipated changes in this area – in particular, practical application of the Long Run Average Incremental Cost ('LRAIC') regulatory model for the forecasting of electricity transmission tariffs. The Group performed the valuation internally, without the support from external valuation experts. We consider valuation of PPE to be a key audit matter due to the size of the valued balance and the significant judgment involved regarding assumptions and estimates used in the valuation by the management.	- determination of key inputs in the valuation model, and - review, challenge and approval of the valuation results performed by management and those charged with governance. We involved our internal valuation specialists to support us in forming an independent view on the PPE valuation performed by the management. We have jointly performed these procedures: - assessed appropriateness of selected PPE valuation methodology, as well as its application, - evaluated key assumptions and inputs used in the valuation of PPE, concentrating on the critical areas, such as tariffs and operating margins, capital investments, discount rate, terminal value, - reviewed mathematical accuracy of the model, and - discussed with the management certain aspects of the valuation methodology as well as future developments of the regulatory environment. In particular, significant judgement area was the level of capital investments needed to achieve convergence of historical and LRAIC regulatory asset bases, as well as the timeline this convergence should take place. We used our independent view as a basis to assess whether there are any indications of error or management bias in management's estimate of PPE value. We also assessed sensitivity of the valuation exercise together with related disclosures presented in the Financial statements.

Initial application of IFRS 16 Leases (Group's consolidated financial statements)	
Refer to part a) of Note 2.1 and Notes 5 and 21 of the Financial statements The Group applied IFRS 16 Leases as on 1 January 2019. IFRS 16 introduced a new lease accounting model that requires lessees to recognize right-of-use assets and the lease liability arising from the lease in the balance. The Group has applied IFRS 16 using a modified retrospective approach without altering the comparative information. For this reason, as on 1 January 2019, the Group recognized the right-of-use assets and related lease liabilities of EUR 8,454 thousand. Significant judgment is required to determine the right-of-use assets and lease liabilities.	Our audit approach included an assessment of the methodology used to determine the key assumptions and compliance with IFRS 16 requirements. In addition: - we've gained the understanding of the Group's procedures for determining leases or contracts including leases; - we assessed the completeness of the lease databases used by the Group; - we reviewed the contract data by sampling and checked whether they were correctly included in the calculation of assets and liabilities related to leases; - we reviewed the discount rates calculated using market data (for additional

Assumptions and estimates include assessing whether a contract includes a lease, assessing the term of the lease and the payment of the lease, and determining appropriate discount rates. An exclusively significant judgement of the Group was to include land lease payments into the scope of IFRS 16. In our opinion, the initial application of IFRS 16 is a key audit matter, given the materiality to the Group's financial position and the assumptions used.	borrowing rates) by sampling; - we recalculated the right-of-use assets and lease liabilities by sampling and compared them with the calculations performed by the Group; - we reviewed in detail the calculation and accounting of lease liabilities based on land lease payments; - we engaged our IFRS accounting and financial reporting specialists to assist us in assessing whether the land lease payments fall within the scope of IFRS 16; - we also assessed the relevance of the information provided in the notes to the Financial statements.

Other Information

The other information comprises the information included in the Group's annual report, including Corporate Governance statement, and Corporate Social Responsibility Report, but does not include the Financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the Financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as specified below.

In connection with our audit of the Financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

In addition, our responsibility is to consider whether information included in the Group's annual report, including Corporate Governance statement, for the financial year for which the Financial statements are prepared is consistent with the Financial statements and whether annual report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of Financial statements, in our opinion, in all material respects:

- The information given in the Group's annual report, including Corporate Governance statement, for the financial year for which the Financial statements are prepared is consistent with the Financial statements; and
- The Group's annual report, including Corporate Governance statement, has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Group Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial statements, management is responsible for assessing the Company's and the Group'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 and the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 Financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 and the Group'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 and the Group'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 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 and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial statements, including the disclosures, and whether the 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 or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 also 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 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

In accordance with the decision made by Shareholder on 29 October 2018 we have been chosen to carry out the audit of the Company's and the Group's Financial statements for the first year. Our appointment to carry out the audit of the Company's and the Group's Financial statements in accordance with the decision made by Shareholder on 19 June 2019 was extended for one year, and the total uninterrupted

term of appointment is 2 years. In addition, by the decision of the shareholder, our appointment may be extended for a third year.

We confirm that in light of our knowledge and belief, services provided to the Company and the Group 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, we have not provided any other non-audit services, except for the translation of the Financial statements and IFRS related training.

The engagement partner on the audit resulting in this independent auditor's report is Saulius Bakas.

Deloitte Lietuva UAB

Audit Company License No 001275

Saulius Bakas
Lithuanian Certified Auditor
License No 000604

Vilnius, Republic of Lithuania

15 April 2020

		GROUP		COMPANY	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current assets					
Intangible assets	3	7 910	8 867	-	1
Property, plant and equipment	4	525 899	509 821	19	29
Right-of-use assets	5	9 378	-	276	-
Investments in subsidiaries, associates	6	-	-	321 192	318 042
Deferred income tax assets	23	11 692	7 717	412	51
Amounts receivable after one year	10	4	998	-	-
Long-term share of unused funds balance of congestion management revenue	8	8 185	10 439	-	-
Financial assets at fair value through other comprehensive income	7	1 984	2 693	-	-
Total non-current assets		565 052	540 535	321 899	318 123
Current assets					
Inventories	9	2 695	3 883	-	-
Prepayments		1 486	880	81	8
Trade receivables	10	24 752	26 288	38	54
Other amounts receivable	11	66 954	69 660	7 585	12 903
Prepaid income tax		3	2 045	-	-
Other financial assets	12	45 121	31 440	-	-
Cash and cash equivalents	13	13 470	9 913	12 346	8 669
Total current assets		154 481	144 109	20 050	21 634
Non-current assets held for sale	9	13	19	-	-
TOTAL ASSETS		719 546	684 663	341 949	339 757
EQUITY AND LIABILITIES					
Equity					
Authorised share capital	14	22 483	22 483	22 483	22 483
Revaluation reserve	15	475	216	-	-
Reserve for changes in fair value of financial assets	16	51	639	-	-
Legal reserve	16	16 522	16 522	2 248	2 248
Other reserves	16	22 572	61 776	50	50
Retained earnings (deficit)		122 131	72 663	154 542	150 022
Equity attributable to shareholders of the Parent		184 234	174 299	179 323	174 803
Non-controlling interest		9 727	9 574	-	-
Total equity		193 961	183 873	179 323	174 803
Liabilities					
Non-current liabilities					
Non-current borrowings	19	134 202	154 605	2 560	5 120
Non-current interest-bearing financial liabilities	20	148 609	156 574	148 609	156 574
Lease liabilities	21	7 736	599	210	-
Non-current liabilities' portion of congestions management revenue	8	34 672	10 832	-	-
Other non-current amounts payable and liabilities	22	6 878	2 391	-	-
Total non-current liabilities		332 097	325 001	151 379	161 694
Current liabilities					
Current portion of non-current borrowings	19	30 403	34 761	2 560	2 560
Current borrowings	19	-	6 889	-	-
Interest bearing current portion of long-term financial liabilities	20	7 965	-	7 965	-
Current portion of lease liabilities	21	1 209	221	66	-
Trade payables	24	33 797	28 132	49	31
Advance amounts received	25	19 441	11 028	-	-
Income tax liability		1 116	24	-	-
Other current amounts payable and liabilities	26	99 557	94 734	607	669
Total current liabilities		193 488	175 789	11 247	3 260
Total liabilities		525 585	500 790	162 626	164 954
TOTAL EQUITY AND LIABILITIES		719 546	684 663	341 949	339 757

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

	Notes	GROUP		COMPANY	
		2019	2018	2019	2018
Revenue					
Revenue from electricity transmission and related services	27	184 675	169 758	-	-
Revenue from natural gas transmission and related services	27	53 685	53 924	-	-
Other sales revenue	27	12 460	22 109	230	296
Total sales revenue		250 820	245 791	230	296
Other activity income		165	42	-	2 353
Operating expenses					
Expenses of electricity transmission and related services	27	(134 946)	(118 993)	-	-
Expenses of natural gas transmission and related services	27	(11 336)	(10 418)	-	-
Depreciation and amortisation	3,4,5,27	(31 667)	(38 550)	(77)	(18)
Salaries and related expenses		(27 827)	(25 709)	(1 477)	(1 365)
Repair and maintenance expenses		(7 541)	(6 964)	-	-
Telecommunications and IT systems expenses		(2 886)	(2 571)	(29)	(49)
Gains on write-off, disposal (expenses) of property, plant and equipment		(109)	(1 036)	-	-
Impairment of PPE/(reversal) (incl. negative revaluation of PPE)	4	(239)	(88 670)	-	-
Impairment of investments		-	-	-	(26 090)
Other expenses		(18 659)	(25 260)	(452)	(579)
Total operating expenses		(235 210)	(318 171)	(2 035)	(28 101)
Operating profit (loss)		15 775	(72 338)	(1 805)	(25 452)
Financing activities					
Finance income	2.23, 28	225	13 449	7 712	40 538
Finance costs	28	(2 488)	(2 791)	(999)	(1 156)
Total finance costs		(2 263)	10 658	6 713	39 382
Profit (loss) before income tax		13 512	(61 680)	4 908	13 930
Income tax					
Current year income tax expenses	23	(6 034)	(3 272)		-
Deferred income tax income (expenses)	23	3 925	17 232	362	386
Total income tax		(2 109)	13 960	362	386
Net profit (loss)		11 403	(47 720)	5 270	14 316
Other comprehensive income that will not be reclassified subsequently to profit or loss					
Gain/(loss) on revaluation of PPE and non-current financial assets	15,16	(318)	(5 289)	-	-
Effect of deferred income tax	23	48	793	-	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss in the future		(270)	(4 496)	-	-
Total comprehensive income/(expenses) for the year		11 133	(52 216)	5 270	14 316
Net profit/(loss) attributable to:					
Shareholders of the Parent		10 953	(46 056)	5 270	14 316
Non-controlling interest		450	(1 664)	-	-
		11 403	(47 720)	5 270	14 316
Total comprehensive income (loss) attributable to:					
Shareholders of the Parent		10 690	(50 440)	5 270	14 316
Non-controlling interest		443	(1 776)	-	-
		11 133	(52 216)	5 270	14 316

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

		Equity attributable to shareholders of the Group								
GROUP	Notes	Share capital	Revaluation reserve	Reserve for changes in the fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	Total
Balance at 1 January 2018		22 483	5 246	639	16 682	61 198	117 758	224 006	12 241	236 247
Comprehensive income										
Comprehensive income (expenses) for the year		-	(4 384)	-	-	-	(46 056)	(50 440)	(1 776)	(52 216)
Depreciation of revaluation reserve and amounts written off	15	-	(603)	-	-	-	603	-	-	-
Total comprehensive income (loss) for the period		-	(4 987)	-	-	-	(45 453)	(50 440)	(1 776)	(52 216)
Transferred to retained earnings		-	(43)	-	-	-	43	-	-	-
Transfer to reserves		-	-	-	(160)	578	(418)	-	-	-
Dividends	17	-	-	-	-	-	(682)	(682)	(941)	(1 623)
Effect of IFRS 15		-	-	-	-	-	1 415	1 415	50	1 465
Balance at 31 December 2018		22 483	216	639	16 522	61 776	72 663	174 299	9 574	183 873
Balance at 1 January 2019		22 483	216	639	16 522	61 776	72 663	174 299	9 574	183 873
Comprehensive income										
Comprehensive income (expenses) for the year		-	324	(588)	-	-	10 937	10 673	443	11 116
Depreciation of revaluation reserve and amounts written off	15	-	(77)	-	-	-	77	-	(2)	(2)
Total comprehensive income (loss) for the period		-	247	(588)	-	-	11 014	10 673	441	11 114
Transferred to retained earnings										
Transfer to reserves		-	-	-	-	(39 204)	39 204	-	-	-
Dividends	17	-	-	-	-		(750)	(750)	(276)	(1 026)
Change in ownership interest in the subsidiary		-	12	-	-			12	(12)	-
Balance at 31 December 2019		22 483	475	51	16 522	22 572	122 131	184 234	9 727	193 961

COMPANY	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2018	22 483	2 248	-	136 438	161 169
Comprehensive income (expenses) for the year	-	-	-	14 316	14 316
Dividends	-	-	-	(682)	(682)
Transfer to reserves	-	-	50	(50)	-
Balance at 31 December 2018	22 483	2 248	50	150 022	174 803
Balance at 1 January 2019	22 483	2 248	50	150 022	174 803
Comprehensive income (expenses) for the year	-	-	-	5 270	5 270
Dividends	-	-	-	(750)	(750)
Transfer to reserves	-	-	-	-	-
Balance at 31 December 2019	22 483	2 248	50	154 542	179 323

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

	Notes	GROUP		COMPANY	
		2019	2018	2019	2018
Cash flows from operating activities					
Net profit (loss)		11 403	(46 255)	5 270	14 316
Adjustments for non-cash items:					
Depreciation and amortisation expenses	3,4,5	31 667	38 550	77	18
Property, plant and equipment revaluation (impairment)	4,15	239	88 667	-	-
(Reversal of)/impairment of amounts receivable		(236)	(3 066)	-	-
Income tax expenses	23	2 109	(13 950)	(362)	(386)
Deferred income (depreciation) / income adjustment		661	(125)	-	-
Impairment of financial assets		-	-	-	26 090
(Gain)/loss on disposal/write-off of property, plant and equipment		138	976	-	-
Bad debts		-	2 426	-	-
Elimination of results of financing and investing activities:					
Interest income		-	(27)	(35)	(18)
Interest expenses		2 429	2 769	999	1 156
Dividend income		(174)	(130)	(7 677)	(27 238)
Other finance (income)/costs		8	(13 270)	-	(13 282)
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		(2 304)	(2 660)	399	(428)
(Increase) decrease in inventories, prepayments and other current assets		1 015	(800)	(73)	1
Increase (decrease) in amounts payable, grants, deferred income and advance amounts received		14 571	22 163	54	409
Changes in other financial assets		(7 139)	(6 946)	-	-
Income tax (paid)		(3 891)	(6 163)	-	-
Net cash flows from (used in) operating activities		50 496	62 159	(1 348)	638
Cash flows from (used in) investing activities					
(Acquisition) of PPE and intangible assets		(62 675)	(43 483)	(4)	(3)
Transfer of property, plant and equipment and intangible assets		193	69		-
Subsidiaries' (acquisition) / transfer		-	-	(3 150)	-
(Granted) / recovered loans		-	(30)	4 936	(12 517)
Grants received	18	21 789	32 456	-	-
Congestions management revenue received	8	27 366	12 208	-	-
Interest received		-	22	35	12
Dividends received		174	130	7 677	27 238
Other cash flows from investing activities		2 713	-	-	-
Net cash flows from (used in) investing activities		(10 440)	1 372	9 494	14 730
Cash flows from financing activities					
Loans received	19	10 000	20 000	-	-
Loans repaid	19	(34 761)	(34 531)	(2 560)	(2 560)
Lease payments	21	(1 149)	(443)	(63)	-
Overdraft		(6 889)	(42 298)		(2 321)
Interest paid		(2 674)	(2 842)	(1 096)	(1 149)
Dividends paid		(1 026)	(1 587)	(750)	(682)
Other cash flows from (used in) financing activities		-	8		-
Net cash flows from (used in) financing activities		(36 499)	(61 693)	(4 469)	(6 712)
Net increase (decrease) in cash and cash equivalents		3 557	1 838	3 677	8 656
Cash and cash equivalents at the beginning of the period	13	9 913	8 075	8 669	13
Cash and cash equivalents at the end of the period	13	13 470	9 913	12 346	8 669

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

1. General information

EPSO-G UAB (hereinafter "the Company") is a private limited liability company incorporated in the Republic of Lithuania. Its registered office address is: Gedimino Ave. 20, LT- 01103, Vilnius, Lithuania. The Company is a profit-seeking entity with limited civil liability, which was registered on 25 July 2012 with the Register of Legal Entities, the Company code is 302826889.

EPSO-G is the parent company and its main activity is to ensure an uninterrupted, stable transmission of electric power over high voltage networks and transportation of natural gas via high pressure gas pipelines, as well as to ensure management, maintenance and development of these transmission systems as well as organization of trade in natural gas and biofuel exchanges.

EPSO-G provides management services to subsidiaries and lower-tier subsidiaries. The purpose of the provision of management services is to increase the efficiency of operations of the EPSO-G Group companies, optimise the use of resources, and implement uniform standards of operations. These services are provided in accordance with the signed public procurement agreements.

As at 31 December 2019 and 2018, the Company's authorised share capital amounted to EUR 22 482 695. As at 31 December 2019 and 2018, it was divided into ordinary registered shares with par value of EUR 0.29 each. All the shares are fully paid.

Company's shareholder	At 31 December 2019		At 31 December 2018	
	Share capital (EUR)	%	Share capital (EUR)	%
Republic of Lithuania represented by the Lithuanian Ministry of Energy	22 482 695	100	22 482 695	100

The Company's management approved these financial statements on 15 April 2020. The shareholders of the Company have a statutory right to approve or not to approve these financial statements and require that management prepare a new set of financial statements.

As at 31 December 2019, EPSO-G Group had 993 employees (31 December 2018: 1 005 employees) and the Company had 25 employees (31 December 2018: 22 employees).

The EPSO-G Group (hereinafter - the Group) consists of the Company, the below directly and indirectly controlled subsidiaries, associates and jointly controlled entities:

Company name	Registered office address	Ownership share (%)		Profile of activities
		At 31 December 2019	At 31 December 2018	
SUBSIDIARIES				
LITGRID AB	Viršuliškių Lane 99B, Vilnius, Lithuania	97,5	97,5	Electricity transmission system operator
Amber Grid AB	Savanorių Ave. 28, Vilnius, Lithuania	96,6	96,6	Natural gas transmission system operator
BALTPOOL UAB	Žalgirio St. 90, Vilnius, Lithuania	67,0	67,0	Exchange operator for energy resources (biomass products), the administrator of PSO funds
TETAS UAB (controlled through LITGRID AB before 29 November 2019)	Senamiesčio St. 102B, Panevėžys, Lithuania	100	97,5	Transformer substation, distribution station and electricity line design, construction, reconstruction and maintenance services.
Litgrid Power Link Service (controlled through LITGRID AB)	A. Juozapavičiaus St. 13, Vilnius, Lithuania	0	97.5	Management and operation of electricity interconnection facilities. Liquidated and deregistered as of 19 December 2019.
GET Baltic UAB (controlled through Amber Grid AB)	Geležinio Vilko St. 18A, Vilnius, Lithuania	96,6	96.6	Organisation of trading on natural gas exchange
ASSOCIATES AND JOINT VENTURES				
Duomenų logistikos centras UAB	Žvejų St. 14, Vilnius, Lithuania	20	20	IT services
LitPol Link Sp.z.o.o	Warszawska 165, 05-520, Konstancin-Jeziorna Warsaw, the Republic of Poland	50	50	Management, development, cooperation and coordination of joint tasks related to

	the existing interconnection Lithuania-Poland. In the process of liquidation

On 29 November 2019, under to the share purchase agreement, the Company acquired 100% qualifying holding of TETAS UAB from the subsidiary LITGRID AB at the price set by an independent appraiser – EUR 3.15 million. Prior to this transaction, the Company indirectly (through LITGRID AB) owned 97.5% of TETAS UAB shares.

On 19 December 2019, Litgrid Power Link Service UAB was liquidated and removed from the Register of Legal Entities. LITGRID AB carries on the activities of the liquidated company.

On 19 June 2019, Polish and Lithuanian transmission system operators PSE and LITGRID, the sole shareholders of LitPol Link, each holding 50 percent of the company, decided to liquidate the company. As at 31 December 2019 and 2018, the acquisition cost of the investment to LitPol Link Sp.z.o.o. was EUR 295 thousand, which was 100 % recognized for impairment.

On 9 April 2019, Group's Company LITGRID AB and the energy company group Ignitis grupė UAB renewed the sale of shares in Duomenų logistikos centras (DLC), which provides data transmission and data center services. It was established that the Company is expected to sell its owned 20,36% shares and Lietuvos Energija (currently Ignitis grupė UAB) will dispose of its 79,64% DLC shares. Due to the Company's active steps in selling shares of DLC and expected sale within 12 months, investment in the said company was recorded within current assets under the caption 'Other financial assets' (Note 12).

Investments in subsidiaries and associates are described in more detail in Note 6.

2. Summary of principal accounting policies

The principal accounting policies adopted in the preparation of the Group's and the Company's financial statements for the year ended 31 December 2019 are summarised below.

2.1 Basis of preparation

The Group's and the Company's financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment that is recorded at revalued amount, less accumulated depreciation and estimated impairment losses, and financial assets that are carried at fair value through other comprehensive income.

Amounts in these financial statements are presented in thousands of euro (EUR) unless otherwise stated.

The financial year of the Company and other Group companies coincides with the calendar year.

Accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except as follows:

a) Adoption of new and/or amended IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC):

IFRSs and their amendments and interpretations by IFRS Interpretations Committee adopted by the Group and the Company for the first time in the financial year ended 31 December 2019 are as follows:

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The main requirements of the new standard are:

Lessee recognizes

- a single accounting model for leases is presented in the statement of financial position. The lessee recognizes a right-of-use asset that reflects its right to use the asset and a lease liability that reflects obligation to pay the lease payments;
- short-term leases (with a term of up to 12 months) and leases of low value assets may be eligible for recognition exceptions. By way of exception, lease payments are recognized as an expense on a straight-line basis over the lease term.

1 January 2019, the Group and the Company first adopted IFRS 16 and its amendments using a modified retrospective method, in which rights-of-use assets and liabilities were recognized in equal amounts, without any adjustment to equity. For impact of first-time adoption of IFRS 16 on the statement of financial position as of 1 January 2019, measurement, disclosure, and impact on 31 December 2019 for the financial statements, see Notes 5 and 21 to this Explanatory Note.

Application provisions of IFRS 16 chosen by the Group and the Company:

- assets and liabilities recognized in the statement of financial position for all types of leases and lease transactions, except for the recognition exceptions set out in the standard: a) leases with a term of more than 12 months, and b) lease when the value of the transferred assets is small - up to EUR 4 000. In these exception cases, the Group and the Company will continue to recognize operating leases on a straight-line basis over the lease term;
- rights-of-use assets include only lease components, non-lease components recognised in expense;
- the present value of the lease liability is based on the incremental borrowing rate applicable to short-term borrowings (up to 5 years) and long-term borrowings (10 years), at which the Group and the Company can borrow in the market.

Lessor recognizes

Substantially transferring the lessor's accounting requirements as defined in IAS 17, which requires the lessor to continue to classify leases as operating leases and finance leases and to account for these two types of leases differently.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019. IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty over income tax treatments (hereinafter – uncertainties). The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Uncertainty may relate to taxable profit or loss, tax base, unused tax loss, unused tax credit or tax rate.

An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity for the calculation of income tax uses either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. In the opinion of the Company and the Group, first time application of this interpretation did not have a material impact on the financial statements and disclosures of the Group and the Company because of the absence of significant uncertainties over income tax treatment.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019). The amendments allow the measurement of certain financial instruments, such as loans and debt securities, which may be prepaid at a value lower than amortized cost, i.e. fair value or value that includes reasonable compensation to the borrower equal to the present value of the effect of any increase in the market interest rate over the remaining life of the instrument. In addition, the standard has been supplemented with findings confirming the guidance in IFRS 9 that changes or exchanges in the terms of certain financial liabilities at amortized cost do not derecognise and continue to be recognized in profit or loss. As a result, reporting entities will in many cases not be able to adjust the effective interest rate for the remaining life of the loan solely to avoid the effect on profit or loss. The amendments to IFRS 9 will not have any impact on the financial statements of the Group and the Company as the Group and the Company do not have any loans and debt securities that may be prepaid at a value less than amortized cost.

Amendments to IAS 28 - Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019). Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Amendments to IAS 28 did not have any impact on the financial statements of the Company and the Group.

Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) (effective for annual periods beginning on or after 1 January 2019). Improvements have affected the following standards:

Improvement to IFRS 3 clarifies that the acquirer shall reassess its previous interest in the joint venture when it acquires control of the business; IFRS 11 now specifies that an investor need not reassess its previously held interest when it acquires joint control of a joint operation.

Improvements to IAS 12 clarify that an entity recognizes the full income tax consequences of dividends if it has recognized any transactions or events that have resulted in a related distributable profit.

Improvements to IAS 23 clarify that borrowings that are specifically borrowed to finance a specific asset, when the asset is substantially complete or available for sale, the balance of such outstanding borrowings is included in gross capitalized borrowing costs.

In the opinion of the Group and the Company, first time application of the improvements to the said standards did not have any impact on the financial statements.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). In case of changes in a pension plan or defined benefits The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. This amendment did not have any significant impact on the financial statements of the Group and the Company.

b) Standards, amendments and interpretations that have been adopted by the European Union but not yet effective and have not been early adopted by the Company and the Group:

Amendments to Conceptual Framework for Financial (effective for annual periods beginning on or after 1 January 2020). The Conceptual Framework provides a comprehensive set of concepts that is used in the preparation of financial statements, standards, and accounting policies. The revised Conceptual Framework introduces a new chapter on valuation, provides reporting guidance on financial performance, and clarifies definitions. The IASB has also issued a separate accompanying document, Amendments to References to the IFRS Conceptual Framework, which contains amendments to the related standards to update references to the revised Conceptual Framework. It is also intended to facilitate the transition of companies to a revised Conceptual Framework when such companies prepare accounting policies based on the Conceptual Framework and where no IFRS can be applied in a particular case. If accounting policies are prepared on the Conceptual Framework, it should be complied with for periods beginning on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 - Definition of Material (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance, which have so far been reflected in other IFRSs, clarifications have been added to the definition. The amendments ensure that the definition of material is applied consistently across all IFRSs. Information is considered to be material if its omission or misstatement could reasonably be expected to affect the decisions of key users of the financial statements that are made on the basis of the financial statements that present the financial information of the particular reporting entity. Currently, the Company and the Group are assessing the future impact on the financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020). These adjustments were prompted by the replacement of interest rate benchmarks such as LIBOR and other interbank rates with an alternative benchmark. Amendments to the interest rate benchmark reform:

- it affects specific hedge accounting requirements: an entity may assume that the reform does not change the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based;
- mandatory for all hedges directly affected by the interest rate benchmark reform;
- the relief does not apply in circumstances arising from the reform (if hedges no longer meet hedge accounting requirements for reasons other than changes), it is required to discontinue hedge accounting;
- additional disclosures about the effect of reform and change on hedges.
- In the opinion of the Group and the Company, these amendments will not have a material impact on the financial statements as the Company and the Group do not have hedges.

c) Standards, interpretations and amendments that have not been adopted by the European Union and that have not been early adopted by the Company:

IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016). The entry into force of the standard is deferred until its finalization). This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP. An entity that is already reporting under IFRSs cannot apply this provision of the Standard, i.e. the effects of tariff regulation must be presented separately from

other items. The new provisions in this standard are not relevant to the Group and the Company because the transition to IFRSs was effected in prior periods.

Amendments to IFRS 10 and IAS 28 - Sale or Contributions of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after the date to be determined by the IASB). These amendments address the discrepancy between the requirements of IFRS 10 and IAS 28 relating to the sale or contributions of assets between an investor and its associate or joint venture. The essence of these amendments is that the full amount of the transaction is recognized in profit or loss when the transaction involves a business. The transaction amount is recognized partly as profit or loss when the transaction involves the sale of an asset that is not a business, even if the asset is owned by a subsidiary. In the opinion of the Company and the Group, these amendments will not have a material impact on the financial statements.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which made it difficult for investors to compare the financial performance of insurance undertakings and entities with insurance contracts. IFRS 17 is a single standard setting out the requirements for the recognition, measurement, presentation and disclosure of all types of insurance contracts, including reinsurance contracts held by insurers. The standard requires similar principles to be applied to existing reinsurance contracts and investment contracts with independent participation elements. The Company and the Group is currently assessing the future impact of these amendments on its financial statements.

Amendments to IFRS 3 - Business Combinations (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020). The amendments clarify the definition of a business to address the difficulty of determining whether a business or a group of assets has been acquired. The revised definition of a business emphasizes that the purpose of a business is to provide goods and services when the previous version of the standard emphasized returns in the form of dividends, lower costs and other economic benefits to the investor and other participants. IASB provided additional guidance on business definition in the amendment.

2.2 Principles of consolidation

Subsidiaries

All entities that the Company has a power to exercise control over the entity to which investment is made (i.e. has effective rights that at the current moment grant the right to control significant activities). The Company controls an entity when it can or has a right to receive variable returns from this relation and it can have impact on these returns due to the power to govern the entity to which the investment is made.

The consolidated financial statements of the Group include EPSO-G and its subsidiaries. The financial statements of the subsidiaries have been prepared for the same reporting periods and using uniform accounting policies as those of the parent company's financial statements.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company. They are de-consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains and losses on transactions among the Group companies are eliminated.

Business combinations

IFRS 3, 'Business combinations' is not applied to business combinations between entities under common control, therefore such business combinations are accounted for using the pooling of interest method (the predecessor method) of accounting. The Group does not restate assets and liabilities to their fair value as at the acquisition date, instead the Group combines the acquired assets and liabilities at their carrying amounts. No goodwill arises and the excess of the consideration paid or the carrying amount of net assets transferred over the consideration received or the carrying amount of net assets acquired is recorded directly in equity in the financial statements.

All other business combinations are accounted for under the acquisition method. The consideration transferred in return for control over the acquiree is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group at the date of acquisition. All acquisition-related costs are expensed when incurred except the cases when such costs are material. The acquiree's identifiable assets acquired, liabilities and contingent liabilities that meet recognition criteria defined in IFRS 3, 'Business combinations' are recognised at their fair values at the acquisition date.

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and

previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Non-controlling interest in the acquiree is measured initially at the non-controlling interest's proportionate share of the fair value of the recognised amounts of net assets, liabilities and contingent liabilities.

Change in ownership interest in subsidiaries resulting in no change in control

Transactions with non-controlling interests resulting in no loss of control are accounted for as transactions with the equity owners that are recorded in equity. For purchases from non-controlling interests, the difference between the fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Investments in associates and joint venture

An associate is an entity over which the Group/Company has significant influence but no control. 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. Significant influence generally accompanies a shareholding of 20% to 50% of the voting rights.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

In the consolidated financial statements associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, investments in associates or joint ventures are initially recognized at cost, and the carrying amount is subsequently increased or decreased by the changes of net assets' share of Group's associate and joint ventures after the date of acquisition, less any impairment of investments.

The Group's share of post-acquisition profit or loss is recognized in profit (loss), and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of investment.
Goodwill related to investments in associates and joint ventures is included in the carrying amount of the investment and it is evaluated for impairment as the part of the investment.
Losses of an associate or joint venture in excess of the Group's interest in that associate/joint venture, including any other unsecured receivables, are not recognized, unless the Group had incurred legal or constructive obligations or made payments on behalf of the associate/joint venture.
Unrealized gain on transactions between the Group and associates and joint ventures is eliminated to the extent of the Group's interest in the associate or joint venture. Unrealized loss is also eliminated, unless it provides evidence of an impairment of assets transferred.
If the Group's ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.
Gain or loss on decrease in ownership interest in an associate is recognized as profit or loss.

2.3 Investments in subsidiaries, associates and joint venture (in the Company's separate financial statements)

In the parent company's statement of financial position investments in subsidiaries are stated at cost less impairment, where the investment's carrying amount in the parent's statement of financial position exceeds its estimated recoverable amount.

In the parent company's statement of financial position investments in associates and joint ventures are stated at cost less impairment losses, where the investment's carrying value in the parent's statement of financial position exceeds its estimated recoverable value.

2.4 Assets held for sale and discontinued operation

The Group classifies non-current assets and disposal groups as held for sale, if their carrying amount is recovered through a disposal rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value, less costs to sell.

An asset or disposal group can qualify for recognition as held for sale only when the sale is highly probable and an asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that the sale will be withdrawn. Management must be committed to implement a probable sale within one year after the date of the reclassification. Assets and liabilities classified as held for sale are presented separately in the statement of financial position as current items.

2.5 Property, plant and equipment and intangible assets

Assets with the useful life over one year are classified as property, plant and equipment.

Property, plant and equipment

Property, plant and equipment is stated at revalued amount, less accumulated depreciation and accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited to revaluation reserve directly in equity and decreases are recognized in the profit and loss account. Decreases in the carrying amount arising on the subsequent revaluation of property, plant and equipment are offset previous increases of the same asset, are charged against revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Revaluation increases in property, plant and equipment value that offset previous decreases are taken to the profit and loss account. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax. After the sale or a write-off of property unit, any balance of the revaluation reserve related to this property is transferred to retained earnings.

Interest and other borrowing costs (such as the bank's administration fee, etc.) are included in the acquisition cost of property, plant and equipment if they are directly attributable to the acquisition of a qualifying asset. A qualifying asset is regarded to be an asset that is developed on the basis of a project the value of which is not less than EUR 1 million and the preparation of which for its intended use or sale takes no less than 12 months. Borrowing costs that are attributable to the acquisition of a qualifying asset are capitalised as part of the cost of that asset. The capitalisation of borrowing costs is started when costs related to the production or acquisition of the qualifying asset are incurred (a prepayment is made or a payment for works is made according to the signed statement on the works carried out and their respective value) and ended when all the activities necessary for the preparation of the qualifying asset for its intended use or sale are substantially complete (a statement on the recognition of the construction as fit for use is signed). While determining the amount of borrowing costs eligible for the capitalisation of costs incurred in the acquisition of qualifying assets, the capitalisation rate is applied.

Prepayments for non-current assets are classified as non-current assets because they are used in long-term activities and are presented in the balance sheet line item 'Construction in progress'.

Construction in progress represents non-current fixed assets under construction. The cost of such assets includes design, construction works, plant and equipment being installed, and other directly attributable costs.

Intangible assets

Intangible assets are initially recognized at cost. Intangible assets are recognized only if they are expected to provide economic benefit to the Group and the Company in future periods and their cost can be measured reliably. After initial recognition, intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any.

Depreciation and amortization

Depreciation (amortization) of property, plant and equipment and intangible assets, except land, construction in progress and statutory servitudes, is calculated using the straight-line method over estimated useful lives of the asset. The estimated useful lives, residual values and depreciation/amortization method are reviewed at each year-end to ensure that they are consistent with the expected pattern of economic benefits from these assets. The effect of changes in estimates, if any, is accounted for on a prospective basis.

Estimated useful lives of property, plant and equipment and intangible assets are as follows:

Categories of property, plant and equipment and intangible assets	Useful lives (in years)
Buildings	20 - 75
Structures and equipment	18 - 70
Plant and machinery	5 - 35
Motor vehicles	4 - 10
Other property, plant and equipment	3 - 10
Intangible assets	3 - 4

Gain or loss on disposal of non-current assets is calculated as the difference between the proceeds from sale and the book value of the disposed asset and is recognized in the profit or loss.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognized as expenses in the profit or loss during the financial period in which they are incurred.

2.6 Impairment of property, plant and equipment and intangible assets

At each reporting date, the Group and the Company review the carrying amounts of their property, plant and equipment and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable value of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable value is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable value of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (cash-generating unit) is reduced to its recoverable value. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve.

Where an impairment loss subsequently reverses, the carrying value of the asset (cash-generating unit) is increased to the revised estimate of its recoverable value, but so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (without exceeding the amount of previous impairment).

2.7 Right-of-use assets

Right-of-use assets are assets that the Group and the Company have the right to manage during the lease term. As of 1 January 2019, the Group and the Company recognize the right-of-use asset for the lease of all types of assets, including a lease of a right-of-use asset in the case of sublease, but excluding leases of intangible assets, short-term leases and leases of low value assets.

Initial recognition of right-of-use assets

At the start date of the lease, the Group and the Company assess the right-of-use assets at cost, which consist of: the present value of the initial recognition of the lease liability, the initial direct cost of the leased asset, any lease payments at the start date less any lease incentives.

Subsequent recognition of right-of-use assets

After the initial recognition, the Group and the Company apply a cost method for right-of-use assets: the carrying amount of the asset at the relevant date is calculated as the difference between the acquisition cost and the accumulated depreciation, plus any subsequent adjustments to the lease liability re-evaluation.

Depreciation of the right-of-use assets starts from the date the assets is transferred for use (the start date) until the earliest of these dates: the end of the lease term or the end of the useful life.

For the purposes of measuring the depreciation of the right-of-use assets, the Company has applied the following standards:

Land*	99 years
Buildings	from 2 to 8 years
Vehicles	from 2 to 4 years
Other property, plant and equipment	from 2 to 3 years

* The Group applies the portfolio method to land lease agreements entered into by non-auction with municipalities – a set of agreements of the respective Group company is accounted for as a single agreement due to similar criteria. Regardless of the remaining maturity of the land lease agreement, in accordance with the requirements of legal acts, the agreements must be extended for as long as the facilities of the Group companies exist on the land plots. When assessing the flow generated by the infrastructure assets of the the Group's companies (for the calculation of the recoverable amount of assets), an infinite flow is

forecasted, as the ongoing reconstruction and repair works may result in the assets being used for longer than the original depreciation rates. For this reason, the lease of land is subject to a substantially infinity norm, corresponding to the original term of the agreement – 99 years.

2.8 Financial assets

From 1 January 2018, for the purposes of applying IFRS 9 Financial Instruments, the Company classifies its financial assets into the following 3 new categories:

- financial assets measured at amortized cost in subsequent periods;
- recognition of changes in fair value of financial assets measured at fair value in subsequent periods with other comprehensive income; and
- financial assets, which in subsequent periods are recognized at fair value through profit or loss recognized.

The business model applied to financial assets group is determined at a level reflecting how all financial assets groups are jointly managed to achieve the specific business objectives. The business model applied is not influenced by the intentions of the Company's management regarding individual measures. The Group and the Company can apply more than one business model for managing its financial asset.

The business model applied to financial asset management is based on the facts that can be seen from the activities the Group and the Company are pursuing in pursuit of the business model objectives.

The Group and the Company recognize a financial asset in the statement of financial position only when it becomes a party to the contractual provisions of the financial instrument, the purchase or sale of the financial asset is recognized or derecognised by accounting at the trade date.

At initial recognition, the Group and the Company measure financial assets at fair value, except for trade receivables that do not include a significant component of financing. When a financial asset is measured not at fair value through profit or loss, the initial measurement of the financial asset includes the fair value of the instrument and transaction costs directly attributable to the acquisition of the financial asset.

Transaction costs include all fees and commissions that the Group would not have paid if it had not entered into a financial instrument contract.

If, at initial recognition, the fair value of the financial asset differs from the transaction price, the difference is recognized in profit or loss.

Depending on the business model used to manage the financial asset group, the accounting for financial assets is as follows:

Financial assets at amortized cost

Loans and receivables issued by the Group and the Company are accounted for in accordance with a business model designed to hold financial assets in order to collect the contractual cash flows that may arise from cash flows related to principal debt and interest income.
Loans and receivables are non-derivative financial assets:
- that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and;
- the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are recognized as current assets, except for those loans and receivables with a maturity of more than 12 months after the statement of financial position; in this case, loans and receivables are recognized as non-current assets. Loans and receivables are initially recognized at cost (fair value of receivable) and subsequently amortized cost using the effective interest method. Gains and losses are recognized in the income statement when such assets are derecognised, impaired or amortized.

Financial assets at fair value through other comprehensive income

The Group had equity financial instruments, which were elected to be classified as FVOCI (previously classified as available-for-sale assets).

Effective interest method

The effective interest method is used to calculate the amortized cost of a financial asset, including the allocation of interest income in the income statement over the relevant period.

The effective interest rate is the rate at which future cash inflows are calculated over the expected life of the financial asset, is discounted to the gross carrying amount of the financial asset that represents the amortized cost of the financial asset before adjusting for any provision for loss. For the purpose of calculating the effective interest rate, the Company estimates expected cash flows based on all terms and conditions of the financial instrument contract (such as prepayment, extension, option to purchase and similar options), but without taking into account expected credit losses. The calculation includes all fees and other amounts paid or received by the parties to the contract, and which are an integral part of the effective interest rate, transaction costs, as well as any other bonuses or discounts. The calculation of the effective interest rate assumes that the cash flows and the expected period of validity of a similar class of financial instruments can be measured reliably. When it is impracticable to estimate the expected period of validity of a cash flow or a financial instrument (or a group of financial instruments), the Group and the Company use the contractual cash flows throughout the life of the financial instrument (or group of financial instruments) specified in the contract.

Expected credit losses

Credit losses incurred by the Group and the Company are calculated as the difference between the total contractual cash flows that the Group and the Company are required to receive under the contract and the cash flows expected to be received by the Group and the Company (i.e. the total cash shortage) discounted at the original effective interest rate. The Group and the Company calculate cash flows based on all terms of the financial instrument contract over the expected life of that financial instrument, including cash flows from available collateral or other credit enhancement that is inherent in the terms of the contract.

Expected credit losses represent the weighted average credit loss rate based on the relevant default risk (probability).

Expected credit losses for the period of validity are expected credit losses arising from any event of default within the period from the initial recognition of the financial asset to the subsequent settlement of the financial asset or the ultimate write-off of the financial asset.

The Group and the Company aim to recognize expected credit losses for the period before the financial instrument becomes overdue. Normally, credit risk increases significantly before a financial instrument becomes overdue or other borrowing-related delays (such as a change or restructuring) occur. Therefore, if there is a considerable amount of cost or effort to obtain reasonable and reliable information that is more forward-looking than past due payments, it should be based on the assessment of credit risk changes.

Expected credit losses are recognized based on individually or collectively assessed credit risk of issued loans and trade receivables, the valuation of which is based on all reasonable and confirmed information, including forward-looking information.

Estimated credit losses of trade receivables over the life of the asset are measured using an individual valuation. Management's decision on individual valuation is based on the availability of information about the credit history of a particular borrower, the financial condition at the valuation date, including forward-looking information that would allow timely identification of a significant increase in the credit risk of a particular borrower, thereby enabling a decision to be taken on the entire maturity credit loss recognition in respect of a particular debtor.

The expected amount of credit losses for trade receivables over the life of the asset is recognized at the time of recognition of receivables.

When issuing a loan, 12-month expected credit losses are assessed and accounted for. In subsequent reporting periods, in the absence of a significant increase in the credit risk associated with the borrower, the balance of 12-month expected credit losses on the outstanding amount of the loan outstanding at the valuation date is adjusted. If it is determined that the borrower's financial situation has significantly deteriorated compared to the situation at the time of the loan, the Group and the Company account for all expected credit losses of the loan period. The latest moment when the Group and the Company recognize all expected credit losses of the issued loan for the period of validity is identified when the debtor is late in paying the regular instalment or the entire debt for more than 30 days. In the case of other evidence, the Group and the Company accounts for all expected credit losses of the loan over the life of the loan, irrespective of any premature payment delay of more than 30 days. Loans that are subject to credit losses for the entire period of validity are considered as credit-impaired financial assets.

Credit impaired financial assets

The value of a financial asset is impaired by the credit risk of one or more events that adversely affect the estimated future cash flows of that financial asset. Evidence of impairment of financial assets due to credit risk is based on observations based on the following events:
(a) significant financial difficulties for the debtor;

(b) breach of contract, such as overdue debt or down payment;
(c) a discount granted to the debtor which the lender would not otherwise have granted for economic or contractual reasons related to the debtor's financial difficulties;
(d) increased likelihood of the bankruptcy or other financial reorganization of the debtor;
(e) active market for financial assets tails away as a result of financial difficulties;
(f) financial assets are purchased or granted at a significant discount, showing credit losses.
Impairment of financial assets due to credit risk may be determined by several events that may occur simultaneously or sequentially during the life of the financial asset contract.
The amount of expected credit losses on loans receivable and trade receivables in full is accounted for through profit or loss using the contingent accounts receivable.

Derecognition of financial assets

The Group and the Company debt receivables and trade receivables when they lose the right to the cash flows of the financial assets specified in the contract.
When assessing whether the Group and the Company retained the control of the transferred assets, consideration is given to the capacity of the recipient to sell these assets. If the recipient is practically capable to sell all assets to an unrelated third party and perform this unilaterally, without applying additional restrictions to the transference, it is considered that the Group and the Company have failed to retain the control. In all other cases, the Group and the Company retain the control.
A financial asset is derecognized by the Group and the Company when:
- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows is retained by the Group and the Company, but there is an obligation to pay the full amount to a third party under a 'pass-through' agreement in a short period; or
- the Group and the Company have transferred the rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset:
- if the Group and the Company fail to retain control if the financial asset, it is derecognised by the Company, whereas all established or retained rights and obligations under transference are recognised separately as assets or obligations;
- if the Group and the Company retain the control of the financial asset, it continues recognising it insofar as it controls the financial asset.

2.9 Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realizable value. Acquisition cost of inventories includes acquisition price and related taxes, and costs associated with bringing inventory into their current condition and location. Cost of inventories (other than natural gas) is determined on the first-in, first-out (FIFO) basis. Cost of natural gas balance is determined on the basis of weighted average cost. Inventories that cannot be realised are written off.

2.10 Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

Financial liabilities, including borrowings, are recognized initially at fair value, less transaction costs.
Subsequent to initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense is recognized using the effective interest rate method.
If a financing agreement concluded before the date of the statement of financial position proves that the liability was non-current as of the date of the statement of financial position, that financial liability is classified as non-current.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is settled, 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 derecognition of the original liability and the recognition of a new liability. The difference in the respective amounts of financial liabilities is recognized in the statement of comprehensive income.

Trade payables

Trade payables represent commitments to pay for goods and services acquired from suppliers in the ordinary course of business. Trade payables are classified as current liabilities if the term of their settlement is no longer than one year; otherwise they are included in non-current liabilities.

2.11 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.12 Foreign currency

In the consolidated financial statements, results of operations and financial position of each entity of the Group are presented in the euros, which is the functional currency of the Company and the presentation currency of the Group's consolidated financial statements. All financial information presented in the euro has been rounded to the nearest thousands, except when otherwise indicated. Some of the amounts in the tables may not coincide due to rounding.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the measurement date (if items are revalued). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.13 Grants

Grants are recognised when there is a reasonable assurance that the grant will be received and the Group entity will comply with all the conditions attaching to it.

Asset-related grants

The Government and the European Union grants received in the form of property, plant and equipment or intended for the purchase of property, plant and equipment are considered as asset-related grants. These grants are accounted for by reducing by the carrying amount of respective property, plant and equipment. For the purpose of statement of comprehensive income, grants are recorded by reducing the depreciation charge of related asset over the expected useful life of the asset.

Public service obligation (hereinafter "PSO") service fees allocated to the Group for the development and implementation of strategic plans and share of congestion management revenue for financing investments agreed with NERC, are recognized as asset-related grants.

Grants received in advance in relation to acquisition of non-current assets are stated as non-current liabilities until the moment of acquisition of such assets.

Accrued grants receivable are recorded in other amounts receivable when the agreement whereby the European Commission commits to finance strategic projects provides evidence confirming that the financing will be received.

Revenue-related grants

Government and European Union grants received to offset current or prior period expenses or unearned income, as well as all other grants other than grants related to assets, are treated as grants related to revenue. The amount of the revenue-related grant is recognized as an expense to the extent how much was incurred during the reporting period or in case of the loss of income intended to compensate by the grant. These grants are recognized in the statement of comprehensive income by the reduction of related expenses.

2.14 Provisions

Provisions are recognized when the Group and the Company have a legal obligation or constructive obligation as a result of 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. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance costs.

Easement provisions are recognized when the Group or the Company has a legal obligation or an irrevocable commitment, and it is expected that resources providing economic benefits will be required to settle the obligation, and the amount of the obligation

can be measured reliably. Expenses related to easement provisions are recognized as intangible fixed assets, taking into account the reimbursable amounts. If the time value of money is material, provisions are discounted using the effective interest rate (before tax) for the period, taking into account the specific risk of the liability. When discounting is applied, the increase in the provision reflecting the elapsed time is recognized as financial costs.
Compensation to landowners is accounted for by reducing provisions, and the recalculation of provisions due to a change in assumptions is accounted for as a change in the value of intangible assets, respectively (Note 3).

2.15 Employee benefits

Social security contributions

The Company and the Group pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognized as expenses on an accrual basis and included in payroll expenses.

Variable part of remuneration

The Company and the Group recognize the liability and expenses for the variable component of remuneration based on the pre-defined results achieved by the Group and the Company and its employees. The Group and the Company recognise a liability and expenses for the variable component of remuneration where contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits for employees

According to the laws of the Republic of Lithuania, each employee leaving the Group and the Company at the retirement age is entitled to one-off benefit. A liability for such benefits is recognised in the balance sheet and it reflects the present value of these benefits at the date of the financial statements. At each reporting date, the non-current employee benefit obligation is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current employee benefit obligation is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which payments to employees are expected to be made and with maturity similar to that of the related liability.

2.16 Leases

The Group and the Company as a lessee

As from 1 January 2019, the Group and the Company recognize future lease payments as lease liabilities under both financial and operating lease agreements at a discounted value in accordance with the accounting principles set out below.

Initial recognition of lease liability

The amount of the initial recognition of lease liability is calculated as the present value of unpaid lease payments at the commencement date. Lease payments are discounted at incremental borrowing rate. The incremental borrowing rate is determined by the rate at which the Group and the Company would be able to borrow funds for the purpose of acquiring certain assets for a respective period.

At the commencement date, lease payments included in the measurement of a lease liability include:
- fixed fees less any lease incentives receivable;
- variable lease payments, which are dependent on index or rate;
- amounts payable by the Group and the Company under the residual value guarantees;
- the exercise price of the call option, if it is reasonably known that the Company will exercise that option;
- penalties for cancellation of the lease, provided that the Group and the Company exercise the option to terminate the lease during the term of the lease.

Subsequent recognition of lease liability

Subsequent to initial recognition, a change in the value of the lease liability is recognized by the Group and the Company as follows:
- by increasing the value of the liability at the interest accrued;
- by reducing the carrying amount be lease payments made;

- by re-assessing the liability for lease changes or revised payments.

The lease liability interest for each period during the lease term is the amount that results in a constant periodic interest rate on the remaining amount of the lease liability. The periodic interest rate is the discount rate or, if applicable, the revised discount rate.

Re-assessment of lease liability

Subsequent to initial recognition, the lease liability is being reassessed to take account of changes in liability payments. The Group and the Company also adjust the value of right-of-use assets for the purpose of reassessing the lease liability. If the carrying amount the right-of-use assets is reduced to zero and the lease liability is reduced as well, the Group and the Company recognize any remaining amount of the revaluation in profit or loss.

Revised discount rate

The Group and the Company reassess the lease liability by discounting the revised lease payments, using the revised discount rate if the lease period changes. The Group and the Company calculate the revised lease payments on the basis of the revised lease term or whenever there is a change in the option to purchase the leased property, depending on events and circumstances, in the context of the option to purchase.
In the event of a change in the lease term or a change in the option to purchase, the Group and the Company set the revised discount rate as the lessee's incremental borrowing rate at the revaluation date.

Unchanged discount rate

The Company determines the revised lease payments for the remaining lease term on the basis of the revised contractual payments.

When discounting revised rents, the Company uses the unmodified discount rate unless lease payments change due to changes in floating interest rates. In this case, the Company uses a revised discount rate that reflects changes in the interest rate.

Lease changes

The Group and the Company account for a lease change as a separate lease if both of the following conditions are met:
- the modification increases the lease volume by adding the right to use one or more leased assets; and
- a lease payment increases by an amount corresponding to a individual volume increase price and any adjustments to that individual price with the purpose to take account of the circumstances of a particular contract.

When a lease change is not accounted for as a separate lease, on the effective date of the change, the Group and the Company:
- distribute the payment in the amended contract;
- set the deadline for the modified lease; and
- reassess the lease liability by discounting revised lease payments using the revised discount rate.

When a lease change is not accounted for as a separate lease, the Group and the Company account for the adjustment to the lease liability:
- by reducing the carrying amount of the right-of-use assets in order to take account of the cancellation of the lease, whether wholly or partially, by a reduction in the volume of the lease. Any gain or loss arising from a complete or partial cancellation of leases shall be recognized by the Group and the Company in profit or loss;
- right-of-use assets shall be adjusted accordingly for all other changes to the lease.

The Group and the Company present its lease liabilities separately from other liabilities in the statement of financial position. The interest expense on the lease liability is reported separately from the depreciation of the right-of-use assets. The interest expense on the lease liability is a component of the financial expenses recognized in the statement of comprehensive income.

The Group and the Company as a lessor

Lease agreements, under which the Group and the Company do not transfer substantially all the risks and rewards incidental to ownership of a leased asset are classified as operating leases. Revenue from operating leases is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging a lease shall be included in the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Contingent contributions are recognized as income in the period, in which they are earned.
The Group and the Company have not entered into any finance leases as lessors.

2.17 Revenue recognition

Revenue from contracts with customers

Revenue is recognized according to one principle based on a five-step model that applies to all contracts with customers. Revenue from the provision of services is recognized by the Group and the Company in the reporting period, during which it performs its operating obligation, i.e. the control of the services is transferred to the customer. This control may be transferred over time or at a specified time. For certain service contracts, revenue is recognized on the basis of the actual service provided before the end of the reporting period as part of the total services to be provided, as the customer benefits from and uses the services simultaneously. In recognizing revenue, the Group and the Company take into account the terms of contracts with customers and all relevant facts and circumstances, including the nature, amount, timing and uncertainty of the cash flows arising from the contract with the customer.

Revenue from electricity transmission and related services

Revenue from electricity transmission and capacity reserve services, trade regulation and balancing energy is recognized during the period, during which the control of the services is transferred to the customer. Revenue is recognized and paid on a monthly basis based on the actual electricity transmission.

Tariffs for the electricity transmission services are regulated by National Energy Regulatory Council (hereinafter "the Commission") by establishing the upper limit of the tariff for the transmission service. Specific prices and tariffs for the transmission services are established by the supplier of the service within the limits approved by the Commission.

Trade in regulation and balancing electricity is performed only due to the main responsibility of the Group to maintain the balance of the electricity network rather than trading in electricity under normal commercial conditions.

Capacity reserve service – the Group purchases a capacity reserve service from electricity suppliers in accordance with capacity reserve agreements and subsequently renders this service to the distribution system operators and electricity consumers using a tariff established by the NCC. Revenue is recognized over time, i.e. every month. The Group recognizes gross revenue as it acts as a principal in the provision of these services.

The transaction price is a fixed rate, no discounts or variable parts apply. There is no funding component.

Public Interest Services (PSO), PSO service funds are the fees paid to the suppliers of electricity under the public service obligations scheme, with the list of such suppliers established by the Lithuanian Government or other institution authorised by it.

The Group recognises the following as revenue from PSO services:

- after the Group completes the connection of power generation facilities, using wind, biomass, solar energy or hydro energy in the process of power generation, to transmission networks, when these works are financed by PSO funds;
- after the Group provides balancing services for electricity produced using renewable energy sources, which are compensated with PSO funds. Revenue is recognized over time on a monthly basis. Transaction price is the amount of compensation for the loss incurred in balancing activities, no rebates or variable parts are applicable. There is no financing component. The Group accounts for such revenue in the same way as balancing/ regulating activities;

Revenue from gas transmission and related services

Revenue from system users for natural gas transmission service is recognised on a monthly basis with reference to the presented data on the natural gas quantities distributed to the system users connected to the distribution system and on the statements of transmitted natural gas signed with the system users, which are directly connected to the transmission system.

Trading in balancing natural gas is flowing only from the Group's main responsibility to maintain balance of the natural gas network, and not to trade natural gas on normal commercial terms. Transaction price is the tariff set, no rebates or variable parts are applicable. There is no financing component.

Revenue from the technical balancing of natural gas is related to changes in gas reserves in the pipeline and the sale of such reserves to a buyer is recognized as income when the ownership of the gas is transferred to the buyer.

Revenue from connection of new consumers or producers to electricity or gas transmission network

The Group recognizes the received fees for the connection of new customers or producers to the electricity and gas transmission network and the relocation of electricity and gas equipment or capacity expansion (reconstruction) as income as soon as a new customer, producer is connected or relocation of the equipment is carried out. A connection is treated as a separate fulfilment of the obligation if:

- the price of electricity or natural gas paid by a new consumer or producer in the future for the services provided by the Company / Group does not differ from other consumers or producers that have not paid such connection fees;
- the connected new customer does not use the electricity and gas transmission and related services provided by the Group;
- at the request of the customer, the relocation of electrical equipment performed due to the construction and development works carried out by the customer, does not change the scope of electricity transmission and related services.

However, if the connection and transmission services are not separate fulfilments of obligations, the connection service is recognized over the period related to the period of provision of the transfer service, the duration of which is limited by the useful life of the related property, plant and equipment.

Revenue from administration of the LNG terminal and PSO service funds

Based on the provisions of Article 5(2) of the Lithuanian Law on Liquefied Natural Gas Terminal the Group carries out the functions of an administrator of the LNG terminal funds. The administration of the LNG terminal funds is performed in accordance with *the Description of the procedure for the administration of funds intended to compensate for the construction and fixed operating expenses of the liquefied natural gas terminal, its infrastructure and connector* as approved by the Commission's Resolution No 03-294 of 9 October 2012.

In collecting and administering the LNG terminal funds the Group acts as an intermediary on behalf of the state, and this activity does not generate any income/profit for the Group in the ordinary course of business, except for the share of the LNG terminal funds intended to cover the administration expenses of the LNG terminal funds, which is considered as the Group's revenue. The LNG terminal funds, which are collected from the payers of the LNG terminal funds and transferred to the beneficiaries of the LNG terminal funds (the Group responsible for the implementation of the LNG terminal project or the LNG terminal operator), are not treated as the Group's income/expenses, but are accounted for as other receivables/other payables and other financial assets. Revenue is recognized on a monthly basis, as the fee for administration is fixed.

Similarly, as in LNG terminal case, in performing the PSO activities the Group acts only as an administrator on behalf of the Commission/Government and these activities do not generate revenue/profit for the Group in the normal course of business. A resolution has been passed by the Lithuanian Government. It stipulates that the Group acts only as an administrator and the Group and the Commission have separate systems to tracks these transactions.

The Group recognises as revenue only PSO revenue listed above and records the difference between collected and disbursed PSO service funds being administered within receivables (payables).
Transaction price is the fixed rate, no rebates or variable parts are applicable There is no financing component.

Revenue from non-current construction projects and repair services

Revenue from individual and long-term contracts / projects with customers of the Group, where the result of the final completion of the contract can be measured reliably, is recognized using the performance level method. The performance level is determined by the ratio between the costs actually incurred and the planned contractual costs. The probable change in profitability is recognized in the statement of comprehensive income when such change is established. Projects are reviewed regularly and appropriate provisions are recognized when a change in profitability is identified. The loss expected on the whole project when finished is recognised at the date such expectation occurs.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract.

Transaction price is the price stated explicitly in the contract, no rebates or variable parts are applicable. There is no financing component.

Income from trade organization on the exchange

The Group's companies act as mediators in the trading of energy resources on exchanges, therefore the amounts paid and received by the exchange participants are not recognized as income of the exchange operator. Amounts received for the services provided by the Group's company by organizing trading on the exchange according to the established service fees: registration, membership, administrative fees are recognized as income.

Other income

Gain from sale and lease of property, plant and equipment is recognised by the Group and the Company as other income.

Interest income

Interest income is recognized on accrual basis considering the outstanding balance of debt and the applicable interest rate. Interest received is recorded in the statement of cash flows as cash flows from investing activities.

Dividend income

Dividend income is recognised when the right to receive dividend payment is established.

2.18 Congestions management revenue/liabilities

Congestion management revenue arise from different electricity market prices in Lithuania, Sweden, Poland and Latvia as a result of insufficient capacity of electricity lines. Income that was received as a result of price differences at different bidding areas is distributed equally by the power exchange operator (Nord Pool AS) to the transmission system operators of the countries, which operate the interconnections.

Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 stipulates that congestion revenue may be used for the following purposes: a) guaranteeing the actual availability of the allocated capacity of the interconnections; b) maintaining or increasing networks' capacities through network investments, in particular in new interconnections; c) if revenue cannot be efficiently used for the purposes set out in points a) and/or b) they may be used, subject to approval by the regulatory authorities of the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing network tariffs.

Depending on the purpose specified in the EU Regulation, congestion revenue is recognised as follows:

a) revenues that offset the costs incurred in ensuring the use of allocated capacity of the interconnections in case of unplanned disconnection of the electricity interconnection. When the trade in the interconnection's capacities has already been completed at the electricity exchange (i.e. when they have already been allocated) and the line disconnects, the operators of the line ensure that the capacities traded are available to the market participants. In such a case, the operators incur costs that arise as a result of the price difference between the price of electricity traded by the operators and the price of regulation and (or) balancing electricity purchased/sold by the Group. Revenue is recognized in the period, during which the related costs are incurred.
b) a liability accounted for as an asset grant when the revenue is intended to be used or used to finance the maintenance or extension of the capacity of the interconnections. For the purpose of the financial statements, congestion revenue is recognised following the principles of accounting for grants, i.e. initially congestion revenue is recognised as deferred income, then recorded as a deduction of the value of relevant asset, and subsequently recognised as revenue by reducing depreciation expenses of related asset over the useful life of the asset.
c) when revenue is used for reducing the tariff – revenue is recognised in the period during which the Company generates lower revenue due to lower tariffs.

As of May 2019, the account of the accumulated congestion management funds was linked to the EPSO-G Group account and is used to finance subsidiary's operations until there is no need to finance investments.

2.19 Income tax

Income tax expense for the period comprises current tax and deferred tax expenses (income). Income tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, income tax is also recognized in other comprehensive income or directly in equity.

Income tax

Income tax charges are calculated on current profit before tax, as adjusted for certain non-deductible expenses/non-taxable income. Income tax is calculated using the tax rate effective as at the date of issue of the financial statements. Income tax rate of 15% was used in 2019 and 2018.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Group changes its activities due to which these losses were incurred except when the Group does not continue its activities due to reasons which do not depend on the company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. Tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum of 70%.

The Group companies, in accordance with the provisions of legal acts, transfer tax losses to other Group companies for a fee equal to 15% of the amount of tax losses.

The Group companies are entitled to tax reliefs for investments in eligible assets. The Group accounts for such reliefs as tax credits, which means that the reliefs reduce the amount of tax payable and the current year's tax costs.

Deferred income tax

Deferred taxes are calculated using the balance sheet liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liability is recognised for all temporary differences that will increase taxable profit in the future, and deferred tax asset is recognised only to the extent it is likely to reduce the taxable income in the future. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred tax assets are reviewed at each date of the financial statements and if it is not probable that the Group and the Company will generate sufficient taxable profit to realize these assets, they are reduced to an amount, which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realized or settled.

Deferred tax assets and liabilities are offset only where they relate to income tax assessed by the same fiscal authority or where there is a legally enforceable right to offset current tax assets and current tax liabilities.

2.20 Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.
A contingent asset is not recognized in the financial statements but disclosed when an inflow of income or economic benefits is probable.

2.21 Subsequent events

Subsequent events that provide additional information on the Group's and the Company's financial position at the date of the financial statements (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in notes to the financial statements, provided their effect is material.

2.22 Offsetting

For the purpose of the financial statements, assets and liabilities, income and expenses are not offset, except for the cases when such offsetting is specifically required by an individual standard.

2.23 Significant accounting estimates and assumptions

The preparation of financial statements according to International Financial Reporting Standards requires management to make estimates and assumptions that affect the accounting policies applied, the reported amounts of assets, liabilities, income and expenses, and the disclosures of contingencies. Actual results may differ from those estimates. The significant management estimates and assumptions and the main sources for uncertainties used in the preparation of these financial statements that might cause substantial changes in the carrying amounts of the related assets and liabilities in the next reporting period are described below:

Revaluation of property, plant and equipment/impairment test

The Group's property, plant and equipment are accounted for at revalued amount, determined based on periodic property valuations performed at least once every 5 years. At the end of each year, the Group reviews property, plant and equipment to determine the assets' recoverable amount, thus assessing whether there is any indication that those assets may be impaired.

Recoverable amount is calculated based on the future cash flows generated by property, plant and equipment, discounted to present value.

LITGRID AB

LITGRID AB performed the last revaluation of its property, plant and equipment on the basis of valuation of its property, plant and equipment as at 31 December 2018. The valuation was performed with the help of LITGRID AB and the Group's internal resources; according to the valuation results, the value of assets was reduced by EUR 56.3 million.

In 2019, there were no regulatory decisions that could significantly affect the value of the assets. As of 31 December 2019, the value of the assets was estimated using the income method, by applying the discounted cash flow method. The value of the asset was calculated as the present value of the net future cash flows. As of 31 December 2019, assets valuation corresponding to the third level of the fair value measurement hierarchy was performed by the Group's internal resources in calculating the present value of the net future cash flows using the key assumptions and principles set out below:

- assets were valued as a business, but the assessment excluded all activities related to the transmission network development (and not related to the present assets being assessed), i.e. investments in development projects, connection of new consumers/producers, grants intended for development projects.
- cash flows from the Company's operations in 2020-2036 were calculated;
- 2020-2036 cash flows decreased by cash flows of loans granted and income received and dividends and income tax on financial activities;
- discounted adjusted cash flows for 2020-2036 were calculated;
- discounted continuity value (after 2036) based on the below assumptions was assesed;
- values of Intangible assets, construction in progress (excluding development projects), right-of-use assets were eliminated
- capital value was estimated.

The discounted terminal value was calculated as follows:

- In the long run the congestion revenues as a result of increasing interconnection capacity and merging of markets should converge to 0, while investments should maintain the future asset condition (i.e., overlap with depreciation costs), and that the cash flow should only be generated by the investment return of the regulated assets and unregulated activity revenue, calculated normalized cash flow by multiplying the LRAIC-modelled regulated assets value for the end of 2036 by the rate of the return on investment and less the income tax and adding other (unregulated) after tax income.
- Calculated capitalized value by dividing normalized cash flow from discounted rate; normalized cash flow growth rate is 0;
- Capitalized value discounted to 2019.

Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) of the Group equal to 3.79%.

Following the verification of the fair value of property, plant and equipment as of 31 December 2019, the outcome was assessed - the net present value of future cash flows equals EUR 306,811 thousand, which is higher than the book value of property, plant and equipment by EUR 638 thousand. The difference between the estimated fair value and the carrying amount of the asset is 0.2%. The Group, having performed the sensitivity of the key valuation assumptions below, has not adjusted the carrying amount of the asset and considers it to be in line with market value.

The tables below present sensitivity of the outcome of asset valuation to congestion revenues and the share of value of assets optimized via the LRAIC model:

Change in discount rate (and rates of return on investment from 2027), %	Value of assets, EUR thousand
-1,0%	321 748
-0,5%	314 035
0,0%	306 811
0,5%	299 936
1,0%	293 328

Share of congestion revenue, % of forecast revenue	Value of assets, EUR thousand
0%	318 846
25%	309 879
50%	301 710
100%	306 811
125%	316 496

Share of value of assets optimized via LRAIC model, % of forecast	Value of assets, EUR thousand
80%	300 350
90%	303 580
100%	306 811
110%	310 042
120%	313 273

Amber Grid AB

Last time, Amber Grid AB revalued property, plant and equipment according to the performed valuation of property, plant and equipment as of 31 December 2018. The valuation was performed with the help of Amber Grid AB and the Group's internal resources; according to the valuation results, the value of assets was reduced by EUR 37.7 million.

In 2019, there were no regulatory decisions that could significantly affect the value of the assets. As of 31 December 2019, the value of the assets was estimated using the income method, by applying the discounted cash flow method. The value of the asset was calculated as the present value of the net future cash flows. As of 31 December 2019, assets valuation corresponding to the third level of the fair value measurement hierarchy was performed by the Group's internal resources in calculating the present value of the net future cash flows using the key assumptions set out below:

Key assumptions	Values used	Value ranges	Influence of applied assumptions on value
Post tax discount rate	3,67%	3,17% - 4,17%	The higher the discount rate, the lower the fair value of the asset
Rate of return on regulated assets during regulation period 2019 - 2025	3,38%/3,72%	2,88% - 4,22%	The higher the rate of return on investment, the higher the fair value of the asset
Rate of return on investment after 2025	4,32%	-	The higher the rate of return on investment, the higher the fair value of the asset

- In the value calculation, discounted 2020-2025 projected cash flows were used and discounted continuity value flows after 2025 was estimated;
- Amber Grid profit arising from the operational efficiency as at 2019 exceeding the defined return on investment will be partially refunded to system users in the future (by reducing the cost of services);
- In 2020, the return on investment of 3,38% set by the National Energy Regulatory Council (NERC) was applied that will increase to 3,72% as a result of the NERC's update of the methodology for determining the rate of return on investment (hereinafter – WACC methodology);

Following the inspection of the fair value of property, plant and equipment as at 31 December 2019, the Group determined that the discounted present value of future cash flows equals to EUR199,038 thousand, which is by 0.3% higher than the carrying amount of property, plant and equipment. The Group estimates that the carrying amount of the asset is in line with market value and no value adjustments have been made.

The discount rate and rate of return on assets set by the National Commission for Energy Control and Prices, have the greatest impact on Amber Grid recoverable amount of assets.

The Group performed a sensitivity analysis of the value of the asset for the following key assumptions applied, by altering them and keeping the other variables constant:

Sensitivity to changes in discount rate, percentage points:

Change in discount rate	Value of PPE valued using the income method	Effect on profit before tax
+0,5%	194 374	(4 664)
-0,5%	203 515	4 477

According to the Group, the discount rate may change if the ratios constituting WACC (weighted average cost of capital) change. The amount of WACC is sensitive to general changes in economy and the financial sector. There is currently nothing to suggest these changes might occur in the near future, therefore, uncertainties related to assumptions (fluctuations in ratios) are minimal.

In the opinion of the Group, these uncertainties will remain in the long term, even though adjustments will be made to WACC assumptions at the end of each year.

Sensitivity to changes in return on investments during 2021-2025, percentage points:

Change in return on investments during 2021–2025	Value of PPE valued using the income method	Effect on profit before tax
+0,6%	202 093	3 055
-0,5%	195 850	(3 188)

Return on investment shall be set by NERC for the price regulation period during 2019-2023 in accordance with the WACC methodology. Each year NERC will adjust WACC.

While discounting cash flows after 2025, consistency was established between the projected return on investments and the discount rate, therefore, the reasons concerning the sensitivity of return on investments to changes are the same as those concerning the sensitivity of the discount rate to changes, as described above.

Impairment testing of investments in subsidiaries

Although the shares of the Company's subsidiaries LITGRID and Amber Grid are traded on the Nasdaq OMX Stock Exchange, in the opinion of the Company's management, this market is not active, reflects only the minority (2.5-3.5%) share price, therefore the share price cannot be used in determining the market value of a block of shares in subsidiaries managed by the Company.

The Company estimates that the fair value of its investments in LIGRID and Amber Grid shares can be measured reliably as the difference between the subsidiary's total assets and total liabilities measured at fair value, reflecting the fair value of the net assets. About 90% of subsidiaries' assets consist of property, plant and equipment, the value of which is calculated using the income method, by applying the discounted cash flow method. These circumstances confirm that the net asset value of the listed subsidiaries corresponds to the fair value.

As at 31 December 2018, following a significant reduction in the value of LITGRID's property, plant and equipment due to changes in regulated pricing, the impairment of the investments in LITGRID AB shares was calculated and accounted for in the amount of EUR 26,090 thousand. The value of EPSO-G's investment was also determined using the book value method, which was used to calculate the net asset value (after adjusting for the value of non-current assets).

As at 31 December 2019, the estimated net asset value of LITGRID attributable to the Company's equity amounted to EUR 191,829 thousand, i.e. exceeded the value of the investment by EUR 704 thousand. According to the Company's decision, the value of the investment was not adjusted due to the sensitivity of the valuation assumptions to the value of the assets, which significantly affects the value of the net assets.

As at 31 December 2019 and 2018, the value of the investment in the qualifying holding of Amber Grid was not adjusted, as the estimated fair value of the net assets exceeded the acquisition value of the investment.

On 29 November 2019, the purchase price of 100% of the qualifying holding of TETAS was determined by independent appraisers. The income method was used to determine the value of TETAS by discounting the free cash flow. 2019-2023 projected cash flows and continuing cash flows were used to calculate the value. The company, having performed the analysis, found that the actual free flow for the second half of 2019 and the beginning of 2020 exceeds the forecast used in the estimate for 2020. The flow approved in the budget (based on signed agreements) exceeds the forecast, therefore, according to the Company's assessment, the investment in TETAS, as at 31 December 2019, was not impaired.

Valuation of the premium to the final price of LITGRID AB and deferred liability adjustment

As part of the implementation of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 and the requirements of the Law on Electric Energy, on 4 July 2014 the Lithuanian Government adopted Resolution No 826 *On the establishment of a private limited liability company and investment of state-owned assets*, under which the Ministry of Energy was committed to establish a private limited liability company and make all the decisions necessary to transfer the shares of LITGRID AB held by Lietuvos Energija UAB (the former Visagino Atominė Elektrinė UAB, as from 2019, Ignitis grupė UAB, hereinafter " Ignitis grupė") to the newly established private limited liability company EPSO-G in return for consideration based on the market value of shares determined by independent appraisers.

By its Letter No (11.2-13)3-2428 of 10 July 2012 *On the implementation of the Lithuanian Government Resolution*, the Lithuanian Ministry of Energy committed Ignitis grupė to ensure that all the decisions necessary for unbundling of LITGRID AB will be made.

In September 2012, an agreement was signed between Ignitis grupė and the Company on sale of shares of electricity transmission system operator LITGRID AB. Under the agreement, 97,5% shareholding in LITGRID AB was sold to the Company by Ignitis grupė at the market value.

In September 2012, an independent valuation of shares of LITGRID AB was performed. The basic sale price of shares specified in the agreement on sale/purchase of shares of LITGRID AB was equal to the market value determined by independent appraiser, i.e. EUR 217 215 thousand, and to the estimated premium to the final price considering the uncertainties of future changes in the principles of determining the tariffs for regulated services. In view of the results of the independent valuation, assumptions used and uncertainties pertaining to future changes in the principles of determining the tariffs for regulated services (the implementation of which is prescribed by the new provisions of the Lithuanian Law on Electric Energy adopted on 17 January 2012), the agreement on sale/purchase of shares of LITGRID AB provided for a premium to the final sale price that depends on potential future changes in the regulatory environment.

The premium to the final price was calculated with reference to the assumptions used in calculation of return on investments for 2015-2018. The above-described assumptions used in valuation of assets of LITGRID AB included both – return on investments from premium to RAB (as defined in the Lithuanian Government Resolution) and excess profit adjustment to return on investments in 2011-2013. Under the agreement, "the premium to the final price is determined in view of the substantial changes in the principles of determining the tariffs for regulated services of LITGRID AB". The management estimates that there have been a number of significant changes in the setting of tariffs:

1) The Commission carried out 2011-2013 inspections, during which it was established that Litgrid exceeded the permissible level of income, as a result of which the electricity transmission tariff for 2014-2017, consequently, the return to the new shareholder, EPSO-G, was reduced.
2) The Commission retrospectively for the year 2016 determined the value of regulated assets using the historical cost method and noted that it plans to apply the same principles until the new regulatory period in 2021. Regulatory asset base for 2016-2020 will be calculated using the historical cost method. The changed method of calculating of the regulatory asset base reduces shareholder returns.
3) The independent appraiser did not include new strategic projects (connections with Poland and Sweden) in the valuation of the qualifying holding of Litgrid. Investments were not included either in the calculation of cash flows or regulated assets. According to EPSO-G, the same principles must be followed both when setting the provisional price and the premium to the final price. Therefore, the size of regulatory assets should not include strategic projects, the costs of which were incurred when Litgrid was already managed by EPSO-G.

The company treats all arguments as significant and has calculated a negative price premium of EUR 27,075 thousand. Ignitis group disagrees with the arguments and the calculations presented, as a result, discussions are currently underway to resolve the issue. EPSO-G management decided to assess the situation conservatively and to include 1 or 2 arguments into the premium of the final price, as at 31 December 2018, i.e. the arguments supported by the Commission's letters. According to the management, the premium to the final price is negative and the amount must be between EUR 17,961 thousand and EUR 27,075 thousand.

In view of these assumptions, the Company assessed the premium to the final price and concluded that it changed and is equal to EUR 17,961 thousand as at 31 December 2018 (31 December 2017: EUR 4,679 thousand). It was recognised as a reduction to the amount payable for the shares accounted for in other non-current amounts payable and liabilities in the balance sheet. This change was recorded within financing activities in the income statement.

As noted in the note of subsequent events, on 1 April 2020, the Government of the Republic of Lithuania approved the provisions of the representatives of the Ministry of Finance and the Ministry of Energy, under its protocol decision on Ensuring the Financial Sustainability of the State-Controlled EPSO-G UAB and Ignitis grupė UAB, that it is expedient to refinance the debt of EPSO-G UAB using loans from credit institutions, and that EPSO-G UAB and Ignitis grupė UAB would enter into an agreement on the repayment of the debt of EPSO-G UAB before the term specified in the agreement (forecast term - 2020). When deciding on the terms of the early repayment of the debt of EPSO-G UAB, the amount of LITGRID share premium should also be agreed upon. Until the date of approval of these financial statements, the Company and Ignitis grupė UAB had not agreed on the terms of debt repayment and the amount of LITGRID share premium, accordingly, as at 31 December 2019, the value of the liability for the shares did not change. Based on the above arguments, the Company estimates that the share premium should be recognized in the full amount of EUR 27,075 thousand, by additionally fixing the decrease in liability for shares of EUR 9,114 thousand and income from financial activities.

Due to the materiality and transparency of the liability for shares, the Company reclassified this liability in the statement of financial position from other non-current payables and liabilities to current and non-current interests bearing financial liabilities. The movement of the liability is set out in Note 20.

Valuations of Lease Recognition in accordance with IFRS 16

Determining whether a contract is a lease

The most complex valuations of the Group were related to the recognition of land leases in accordance with the provisions of IFRS 16. According to the Group's analysis, the land leases entered into by non-auction with municipalities fall within the scope of IFRS 16.

Valuation of the lease term

The Group and the Company set the lease term as irrevocable, including periods with the option to extend the lease, in case it is reasonably known that this option will be exercised, or periods with the option to terminate the lease in case it is reasonably known that this option will not be exercised. The Group makes a decision, all relevant factors that create an economic incentive to exercise the option to extend the lease or not to exercise the option to terminate the lease are taken into account. Following the initial assessment, the Group and the Company reassess whether it has a reasonable expectation that it will exercise the option to extend the lease or will not exercise the option to terminate the lease when a significant event occurs or the circumstances controlled by the Group and the Company change significantly.

The Group has established an initial lease term of 99 years for land leases, linking it to the useful life of the PPE fitted on the land (including the extension of the service life after reconstructions).

The Group and the Company have included a period for extending the lease of premises and other tangible assets with a shorter irrevocable lease term. The Group generally exercises the option to extend such leases.

The extension period of the vehicle lease is not included in the lease period, as the Group usually leases vehicles for a maximum period of four years, therefore the option will not be exercised.

Provisions for Easement compensations

The amendments as of 1 November 2017 to the Law on Electricity of the Republic of Lithuania, under which the repayment of Easement being established by installing electricity networks on the land lots not owned by an operator is provided for. The following Law provides that when installing transmission networks or other electrical equipment, one-off compensations will be paid for covering the loss of the establishment of the statutory servitudes. On 31 July 2018, methodology for calculating compensation entered into force; it establishes the conditions for the payment of compensation. On 31 December 2018, the Group recognised the intangible assets and provisions of EUR 2 300 thousand measured on the basis of available information on servitudes used and expected compensation amount. The amount of compensation was accounted for at discounted value with an applied discount rate of 2,24 %.

As of 31 December 2019, the Group has adjusted its intangible assets and related provisions by EUR 700 thousand, based on the information available on paid servitude compensations for the year 2019 and after the recalculation of the amount of compensations of subsequent periods.

Impact of coronavirus (COVID-19)

As stated in the note on events after the end of the reporting period, the Group and the Company reviewed business continuity, preventive measures, performed an analysis of possible impact on income, liquidity or credit risk and provided measures to manage them due to the declared state-level emergency threat of coronavirus (COVID-19) in Lithuania.

2.24 Fair value measurement

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 the Group and the Company.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Company use 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 categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Valuations are performed by the management at each reporting date. For the purpose of fair value disclosures, the Group and the Company have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of asset or liability and the level of the fair value hierarchy as explained above.

As at 31 December 2019 and 2018, the Group and the Company did not have significant assets or liabilities measured at fair value on a recurring or not recurring basis in the financial statements, except for financial assets, which change in fair value is recognized in other comprehensive income (Note 7) and property, plant and equipment (Note 4).

Assets and liabilities for which fair value is disclosed in the financial statements comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. The management estimated that the fair value of the borrowings as at 31 December 2019 and 2018 approximated their carrying amounts as they were subject to variable interest rates, and the fair value of other above-mentioned financial assets and liabilities approximated their carrying amount largely due to the short-term maturities of these instruments as at 31 December 2019 and 2018.

3. Intangible assets

Group	Goodwill	Patents and licences	Computer software	Other intangible assets	Statutory Easement*	Total
Net book amount at 31 December 2017	-	325	4 325	24	-	4 674
Acquisitions	61	-	3 286	-	2 300	5 647
Write-offs	-	-	(8)	-	-	(8)
Reclassification from PPE	-	-	(93)	-	-	(93)
Transfers between categories	-	110	(110)	-	-	-
Amortisation	-	(165)	(1 172)	(16)	-	(1 353)
Net book amount at 31 December 2018	61	270	6 228	8	2 300	8 867
At 31 December 2018						
Acquisition value	61	550	9 359	31	2 300	12 301
Accumulated amortisation		(280)	(3 131)	(23)	-	(3 434)
Residual value	61	270	6 228	8	2 300	8 867
Net book amount at 31 December 2018	61	270	6 228	8	2 300	8 867
Acquisitions	-	185	1 538	117	-	1 840
Write-offs	-	-	-	-	(700)	(700)
Transfers between categories	-	38	(146)	108	-	-
Amortisation	-	(212)	(1 862)	(23)	-	(2 097)
Net book amount at 31 December 2019	61	281	5 758	210	1 600	7 910
At 31 December 2019						
Acquisition value	61	773	10 751	256	1 600	13 441
Accumulated amortisation	-	(492)	(4 993)	(46)		(5 531)
Residual value	61	281	5 758	210	1 600	7 910

* In the group of intangible assets "Statutory Easement", the Group has recognized the compensation payable to the owners of land plots for the right to use their land plots on the basis of easement, where electricity networks and equipment are installed. On 31 December 2018, the Group recognised the intangible assets and provisions of EUR 2,300 thousand assessed on the basis of available and forecast information on easement used and expected compensation amount. The amount of compensation was

accounted for at discounted value with an applied discount rate of 2,24%. The useful life of the intangible asset is unlimited, therefore the asset is not amortized.

As at 31 December 2019, the Group reviewed the main assumptions used in the calculation of the provision: the expected timing of the payment of compensation, the number of owners applying, the amounts of compensation. As a result, an adjustment of intangible assets and related provision of EUR 700 thousand was made.

As at 31 December 2019 and 2018, the Company did not have Intangible assets.

4. Property, plant and equipment

Group	Land	Buildings	Plant and machinery	Motor vehicles	Other PPE	Construction in progress	Total
Net book amount at 31 December 2017	659	16 408	573 124	2 595	11 438	16 214	620 438
Acquisitions	-	17	1 148	683	853	24 064	26 765
Prepayments of PPE	-	-	-	-	-	2 017	2 017
Revaluation	(14)	(394)	(93 388)	-	(160)	-	(93 956)
Sales	-				(18)		(18)
Write-offs	-	(13)	(1 115)	-	(8)	-	(1 136)
Reclassification to (from) inventories	-	-	-	-	(131)	-	(131)
Reclassification to intangible assets	-	-	-	-	-	93	93
Transfers between categories	-	335	15 377	-	1 842	(17 554)	-
Set-off of grants with PPE	-	-	-	-	-	(7 054)	(7 054)
Depreciation	-	(816)	(32 692)	(596)	(3 093)	-	(37 197)
Net book amount at 31 December 2018	645	15 537	462 454	2 682	10 723	17 780	509 821
At 31 December 2018							
Acquisition value	645	15 878	462 754	3 767	11 828	17 780	512 652
Accumulated depreciation	-	(341)	(300)	(1 085)	(1 105)	-	(2 831)
Residual value	645	15 537	462 454	2 682	10 723	17 780	509 821
Net book amount at 31 December 2018	645	15 537	462 454	2 682	10 723	17 780	509 821
Acquisitions	-	-	511	270	773	63 716	65 270
Prepayments of PPE	-	-	-	-	-	(449)	(449)
Revaluation/impairment	-	391	-	-	-	(239)	152
Sales	-	-	(163)	(3)	(1)	-	(167)
Write-offs	-	(25)	(344)	-	(2)	-	(371)
Reclassification to (from) inventories	-	-	(156)	-	125	5	(26)
Transfers between categories	-	8 226	28 574	-	3 689	(40 489)	-
Reclassification to right-of-use assets	-	-	-	(1 194)	-	-	(1 194)
Set-off of grants with PPE	-	-	-	-	-	(18 665)	(18 665)
Depreciation	-	(754)	(24 327)	(396)	(2 995)	-	(28 472)
Net book amount at 31 December 2019	645	23 375	466 549	1 359	12 312	21 659	525 899
At 31 December 2019							
Acquisition value	645	24 470	491 176	2 840	16 412	21 898	557 441
Accumulated depreciation	-	(1 095)	(24 627)	(1 481)	(4 100)	-	(31 303)
Accumulated impairment	-	-	-	-	-	(239)	(239)
Residual value	645	23 375	466 549	1 359	12 312	21 659	525 899

The Group's property, plant and equipment are stated at revalued amount. The last revaluation of its assets is dated as at 31 December 2018; due to changes in regulated pricing, the value of assets was adjusted by a decrease of EUR 94 million. As at 31 December 2019, the Group performed the review of the value of the assets using the discounted cash flow method (income

method). The assumptions used in the assessment are disclosed in Note 2.23. In 2019, there were no regulatory decisions that could significantly affect the value of assets, therefore as at 31 December 2019, the value of the assets was not adjusted. Asset valuation, as at 31 December 2019 and 2018, corresponded to the third level of the fair value measurement hierarchy.

In 2019, the Group's capitalized interest on property, plant and equipment meeting the criteria amounted to EUR 138 thousand, the interest rate applied was 0.9% (in 2018, the capitalized interest was EUR 71 thousand, the applied interest rate was 0.93%).

As at 31 December 2019, the Group performed an inventory of construction in progress and determined that some of the projects are unlikely to be carried out, resulting in an impairment of construction in progress.

As at 31 December 2019, the Group had agreements for the acquisition of non-current assets, which are not recognized in these financial statements amounting to EUR 213.4 million (as at 31 December 2018 - EUR 100.6 million). In 2019, liabilities to Lithuanian-Polish gas pipeline (GIPL) contractors and equipment suppliers amounted to EUR 106 million in the amount of fixed assets liability, 44.85% of which are planned to be financed by the EU structural funds.

Write-offs consisted mainly of write-offs of parts of the assets replaced during the reconstruction of the assets.

Company	Other PPE	Total
Net book amount at 31 December 2017	44	44
Acquisitions	3	3
Depreciation	(18)	(18)
Net book amount at 31 December 2018	29	29
At 31 December 2018		
Acquisition value	71	71
Accumulated depreciation	(42)	(42)
Residual value	29	29
Net book amount at 31 December 2018	29	29
Acquisitions	4	4
Depreciation	(14)	(14)
Net book amount at 31 December 2019	19	19
At 31 December 2019		
Acquisition value	75	75
Accumulated depreciation	(56)	(56)
Residual value	19	19

As at 31 December 2019 and 2018, the Company's other property, plant and equipment consisted of computer equipment and furniture.

5. Right-of-use assets

The Company has concluded lease agreements for premises, motor vehicles and other PPE. The Group has concluded lease agreements for premises, vehicles, state land and other assets. Lease agreements for vehicles are concluded for 3-4 years, premises 5-8 years, with the possibility of extension, other tangible assets – 2-3 years. Lease terms for land are concluded for 99 years with the possibility of extension. As described in Note 2.1 herein, the Group and the Company apply the exceptions to IFRS 16 for short-term leases, low value assets, and do not recognize non-lease components as right-of-use assets.

Group	Land	Buildings	Motor vehicles	Other PPE	Total
As at 1 January 2019	5 743	1 210	1 363	138	8 454
Acquisitions	-	601	97	160	858
Write-offs	-	(30)	-	-	(30)
Reclassification from PPE (leasing contracts)	-	-	1 194	-	1 194
Depreciation	(58)	(361)	(630)	(49)	(1 098)
Net book amount at 31 December 2019	5 685	1 420	2 024	249	9 378
Acquisition value	5 743	1 781	2 654	298	10 476
Accumulated depreciation	(58)	(361)	(630)	(49)	(1 098)
Net book amount at 31 December 2019	5 685	1 420	2 024	249	9 378

Company

	Land	Buildings	Motor vehicles	Other PPE	Total
As at 1 January 2019	-	255	2	-	257
Acquisitions	-	-	81	-	81
Depreciation	-	(43)	(19)	-	(62)
Net book amount at 31 December 2019	-	212	64	-	276
Acquisition value		255	81	-	336
Accumulated depreciation	-	(43)	(17)	-	(60)
Net book amount at 31 December 2019	-	212	64	-	276

The Group and the Company had no leases with variable payments not included in the value of lease obligations.

Expenses of short-term lease (up to 12 months) and low value lease (up to EUR 4,000) of assets of the Group in 2019 amounted to EUR 1 381 thousand are recognized in expenses (the Company's - EUR 33 thousand).

In 2019, The Group's interest calculated on lease liabilities reflected in financial operating expenses is EUR 123 thousand EUR (the Company's - EUR 2 thousand).
In 2019, the Group made lease payments EUR 1 258 thousand (the Company - EUR 95 thousand).

6. Investments in subsidiaries, associates and joint ventures

The Company's investments in subsidiaries

Companies of the Group in which the Company had a shareholding interest at 31 December 2019 are as follows:

Group companies	Acquisition value	Impairment	Carrying amount	Ownership interest (%)
LITGRID AB	217 215	26 090	191 125	97,5
Amber Grid AB	126 529	-	126 529	96,6
BALTPOOL UAB	388	-	388	67,0
TETAS UAB	3 150	-	3 150	100,0
Total	347 282	26 090	321 192	

The Company, under the 100% share purchase and sale agreement of TETAS UAB of 29 November 2019 concluded with the subsidiary LITGRID AB acquired a block of shares in TETAS. 400,000 ordinary registered shares (nominal value - EUR 1) of TETAS were purchased at the price set by an independent appraiser - EUR 3,150 thousand, paid on the date of acquisition of shares.

As noted in Note 2.23, the Company has performed assessments of subsidiaries for additional impairment / adjustment. According to the results of the assessment, no impairment adjustments or additional calculations were made.

Companies of the Group in which the Company had a shareholding interest at 31 December 2018 are as follows:

Group companies	Acquisition value	Impairment	Carrying amount	Ownership interest (%)
LITGRID AB	217 215	26 090	191 125	97,5
Amber Grid AB	126 529	-	126 529	96,6
BALTPOOL UAB	388		388	67,0
Total	344 132	26 090	318 042	

A summary statement of the financial position of the Group companies, where the non-controlling interest is accounted for, as at 31 December 2019 and 2018.

Company name Year	Current assets and liabilities			Non-current assets and liabilities			Net assets
	Assets	Liabilities	Total net current assets	Assets	Liabilities	Total net non-current assets	
LITGRID							
At 31 December 2019	25 505	54 971	(29 466)	351 864	125 656	226 208	**196 742**
At 31 December 2018	25 934	57 813	(31 879)	334 554	106 838	227 716	**195 837**
Amber Grid							
At 31 December 2019	28 094	45 192	(17 098)	209 215	53 945	155 270	**138 172**
At 31 December 2018	28 299	48 015	(19 716)	207 117	55 805	151 312	**131 596**
TETAS							
At 31 December 2019	4 200	5 974	(1 774)	4 197	1 908	2 289	**515**
At 31 December 2018	6 996	6 548	448	2 794	2 855	(61)	**387**
Baltpool							
At 31 December 2019	67 426	66 912	514	211	131	80	**594**
At 31 December 2018	65 134	64 553	581	39	12	27	**608**
GET Baltic							
At 31 December 2019	19 059	19 378	(319)	805	129	676	**357**
At 31 December 2018	11 200	11 321	(121)	443	-	443	**322**

A summary statement of comprehensive income of the Group companies, where the non-controlling interest is accounted for, as at 31 December 2019 and 2018.

Company name Year	Revenue	Profit before income tax	Other comprehensive income	Income tax (expense) benefit	Total net gross income	Comprehensive income attributable to non-controlling interest	Dividends paid to non-controlling interest
LITGRID							
At 31 December 2019	185 291	4 524	(709)	(288)	3 527	88	(193)
At 31 December 2018	171 949	(44 932)	(5 289)	7 635	(42 586)	(1 065)	(66)
Amber Grid							
At 31 December 2019	54 217	13 834	-	(2 031)	11 803	404	(179)
At 31 December 2018	54 290	(26 011)	-	4 419	(21 592)	(738)	(694)
TETAS							
At 31 December 2019	14 779	(175)	391	(88)	128	2	-
At 31 December 2018	21 243	(147)	-	(14)	(161)	(4)	-
Baltpool							
At 31 December 2019	975	108	-	(15)	93	31	(36)
At 31 December 2018	903	217	-	(37)	180	59	(53)
GET Baltic							
At 31 December 2019	595	37	-	(2)	35	1	-
At 31 December 2018	379	(16)	-	-	(16)	(1)	-

A summary cash flow statement of the Group companies, where the non-controlling interest is accounted for, as at 31 December 2019 and 2018.

Company name Year	Net cash flows from (used in) operating activities	Net cash flows from (used in) investing activities	Net cash flows from (used in) financing activities	Net increase (decrease) in cash flows	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of the year
LITGRID						
At 31 December 2019	24 071	6 458	(30 896)	(367)	397	30
At 31 December 2018	24 306	13 482	(37 825)	(37)	434	397
Amber Grid						
At 31 December 2019	26 925	(12 542)	(14 246)	163	34	197
At 31 December 2018	23 306	(12 221)	(17 777)	(6 692)	6 726	34
TETAS						
At 31 December 2019	676	(821)	327	182	4	186
At 31 December 2018	1 704	(942)	(760)	2	2	4
Baltpool						
At 31 December 2019	311	(33)	(150)	128	547	675
At 31 December 2018	12 298	(19)	(12 372)	(93)	640	547
GET Baltic						
At 31 December 2019	264	(250)	14	28	8	36
At 31 December 2018	53	(91)	28	(10)	18	8

As set out in Note 1, the authorized capital of Litgrid Power Link Service UAB indirectly controlled by the Company (through LITGRID) amounting to EUR 174 thousand, on 14 October 2019, was annulled. The cash balance of EUR 165 thousand was paid to LITGRID, which continues the activities of the liquidated company. On 19 December 2019, Litgrid Power Link Service UAB was deregistered from the Register of Legal Entities.

Investments in associates and joint ventures

As set out in Note 1, on 9 April 2019, the Group and the group of energy companies Ignitis grupė UAB (formerly, Lietuvos Energija UAB) resumed the sale of shares in Duomenų logistikos centras (hereinafter - DLC), which provides data transmission and data center services. It is expected that the Group will sell its 20.36% held shares, whereas Ignitis grupė UAB will dispose its 79.64% DLC shares. Due to the Group's active steps to sell the shares of the associate and the expected sale within 12 months, the investment in the said company is accounted for under current assets "Other financial assets" (Note 12).

On 19 June 2019, Polish and Lithuanian transmission system operators PSE and LITGRID, the sole shareholders of LitPol Link, each holding 50% of the company, decided to liquidate the company. As at 31 December 2019 and 2018, the acquisition cost of the investment to LitPol Link Sp.z.o.o. was EUR 295 thousand, which was 100 % recognized for impairment.

The financial position and results of operations of the associate and the joint venture as at 31 December 2019 and for the year then ended:

	Assets	Liabilities	Sales revenue	Net profit (loss)
Duomenų logistikos centras UAB	9 082	3 653	3 764	610
LitPol Link Sp.z.o.o.	-	-	-	-

The financial position and results of operations of the associate and the joint venture as at 31 December 2018 and for the year then ended:

	Assets	Liabilities	Sales revenue	Net profit (loss)
Duomenų logistikos centras UAB	6 007	785	3 818	622
LitPol Link Sp.z.o.o.	111	1	-	-

7. Financial assets at fair value through other comprehensive income

The Group's financial assets at fair value through other comprehensive income consisted of the shares of the following entities:

	TSO Holding (2 %) 2019	Nord Pool Holding (2 %) 2018
Carrying amount at 1 January	2 693	2 693
Value adjustment	(709)	-
Carrying amount at 31 December	1 984	2 693

The Group, together with other Nordic and Baltic electricity transmission operators (TSOs), manages the European electricity exchange and market interconnection operators through the holding company. The Group holds 2% in the mentioned operator holding company.

In 2018, the holding company Nord Pool Holding AS performed active steps to organize the sale of shares of the electricity exchange operator Nord Pool AS. As at 31 December 2018, the value of the shares held estimated by the Group corresponded to EUR 2,693 thousand, and was determined according to the information provided by the holding company on the results of the assessment of the operator for sale.

In 2019, the restructuring of Nord Pool Group was performed, as a result, the Group acquired 2% of Nord Pool Holding AS with the power exchange and market interconnection operators. On 15 January 2020, the Group, together with other shareholders of TSO Holding, sold 66% of shares of Nord Pool Holding AS to Euronext. Based on the price set in the share sale-purchase agreement, the Group adjusted the value of TSO Holding shares to EUR 1,984 thousand, and recognized the result of the adjustment in other comprehensive income. The valuation corresponded to the second level of the fair value measurement hierarchy, where the value was determined on the basis of the concluded transaction.

8. Congestions management revenue

Congestion management revenue movement in 2019 and 2018:

	Group	
	2019	2018
Opening balance of congestion management revenue	15 754	6 564
Congestion management revenue received during the period	27 366	12 940
Reclassified to property, plant and equipment	(3 787)	(2 939)
Congestion management revenue recognised as income during the period	(198)	(811)
Closing balance of congestion management revenue	39 135	15 754
Congestion management revenue temporarily used to finance activities	26 487	393
Unused congestion management revenue recognized in non-current assets	8 185	10 439
Unused congestion management revenue recognized in current assets	4 463	4 922

The principles for receiving and using congestion management revenue are described in Note 2.18. As at 31 December 2019, unused revenue balance in accordance with Regulation (EC) No 714/2009 of the European Parliament and of the Council amounted to EUR 39,135 thousand. The congestion revenue balance will be used mainly for investments in projects agreed with NERC, including the financing of synchronization projects until 2025. Only EUR 0.2-1 million of congestion management revenue shall be used annually to compensate for losses resulting from the disconnection of interconnections and ensuring the use of traded capacities.

As set out in Note 2.18, the difference between the congestion revenue balance on current liabilities and current assets was due to the temporary use of funds to finance the Company's operations.

	Group	
Liabilities	31/12/2019	31/12/2018
Non-current liabilities of congestion management revenue	34 672	10 832
Current liabilities of congestion management revenue	4 463	4 922
Total:	39 135	15 754

9. Inventories and non-current assets held for sale

	Group	
	As at 31 December 2019	As at 31 December 2018
Raw materials, spare parts, other consumables, and assets held for sale	1 684	2 042
Natural gas	1 651	2 444
Assets held for sale	13	19
Less: write-down allowance	(640)	(603)
Carrying amount	2 708	3 902

As at 31 December 2019, acquisition value of the Group's inventories stated at net realisable value was EUR 1 684 thousand (31 December 2018: EUR 992 thousand), the inventories recognised as expenses amounted to EUR 14 573 thousand 31 December 2018: EUR 21 173 thousand).

Movements in write-down allowance for inventories in 2019 and 2018 are indicated below:

	Group	
	2019	2018
Carrying amount as at 1 January	603	722
Change in write-down allowance	37	(119)
Carrying amount at 31 December	640	603

The impairment charge was included in other expenses in the statement of comprehensive income.

10. Trade receivables

Trade receivables comprise as follows:

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Amounts receivable after one year	4	998	-	-
Current trade receivables				
Receivables from transmission of electricity	16 096	18 513	-	-
Receivables from transmission and transit of gas	5 524	6 076	-	-
Receivables for contractual works and other services	2 530	4 221	-	-
Other trade receivables	989	1 349	38	54
Less: impairment of trade receivables	(387)	(3 871)	-	-
Carrying amount of current trade receivables	24 752	26 288	38	54

Amounts receivable after one year

As at 31 December 2019, the amount receivable of EUR 4 thousand within one year consisted of the deposit paid by the Group under the lease agreement.

As at 31 December 2018, the Group's non-current trade receivables from customers amounting to EUR 998 thousand consisted of a receivable for the connection fee of Intergas UAB, which had to be paid by 31 December 2021; a bank guarantee was received to secure the fulfilment of the obligation. From 2019, following the connection of Orlen Lietuva AB to Intergas UAB and the distribution of natural gas, the amount of gas transmitted through the interconnection point of the Group and Intergas UAB and the ordered capacity significantly increased in 2019, compared to the minimum parameters committed in the initial connection agreement.

In the emergence of these new circumstances, on 3 April 2019, an additional agreement was signed with Intergas UAB, according to which the Group reduced the receivable for the connection fee and returned the received bank guarantee.

Current trade receivables / Impairment of trade receivables (expected credit losses)

Due to the specifics of the Group's transactions with large customers, trade receivables are assessed individually. The Group management decides on individual assessments based on the availability of information on a particular debtor and a significant increase in the debtor's credit risk.

In 2019, the Group recovered EUR 981 thousand due to the payments received and EUR 2 820 thousand of written-off doubtful debts recognized in previous periods. In 2019, the Group additionally recognized doubtful debts amounting to EUR 317 thousand, subject to individual assessment.

The Company had not recognized any doubtful receivables.

The fair value of receivables approximate their carrying amount.

The ageing analysis of trade receivables that were not impaired:

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Not past due	23 906	25 862	38	54
Up to 30 days	566	365	-	-
From 30 to 60 days	149	-	-	-
From 60 to 90 days	70	6	-	-
More than 90 days	61	55	-	-
Total	24 752	26 288	38	54

11. Other amounts receivable

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Administered PSO funds receivable	47 042	51 003	-	-
Administered LNG Terminal funds receivable	16 020	14 942	-	-
VAT receivable from the state budget	3	3	-	-
Grants receivable	2 754	1 715	-	-
Reclassifying with grants received in advance *	1 168	-	-	-
Other accrued income	541	493	-	-
Loan receivables from subsidiaries	-	150	7 581	12 517
Other receivables	617	1 377	4	386
Less: impairment of other receivables	(23)	(23)	-	-
Carrying amount	66 954	69 660	7 585	12 903

The fair value of other amounts receivable approximates their carrying amount.

* The grants received in advance in 2018 for the implementation of the GIPL project were accounted for by the Group in other receivables, reducing its balance. In 2019, the Group performed a reclassification of this item by transferring the stated amount to the prepayments received (Note 25).

The main part of the Groups value of other receivables and arrears of receivables consisted of PSO and LNG receivables. As at 31 December 2019, overdue PSO funds amounted to EUR 35,411 thousand, overdue LNG funds – EUR 4,701 thousand. The Group, acting as an administrator, does not incur credit risk in collecting PSO and LNG funds, therefore no impairment is formed on these overdue amounts.

As at 31 December 2019 and 2018, the Company entered into mutual lending and borrowing agreements with the Group companies for balancing working capital. Loans are subject to variable interest rates, with interest rates linked to 3 and 6 month EURIBOR.

The ageing analysis of other amounts receivable not impaired is given below:

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Not past due	24 246	31 763	7 585	12 903
Up to 30 days	3 113	18 191	-	-
From 30 to 60 days	1 630	16 606	-	-
From 60 to 90 days	263	1 865	-	-
More than 90 days	37 703	1 235	-	-
Total	66 954	69 660	7 585	12 903

12. Other financial assets

	Group	
	As at 31 December 2019	As at 31 December 2018
Administered PSO funds	14 172	6 998
Administered LNG Terminal funds	4	56
Funds deposited for guarantees and deposits	1 619	1 769
Unused funds from congestion management revenue	4 463	4 922
Financial assets held for sale	752	752
Funds of exchange participants	24 111	16 943
Carrying amount	45 121	31 440

The funds of the exchange participants consist of their cash deposits ensuring the possibility to participate in the exchange trading. Due to the possibility of short-term disposal of these funds and their use only for settlements for products purchased on the exchange, they are not included in cash and cash equivalents.

According to the requirements prescribed by laws, the PSO funds and the LNG Terminal funds intended for beneficiaries should be reported separately from other cash and cash equivalents of the Group and can only be used for the disbursement of PSO funds and LNG Terminal funds, respectively.

As described in Note 8, the short-term share of the funds of the congestion management revenue expected to be used within 12 months for the purposes of the EU regulation.

As described in Note 6, held-for-sale financial assets consist of 20,36% of shares of Duomenų Logistikos Centras UAB.

As at 31 December 2019 and 2018, the carrying amount of other financial assets approximates their fair value.

13. Cash and cash equivalents

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Cash at bank	13 470	9 913	12 346	8 669
Carrying amount	13 470	9 913	12 346	8 669

The fair value of cash and cash equivalents is equal to their nominal and carrying amounts.

14. Share capital

As at 31 December 2019 and 2018, the share capital of the Company amounted to EUR 22 482 694,57 and it was divided into 77 526 533 ordinary registered shares with the nominal value of EUR 0,29 each. All the shares are fully paid.

Capital management

Capital consists of equity recorded in the statement of financial position.

According to the Law on Companies of the Republic of Lithuania, equity of the Company must account for at least ½ of the amount of the authorised share capital. The Company was in compliance with this requirement as at 31 December 2019 and 31 December 2018. No other external capital requirements have been imposed on the Company.

The Company's main objectives when managing capital are to safeguard the Company's ability to continue as a going concern. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell some of its assets. There were no changes in the capital management objectives compared to the previous year.

15. Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. In accordance with the Lithuanian legislation, the Company can use revaluation reserve to increase its share capital. However, this reserve cannot be used to cover losses.

Group	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 31 December 2017	6 173	(927)	5 246
Depreciation of revaluation reserve	(706)	107	(599)
Write-offs of property, plant and equipment	(55)	9	(46)
Revaluation of property, plant and equipment	(5 158)	773	(4 385)
Balance at 31 December 2018	254	(38)	216
Depreciation of revaluation reserve	(87)	13	(74)
Write-offs of property, plant and equipment	(3)	-	(3)
Revaluation of property, plant and equipment	381	(57)	324
Change in minority interest in revaluation reserve	12	-	12
Balance at 31 December 2019	557	(82)	475

16. Legal reserve and other reserves

Legal reserve

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve can only be used to cover future losses. As at 31 December 2019, the legal reserve was fully formed.

Reserve for change in fair value of financial assets

The reserve for change in fair value of financial assets is the amount of increase in the value of financial assets at fair value through other comprehensive income resulting from the revaluation of financial assets. According to the laws of the Republic of Lithuania, the share capital may be increased from this reserve, while losses may not be reduced.

The Group revalued 2% of the shares of TSO Holding AS held, which controls electricity and market interconnection exchange operators, at the price of the transaction (described in more detail in Note 7).

Group	Revaluation reserve for financial assets without minority interest	Deferred income tax	Net of deferred income tax
Balance at 31 December 2017	752	(113)	639
Balance at 31 December 2018	752	(113)	639
Revaluation of financial assets	(692)	104	(588)
Balance at 31 December 2019	60	(9)	51

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the distribution of the next year's profit.

During the Ordinary General Meeting of Shareholders of EPSO-G UAB held on 24 April 2018, it was decided to transfer EUR 50 thousand from retained earnings to other reserves.

17. Dividends

During the Ordinary General Meeting of Shareholders of EPSO-G UAB held on 30 April 2019, the decision was made in relation to the payment of dividends in the amount of EUR 750 thousand.

On 9 November 2016, the Lithuanian Government passed Resolution No 1116 whereby it was established that EPSO-G UAB would allocate 0.5% of its profit available for distribution in the financial year 2016-2021. This provision is applied if in a respective year EPSO-G UAB borrowings, finance lease liabilities and other non-current amounts payable and liabilities, except for deferred revenue, deferred income tax liabilities and grants, exceed the equity of EPSO-G UAB.

18. Grants

Grants comprise grants for the acquisition of non-current assets and reimbursement of costs. Movements in grants in 2019 and 2018 were as follows:

	Group
Balance at 31 December 2017	22
Grants received	24 283
Congestion revenue	2 939
Transferred to property, plant and equipment	(27 204)
Grants used for the compensation of expenses	(40)
Balance at 31 December 2018	0
Grants received	15 175
Grants receivable	(133)
Congestion revenue	3 787
Transferred to non-current assets	(18 665)
Used for expenditure compensation	(164)
Grants received in advance	6 614
Transferred to prepayments received	(6 614)
Balance at 31 December 2019	0

19. Borrowings

Borrowings of the Group and the Company were as follows:

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Non-current borrowings				
Bank borrowings	134 202	154 605	2 560	5 120
Current borrowings				
Current portion of non-current borrowings	30 403	34 761	2 560	2 560
Overdraft	-	6 889	-	-
Total borrowings	164 605	196 255	5 120	7 680

Non-current borrowings grouped by maturity profile:

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Between 1 and 2 years	22 959	30 403	2 560	2 560
From 2 to 5 years	70 056	73 932	-	2 560
More than 5 years	41 187	50 270	-	-
Total	134 202	154 605	2 560	5 120

As at 31 December 2019 and 2018, no assets were pledged by the Group and the Company.

The loan agreements provide for financial and non-financial covenants that the individual Group entities are obliged to comply with. In 2019 and 2018, the Group entities comply with all such covenants.

As at 31 December 2019 and 2018, the Group's loans with a fixed interest rate accounted for 33%, the remaining loans linked with 3 and 6 month EURIBOR (the Company - with 12 month EURIBOR).

As at 31 December 2019, the weighted average interest rate on the Group's and the Company's borrowings was 0,75% and 0,52%, respectively (31 December 2018: 0,77% and 0,52%, respectively).

As at 31 December 2019, the Group's and the Company's unwithdrawn balance of loans and overdrafts amounted to EUR 20 000 thousand (31 December 2018: EUR 18 511 thousand).

Reconciliation of net debt balances and cash flows from financial activities in 2019 and 2018:

Group	Cash	Borrowings	Finance lease / Lease liabilities	Total
Net debt as at 31 December 2018	9 913	(196 255)	(820)	(187 162)
Additions		(10 000)	(9 264)	(19 264)
(Decrease) in cash and cash equivalents	3 557	-	-	3 557
Change in overdraft	-	6 889	-	6 889
Loan repaid	-	34 611	-	34 611
Lease payments			1 139	1 139
Net debt as at 31 December 2019	13 470	(164 755)	(8 945)	(160 230)

Company	Cash	Borrowings	Finance lease / Lease liabilities	Total
Net debt as at 31 December 2018	8 669	(7 680)	-	989
(Decrease) in cash and cash equivalents	3 677	-	-	3 677
Additions	-	-	(338)	(338)
Lease payments	-	-	62	62
Loan repaid	-	2 560	-	2 560
Net debt as at 31 December 2019	12 346	(5 120)	(276)	6 950

20. Interest-bearing financial liabilities

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Non-current				
Amount payable for LITGRID AB shares	148 609	156 574	148 609	156 574
Current				
Amount payable for LITGRID AB shares	7 965	-	7 965	-
Total financial liabilities	156 574	156 574	156 574	156 574
Long-term repayment terms				
Between 1 and 2 years	14 481	7 965	14 481	7 965
From 2 to 3 years	134 128	14 481	134 128	14 481
From 3 to 5 years	-	134 128	-	134 128

Due to the materiality of the debt to Lietuvos Energija UAB (at present, Ignitis grupė UAB) for the shares of LITGRID, the Group and the Company separated and reclassified the data of the previous period into a separate item in the statement of financial position due to the information comparability. According to the share purchase and sale agreement of 27 September 2012, LITGRID's share price unpaid to Ignitis grupė UAB, in case of the conservative assessment of the amount of the Company's share premium described in Note 2.23, as at 31 December 2019 and 2018, amounted to EUR 156,574. As at 31 December 2019, accrued interest amounted to EUR 185 thousand (31 December 2018 - EUR 283 thousand) and is accounted for in other current amounts payable and liabilities.

21. Lease liabilities

Lease liabilities and their movement in 2019 were as follows:

	Group	Company
Carrying amount of lease liabilities at the beginning of the period *	820	-
Recognition of lease liabilities under IFRS 16 for the first time as of 1 January 2019	8 453	257
Concluded lease contracts	841	81
Termination of lease contracts	(30)	-
Calculated Interest	123	2
Lease payments (Principal and Interest)	(1 262)	(64)
Carrying amount at the end of the period as of 31 December 2019	8 945	276
Non-current lease liabilities	7 736	210
Current lease liabilities	1 209	66

* At the beginning of the period, lease liabilities consisted of liabilities under finance lease contracts.

Future lease payments under irrevocable leases:

	Group		Company	
	31/12/2019	01/01/2019	31/12/2019	01/01/2019
Total lease liabilities:	8 945	9 273	276	257
Current year	1 209	974	66	45
Repayment terms of non-current liabilities:	7 736	8 299	210	212
Between 1 and 2 years	1 044	1 290	66	42
From 2 to 3 years	623	695	58	42
From 3 to 5 years	466	696	86	85
After 5 years	5 603	5 618	-	43

22. Other non-current amounts payable and liabilities

	Group	
	As at 31 December 2019	As at 31 December 2018
Advances received from connection of new users	801	609
Provisions for pension benefits to employees	714	664
Guarantee provisions	4	6
Provisions for Easement compensation	650	1 100
Grants received in advance	4 686	-
Other	23	12
Carrying amount	6 878	2 391

Provisions for pension benefits to employees represent amounts calculated according to the Lithuanian laws (Note 2.15).

As explained in Note 3, as at 31 December 2019, based on the available information on the compensation paid for Easement during 2019 and after recalculating the amount of compensation for future periods, the Group made an adjustment of intangible assets and related provision by EUR 700 thousand. Of these, the long-term portion of provisions for Easement liabilities was reduced by EUR 450 thousand. The remaining long-term part after adjustments amounted to EUR 650 thousand.

*Grants received in advance consist of funds received from the CEF (Connecting Europe Facility) fund for the implementation of the Synchronization program. Expenditures for which a grant was awarded are planned to be incurred in the 1st quarter of 2021.

23. Current income tax and deferred income tax

Income tax expenses comprise as follows:

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Current income tax	6 034	3 272	-	-
Deferred income tax (income)	(3 925)	(17 232)	(362)	(386)
Income tax expenses (income) for the reporting period	2 109	(13 960)	(362)	(386)

The movement in deferred tax assets and liabilities prior to offsetting the balances with the same fiscal authority was as follows:

Group

Deferred income tax assets	PPE revaluation (impairment)	Impairment of accounts receivables	Accrued expenses/ income	Differences in depreciation rate	Other	Total
At 31 December 2017	16 582	25 143	1 428	-	2 830	45 983
Recognised in profit and loss	8 517	3 813	1 173	-	(600)	12 903
Deferred income tax assets offset with deferred income tax liability	(24 641)	-	-	-	-	(24 641)
Recognised in other comprehensive income	793	-	-	-	(26)	767
At 31 December 2018	1 251	28 956	2 601	-	2 204	35 012
Reclassification with deferred income tax liability	3 121	(3 558)	33	153	(34)	(285)
Recognised in profit and loss	(119)	(410)	4 146	4	227	3 848
Deferred income tax assets offset with deferred income tax liability	-	(24 901)	-	-	-	(24 901)
At 31 December 2019	4 253	87	6 780	157	2 397	13 674

Deferred income tax liabilities	PPE revaluation (impairment)	Differences in depreciation rates	Tax relief on acquisition of PPE	Other	Total
At 31 December 2017	(24 710)	(26 743)	(1 828)	(280)	(53 561)
Recognised in profit and loss	-	1 440	146	3	1 589
Deferred income tax assets offset with deferred income tax liability	24 641	-	-	-	24 641
Recognised in other comprehensive income	36	-	-	-	36
At 31 December 2018	(33)	(25 303)	(1 682)	(277)	(27 295)
Reclassification with deferred income tax liability	(117)	402	-	-	285
Recognised in profit and loss	13	-	138	(72)	79
Deferred income tax assets offset with deferred income tax liability	-	24 901	-	-	24 901
Recognised in other comprehensive income	48	-	-	-	48
At 31 December 2019	(89)	-	(1 544)	(349)	(1 982)

Net deferred income tax assets at 31 December 2018	7 717
Net deferred income tax assets at 31 December 2019	11 692

Pursuant to the provisions of the Law on Corporate Income Tax, which came into effect on 1 January 2009, income tax relief may be applied to investments in qualifying fixed assets. When calculating current income tax for the year 2019, the Company took advantage of the income tax relief and reduced the income tax expenses for the year 2019 by the total amount of EUR 218 thousand (2018: EUR 1,653 thousand).

In 2019, the Company suffered EUR 2,600 thousand tax losses (2018: EUR 2,533 thousand). The Company transfers tax losses to the Group companies for a fee (15%). In 2019, EPSO-G's received payment for the transfer of LITGRID's 2018 tax losses amounted to EUR 380 thousand.

The table below presents reconciliation of income tax expenses reported in the statement of comprehensive income to income tax expenses calculated at a statutory income tax rate on profit before tax:

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Profit (loss) before income tax	13 512	(61 680)	4 908	13 930
Income tax calculated at rate of 15%	2 026	(9 252)	736	2 090
Investment relief effect	(218)	(517)	-	-
Unrecognised deferred income tax on tax losses	-	6	-	6
Tax effect of non-taxable income and non-deductible expenses	196	(798)	(1 098)	(2 482)
Previous year adjustments	105	(1 381)	-	-
Utilization of previously unrecognized tax losses		(2 006)	-	
Income tax expenses (income) recognised as profit or loss in the statement of comprehensive income	2 109	(13 960)	(362)	(386)
Income tax expenses (income) recognized in other comprehensive income	(48)	(793)	-	-

24. Trade payables

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Amounts payable for electricity	11 837	11 587	-	-
Amounts payable for natural gas	3 830	1 561	-	-
Amounts payable for contractual works, services	7 236	7 269	-	-
Amounts payable for PPE and inventories	10 729	7 704	-	-
Other trade payables	165	11	49	31
Carrying amount	33 797	28 132	49	31

The fair value of trade payables approximates their carrying amounts.

25. Advance amounts received

	Group	
	As at 31 December 2019	As at 31 December 2018
Advance amounts received from exchange participants	15 672	10 087
Advance amounts received from new users	628	712
Other advance amounts received	45	229
Reclassified from grants received in advance from other receivables *	1 168	-
Grants received in advance	1 928	-
Carrying amount	19 441	11 028

* As explained in Note 25, the 2018 grants received in advance for the implementation of the GIPL project were reflected in other amounts received; the Group carried out the reclassification of grants received to advance amounts received.

As noted in Note 12, exchange participants transfer funds prior to trading in advance, which are then credited to the products purchased or refunded.

Advances received from new customers represent advances received from new customers for connection to electricity networks. These advances will be recognised as income upon the provision of connection services.

Grants received in advance consist of funds received from the CEF (Connecting Europe Facility) fund, which will be used to finance the costs incurred in 2020.

26. Other current amounts payable and liabilities

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Administered PSO funds payable	61 213	9 466	-	-
Administered LNG Terminal funds payable	13 562	12 311	-	-
Accumulated LNG Terminal funds	2 461	2 684	-	-
Employment-related liabilities	1 629	1 660	305	303
Accrued expenses of vacation reserve	2 149	1 922	99	67
VAT payable	1 268	2 297	-	2
Real estate tax payable	966	965	-	-
Dividends payable	552	556	-	-
Interest payable	253	348	185	283
Accrued other expenses	2 458	47 911	18	14
Guarantee to secure fulfilment of obligations / deposits received	5 468	7 517	-	-
Provisions for servitude compensation	511	1 200	-	-
Congestion management revenue	4 463	4 922	-	-
Other payables and current liabilities	2 604	975	-	-
Carrying amount	99 557	94 734	607	669

Accrued LNG terminal funds for administration are accounted for as soon as the natural gas system users are issued with a VAT invoice. Accrued LNG terminal funds for administration are allocated to the account of payable LNG terminal funds as soon as Klaipėdos Nafta AB and Litgas UAB issue a VAT invoice to Amber Grid AB for the additional natural gas supply security component to be included in the natural gas transmission price.

The Group's and the Company's guarantees to secure fulfilment of obligations contain deposits received, including those relating to trade on power exchange.

The fair value of current other amounts payable approximated their carrying amount.

27. Revenue from contracts with customers, purchases of services and other operating expenses

Revenue from sales of electricity, natural gas and related services, other sales revenue:

	Group		Company	
	2019	2018	2019	2018
Revenue from contracts with customers				
Sales of electricity and related services	184 675	169 758	-	-
Sales of natural gas and related services	53 685	53 924	-	-
Other sales revenue*	12 460	22 109	230	296
Other activity income **	165	42	-	2 353
Total	250 985	245 833	230	2 649

*In 2019 and 2018, other sales revenue of the Group consisted of revenues from contract services, asset lease, LNG and PSO funds administration, and revenue from the organization of the exchange activities. In the Company, other sales revenue included the provision of management services.

** In 2019 and 2018, other activity income of the Group consisted of income grants, interest income from the performance of contracts, and of the Company – benefit from the transfer of tax losses from previous periods to the Group's companies.

Purchase costs of electricity, natural gas and related services:

	Group	
	2019	2018
Purchase costs of electricity and related services	134 946	118 993
Purchase costs of natural gas and related services	11 336	10 418
Total	146 282	129 411

Other operating expenses

	Group		Company	
	2019	2018	2019	2018
Depreciation and amortisation	(31 667)	(38 550)	(77)	(18)
Salaries and related expenses	(27 827)	(25 709)	(1 477)	(1 365)
Repair and maintenance expenses	(7 541)	(6 964)	-	-
Fees and charges	(5 338)	(5 003)	(11)	(23)
Telecommunications and IT expenses	(2 886)	(2 571)	(29)	(49)
Subcontracting and materials	(2 766)	(11 289)	-	-
Transport expenses	(2 473)	(2 376)	(46)	(72)
Premises expenses	(1 471)	(1 336)	(52)	(94)
Impairment and write-off expenses	(112)	(89 094)	-	(26 090)
Other expenses	(6 847)	(5 868)	(343)	(390)
Total	(88 928)	(188 760)	(2 035)	(28 101)

28. Financing activities

	Group		Company	
	2019	2018	2019	2018
Dividend income	174	130	7 677	27 238
Interest income	-	-	35	-
Other finance income*	51	13 319	-	13 300
Interest expenses	(2 429)	(2 749)	(982)	(1 156)
Other financing activities costs	(59)	(42)	(17)	-
Results of financing activities	(2 263)	10 658	6 713	39 382

*In 2018, the Group and the Company's income from other financial activities was reflected by the influence of the adjustment of LITGRID share premium of EUR 13,282 thousand, as indicated in Note 2.23.

29. Related-party transactions

As at 31 December 2019 and 2018, the parent country of the Group and the Company was the Republic of Lithuania, represented by the Ministry of Energy of the Republic of Lithuania. For the purposes of related party disclosure, the Republic of Lithuania does not cover central and local authorities. Disclosure includes transactions and balances with the shareholder, subsidiaries (in the Company's transactions), all state-controlled or significantly influenced companies (the list of such companies is published at https://vkc.sipa.lt/apie-imones/vvi-sarasas and transactions are disclosed only when the amount of transactions during a calendar year exceeds EUR 100 thousand) and the management and their family members.

Transactions with related parties are carried out on market terms, at tariffs approved by law or in accordance with the requirements of the Law on Public Procurement.

The Group's transactions conducted with related parties in 2019 and balances arising from these transactions as at 31 December 2019 were as follows:

Related parties	Purchase (payments)*	Sales (receipts)*	Amounts payable*	Receivables*	Finance income	Costs of financial operations
Ignitis group companies:						
Ignitis grupė UAB	-	-	156 759	66	-	937
Energijos skirstymo operatorius AB	52 462	218 891	7 478	24 915	-	2
Ignitis UAB	60 706	45 918	4 937	4 205	-	-
Ignitis gamyba AB	112 242	28 628	26 479	2 643	-	-
Ignitis grupės paslaugų centras UAB	-	263	-	26	-	-
Vilniaus kogeneracinė jėgainė UAB	-	264	35	-	-	-
Kauno kogeneracinė jėgainė UAB	-	279	-	281	-	-
Transporto valdymas UAB	589	-	101	-	-	-
Energetikos paslaugų ir rangos organizacija UAB	989	90	240	-	-	6
Duomenų logistikos centras UAB	178	253	34	21	81	-
Other state-controlled companies:						-
Lietuvos geležinkeliai AB	-	593	2	23	-	-
SE Ignalina Nuclear Power Plant	178	1 705	41	181	-	-
Klaipėdos nafta AB	67 724	-	10 156	-	-	-
SE Geoterma	-	-	-	110	-	-
Other state-controlled companies	148	93	150	4	-	-
Total	295 216	296 977	206 412	32 475	81	945

* Amounts of purchases and sales, payables and receivables include turnover and balances with PSO and LNG funds.

The Group's transactions conducted with related parties in 2018 and balances arising from these transactions as at 31 December 2018 were as follows:

Related parties	Purchase (payments)*	Sales (receipts)*	Amounts payable*	Receivables*	Finance income	Costs of financial operations
Ignitis group companies:						
Ignitis grupė UAB	-	-	156 856	-	-	1 102
Energijos skirstymo operatorius AB	51 797	263 385	3 106	33 987	-	22
Ignitis UAB	8 610	45 106	2 453	3 612	-	-
Ignitis gamyba AB	118 772	31 332	11 714	2 928	-	-
Ignitis grupės paslaugų centras UAB	116	268	-	27	-	-
Litgas UAB	31 379	861	2 604	105	-	-
Kauno kogeneracinė jėgainė UAB	-	-	609	-	-	-
Transporto valdymas UAB	750	-	23	-	-	-
NT valdos UAB	781	-	3	-	-	-
Energetikos paslaugų ir rangos organizacija UAB	2 260	-	271	-	-	-
Duomenų logistikos centras UAB	185	295	35	27	62	-
Other state-controlled companies:		-	-	-	-	-
Lietuvos geležinkeliai AB	-	758	-	98	-	-
SE Ignalina Nuclear Power Plant	162	2 174	25	216	-	-
Klaipėdos nafta AB	63 008	-	9 707		-	-
SE Geoterma	-	-	-	110	-	-
Other state-controlled companies	43	1 024	143	148	-	-
Total	277 863	347 203	187 549	41 258	62	1 124

* Amounts of purchases and sales, payables and receivables include turnover and balances with PSO and LNG funds.

The Company's transactions conducted with related parties in 2019 and balances arising from these transactions as at 31 December 2019 were as follows:

Related parties	Finance income	Costs of financial operations	Amounts payable	Receivables	Loans granted	Purchase	Sales
Ignitis grupė UAB	-	937	156 759	67	-	-	-
Litgrid AB	2 574	-	-	16	-	-	113
Amber Grid AB	5 053	-	-	21	6 272	-	103
Tetas UAB	13	-	-	1	1 129	-	8
Baltpool UAB	72	-	-	-	-	-	6
GET Baltic UAB	-	-	-	-	180	-	-
Transporto valdymas UAB	-	-	3	-	-	40	-
Total	7 712*	937	156 762	105	7 581	40	230

* The indicated amounts include the amounts of declared and paid dividends – EUR 7,677 thousand.

The Company's transactions conducted with related parties in 2018 and balances arising from these transactions as at 31 December 2018 were as follows:

Related parties	Finance income	Costs of financial operations	Amounts payable	Receivables	Loans granted	Purchase	Sales
Ignitis grupė UAB	-	1 102	156 856			-	-
Litgrid AB	7 542	-	-	27	12 517	-	143
Amber Grid AB	19 606		-	23	-	-	124
Tetas UAB			-	2	-	-	12
Baltpool UAB	109		-	2	-	-	17
Total	27 257*	1 102	156 856	54	12 517	-	296

* The amount of dividends – EUR 27,238 thousand.

	Group		Company	
Payments to the key management personnel	31/12/2019	31/12/2018*	31/12/2019	31/12/2018*
Employment-related payments	2 249	2 248	480	429
Whereof: termination benefits	70	45	-	-
Number of the key management personnel (average listed)	23	29	5	5

* As at 31 December 2018, data on payments to management for comparability with data of 2019 were submitted after the indexation according to the requirements of legal acts on 1.289 coefficient applied on 1 January 2019.

No loans, guarantees, other disbursements or transfers of assets were made to the management of the Group and the Company during 2019 and 2018.

Management is considered to be the administration executives and their deputies / directors of departments. In 2019, payments for members of collegial management bodies amounted to EUR 134 thousand (twelve months of 2018 - EUR 148 thousand).

30. Financial risk management

The Group and the Company are exposed to financial risks in the course of their operations. In managing this risk, the Group's companies seek to reduce the impact of factors that could adversely affect the Group and the Company's financial results. The Group and the Company follow the treasury and financial risk management policy of EPSO-G group of companies approved by the Board of EPSO-G UAB (hereinafter - the Risk Policy).

Financial instruments by category (as per the statement of financial position)

	Group		Company	
Financial assets	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Trade receivables	24 752	26 288	38	54
Other receivables	66 954	69 657	7 585	12 903
Other financial assets	53 306	31 333	-	-
Cash and cash equivalents	13 470	9 877	12 346	8 669
Financial assets at amortized cost	158 482	137 527	19 969	21 626
Other financial assets				
Financial assets at fair value through other comprehensive income	1 984	2 693	-	-
Total financial assets:	160 466	140 220	19 969	21 626

	Group		Company	
Financial liabilities	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Liability for acquisition of LITGRID AB	156 574	156 574	156 574	156 574
Borrowings	164 605	208 772	5 120	7 680
Leasing liabilities	8 945	820	276	-
Trade payables	33 797	27 665	49	31
Other amounts payable and liabilities	16 999	59 857	167	81
Total	380 920	453 688	162 186	164 366

Credit risk

As at 31 December 2019 and 31 December 2018, credit risk was related to the following items:

	Group		Company	
	As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018
Financial assets at amortized cost*	81 244	102 555	19 269	21 626

* The Group's maximum exposure to credit risk is equal to the amount of trade receivables (excluding LNG terminal and PSO receivables), other receivables, cash and short-term investments, less recognized impairment losses. Receivables from administered PSO and LNG funds from other receivables are not included in the calculation of credit risk. The Group would not incur any losses without receiving these funds, as it is not the recipient of the funds, but only the administrator.

The Group has a significant concentration of credit risk, as credit risk is distributed among 10 major customers, from which receivables as at 31 December 2019, accounted for about 81% (as at 31 December 2018 accounted for approximately 77%) of the Group's trade receivables (financial assets). Amounts payable by the largest buyer - distribution network operator Energijos skirstymo operatorius AB as at 31 December 2019 accounted for 50% (as at 31 December 2018 accounted for 54%) of the Group's total trade receivables (financial assets).

Credit risk is managed through regular supervisory procedures (individual supervision of debtors, monitoring and analysis of buyers to anticipate potential future solvency problems, etc.). The Group's companies have approved regulations for trade receivables management, which specifies the specific actions and deadlines required for the reduction of trade receivables.

The Company is exposed to risk by holding funds in bank accounts. The Group and the Company invest free funds only in low-risk money market and debt securities instruments, i. y. term deposits, bonds of reputable financial institutions, government securities. The priority investment goal is to ensure the security of funds and, in line with this goal, to maximize the return on investment. The funds are invested only in debt instruments of financial institutions and countries with a long-term credit rating of at least A- according to Fitch Ratings (or the equivalent of other rating agencies). The table below sets out the ratings of banks in which the Group and the Company hold cash and cash equivalents (Note 13) and other financial assets (Note 12):

Luminor*	AA*
Swedbank*	AA-
SEB*	AA-
OP Corporate Bank	A+

* The ratings assigned to the parent banks as at 31 December 2019.

Trade and other receivables are mainly from the state-controlled entities and large manufacturers with no history of significant defaults.

For ageing analysis of the Group's and the Company's trade and other receivables see Notes 10 and 11.

Liquidity risk

The Group's policy is to ensure funding of its operations so that the Group will have sufficient cash and/or committed credit facilities and overdrafts to meet its contractual obligations at any time. The liquidity risk is managed by making forecasts of cash flows of the Group companies

The Group's cash flows from operating activities were positive in 2019, therefore its exposure to liquidity risk is not significant. As at 31 December 2019, the Group's current ratio (total current assets / total current liabilities) and quick ratio (total current assets – inventories) / total current liabilities) were 0,8 and 0,8, respectively (31 December 2018: 0,8 and 0,8, respectively). The Company's current and quick ratios as at 31 December 2019 were 1,88 and 1,8, respectively (31 December 2018: 6,6 and 6,6, respectively).

Liquidity risk is managed by making regular short-term and long-term cash flow forecasts of the Company. Liquidity is ensured with the help of solutions supporting the solvency of the Company – the dividends to be received. Liquidity risk of EPSO-G group is managed with the help of borrowings restructuring solutions.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments. This table has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Balances with repayment terms up to 12 months are equal to their carrying amounts, because the impact of discounting is insignificant.

Group	Up to 3 months	Between 4 months and 1 year	Between 2 and 5 years	After 5 years
At 31 December 2019				
Trade and other amounts payable	68 464	2 860	497	-
Borrowings	7 738	30 339	95 846	42 304
Other financial liabilities	-	8 703	151 430	
At 31 December 2018				
Trade and other amounts payable	42 858	1 230	599	-
Borrowings	8 427	49 412	107 217	68 645
Other financial liabilities	-	1 034	157 334	

Company	Up to 3 months	Between 4 months and 1 year	Between 2 and 5 years	After 5 years
At 31 December 2019				
Trade and other amounts payable	68	588	-	-
Borrowings	7	2 572	2 566	-
Other financial liabilities	-	8 703	151 430	-
At 31 December 2018				
Trade and other amounts payable	307	532	-	-
Borrowings	10	2 584	5 147	-
Other financial liabilities	-	1 034	157 334	

Market risk

a) Interest rate risk

The Group's and the Company's income, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Group has non-current and current borrowings and an overdraft that are subject to interest rate linked with EURIBOR. A +/- 0.1 p.p. shift in interest rate would result in EUR 251 thousand impact on the Group's profit before tax as at 31 December 2019 (2018: EUR 337 thousand).

b) Natural gas price risk

The Group is exposed to the risk related to changes in the natural gas purchase price. Changes are caused by various fluctuations in international markets. In 2019, the Group did not take any measures to mitigate the natural gas price risk.

31. Fair value of financial assets and financial liabilities

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade and other amounts receivable, fixed term deposits, cash and cash equivalents, loans, trade and other amounts payable. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade and other amounts receivable, time deposits, cash and cash equivalents, current borrowings, current trade and other amounts payable approximates their fair value (level 3).
- The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (level 3).

32. Contingent liabilities

Litigations

LITGRID AB group litigations

On 13 May 2016, ACHEMA lawsuit was filed against the defendants LITGRID AB and TETAS AB to indemnify for the loss of EUR 2,326,964.40 due to a power outage in Achema AB ammonia production department. An order dismissing the claim on EUR 1,759,864.34 regarding the loss of income was issued on 17 February 2017. On 9 March 2017, expert examination was assigned to the case, the case was suspended. On 22 September 2017, a forensic report was received. The findings of the court-ordered expert examination are unfavourable to the Company, however, the experts interviewed at the hearing confirmed that the power outage at Achema AB ammonia production department was partly due to the Company's own fault.
On 1 April 2019, a court decision was adopted dismissing the claim of Achema AB. Achema AB appealed the judgment to a court of the higher instance. LITGRID AB filed a response. The case hearing was referred to an appeal body.
Prognosis: As the case has been reopened, to leave the set provision for the amount of EUR of EUR 567,100.06 for the amount of the claim.
On 3 September 2017, the Company applied to the Vilnius Regional Administrative Court and appealed against the administrative acts adopted by the PPO and the LBSA regarding the 2014-2015 procurement of the Company - 110 kV power transmission line Kretinga - Benaičiai substation, the object of which is partially financed by EU investments. Towards the end of the procurement contract, LBSA commissioned an evaluation of the project by PPO and on 3 August 2017 submitted an evaluation report stating that LITGRID unduly estimated the unusually low price quoted by the winning supplier TETAS UAB and violated the principles of rational use of funds, transparency and equality. Accordingly, following the presentation of the Opinion, on 24 August 2017, LBSA adopted a decision finding that LITGRID had committed an infringement of public procurement and awarded the sanction of 25 % of eligible project funds or a financial penalty of EUR 486,27.25 (EU funds reduced by EUR 243,463.62). The Company disagreed with the conclusion of the PPO and the decision of the LBSA and appealed to the court seeking their annulment and suspension (including prohibiting the LBSA from deducting the financial penalty calculated in the decision from the requests submitted by the Company under the related project). The court accepted the complaint, however refused to enforce the enforcement measures and did not suspend the validity if the administrative acts against the Company. LBSA and PPO opposed the complaint and submitted their comments to the court. On 18 January 2018, Vilnius Regional Administrative Court issued a decision rejecting the complaint. The appeal will be lodged.
Case outcome: on 18 December 2019, Supreme Administrative Court of Lithuania dismissed the Company's appeal and upheld the decision of the Court of First Instance, which was unfavourable to the Company. The case is pending before an appellate court.

Amber Grid AB litigations

Amber Grid AB had initiated two civil cases on the award of the additional natural gas supply security component to be included in the natural gas transmission price (hereinafter - LNG terminal funds) from Achema AB. Amber Grid AB acts only as the administrator of the LNG terminal funds and transfers LNG terminal funds to beneficiaries only when those funds are collected from buyers. Therefore, it is not exposed to credit risk as regards the disputed amounts.

In addition, a case is pending before the courts regarding the legality of the decisions of the Procurement Commission of Amber Grid at the time of the procurement of GIPL project. On 29 February 2020, Vilnius Regional Court passed a decision partially satisfying the claim, but did not alter the results of the procurement. At present, the parties to the case have filed appeals.

BALTPOOL UAB litigations

BALTPOOL UAB, by filing claims and applications for the issuance of court orders, in 2019, initiated new active legal disputes regarding the award of PSO funds debt from PSO funds debtors: Achema AB, Orlen Lietuva AB, Lifosa AB, Dainavos elektra UAB

and Dirbtinis pluoštas UAB. In 2019, the enforcement of the active cases initiated by court orders has not been completed and will be continued in 2020.

In 2019, the following civil cases regarding the adjudgement of PSO funds from the debtors Achema AB, Lifosa AB and Orlen Lietuva AB, initiated by LITGRID AB as the primary plaintiff, are pending / were suspended until the collection of PSO funds on 1 October 2015 from the electricity transmission system operator performing the function of persons connected to the transmission network. On 1 October 2015, after delegating BALTPOOL UAB with the function of collecting PSO funds from persons connected to the transmission network, BALTPOOL UAB took over the rights and obligations of LITGRID AB to the amounts of PSO funds debts accumulated by the persons connected to the transmission network and submitted requests to the court to replace the claimant by transferring the rights and obligations of the plaintiff to BALTPOOL UAB.

The amounts recovered from the above PSO funds debtors are / shall be credited to the PSO funds budget, therefore the above-mentioned legal disputes will not affect the financial condition of BALTPOOL.

33. Subsequent events

On 1 April 2020, the Government of the Republic of Lithuania approved the provisions of the representatives of the Ministry of Finance and the Ministry of Energy, under its protocol decision on Ensuring the Financial Sustainability of the State-Controlled EPSO-G UAB and Ignitis grupė UAB, that it is expedient to refinance the debt of EPSO-G UAB using loans from credit institutions, and that EPSO-G UAB and Ignitis grupė UAB would enter into an agreement on the repayment of the debt of EPSO-G UAB before the term specified in the agreement. The amount of LITGRID's share premium should also be agreed upon when deciding on the terms of the early repayment of the debt of EPSO-G UAB. Prior to the date of approval of these financial statements, the Company and Ignitis grupė UAB had not agreed on the terms of debt repayment and on the amount of LITGRID's share premium.

Following the declaration of a national emergency in Lithuania due to the threat of the spread of coronavirus (COVID-19), new business continuity and preventive measures have been reviewed and planned in the Group and the Company: responsible personnel for monitoring the situation and providing information to the management has been appointed; units and personnel performing critical functions and administering the key systems have been identified; additional organizational measures at system control centers are being applied; technical and replacement measures in case of the virus spread have been planned. The companies are also in the process of reviewing emergency management plans, the preparation of additional documentation and implementing measures - lists of critical activities, lists of resources needed to keep those activities going, lists of resources and persons in charge, as well as other documents and measures.
The Group's revenue affected by the pandemic may decrease in 2020 due to lower electricity and natural gas consumption. However, quarantine restrictions should not significantly influence the volume of electricity and natural gas transmission services. Moreover, in the long run, the price adjustment mechanism provides that loss of income in a calendar year will be offset in future periods. Operational information does not reflect a decrease in capacity orders.
The Group does not anticipate liquidity or credit risk issues. The main customers are large companies, which are often also regulated and / or included in the list of risk-free entities. The Group companies have entered into credit insurance contracts with respect to risky companies; participants in the electricity imbalance market have provided fixed amounts of bank guarantees or paid deposits. At the time of reporting, settlements were carried out in the usual way, however the Group will take steps to reinforce payment controls.
Short-term borrowing for the Group companies is guaranteed at EPSO-G level. The Company has a sufficient short-term borrowing limit (overdraft) to ensure current solvency. Constant communication is maintained with commercial and institutional banks.
The Group's contractors proceed with the implementation of the ongoing projects. Projects are carried out in outdoor conditions, in small groups of employees, so there are no reasons for suspending the works. The supply of the necessary materials has not stopped.
The Group operates in one of the most strategic and secure public sectors. The services provided by the Group are crucial and operate on the principle of a regulated monopoly.
On 15 January 2020, Litgrid, together with other shareholders of Nord Pool Holding AS, the Nordic and Baltic transmission system operators (TSOs), sold 66% of shares of Nord Pool Holding AS through the jointly controlled company TSO HOLDING AS to Euronext.

34. Services rendered by the audit firm

In 2019, the audit firm provided non-audit services to EPSO-G group of companies for EUR 4,950 - training of the Group's employees on the topics of international financial reporting standards. The services were procured in accordance with the EPSO-G Group's policy on procuring non-audit services from the audit firm or any network to which the audit firm belongs.
Neither the Group nor the Company received other non-audit services from the audit company in 2018.

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CONSOLIDATED ANNUAL REPORT OF EPSO-G UAB

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear all,

2019 became another year of targeted implementation of synchronization and regional gas market integration projects also ensuring reliable and stable operations and development of energy transmission and exchange infrastructure by EPSO-G Group united by the same corporate values - Professionalism, Cooperation, Progress.

At the same time, important steps have been taken to implement EPSO-G's new corporate governance model, to simplify the corporate governance structure of the group, thus allowing the subsidiaries of the holding company to focus on their core business - the synchronization with European networks and contracting.

During the reporting period, EPSO-G holding company, together with the Ministry of Energy of the Republic of Lithuania, exercising the sole shareholder's rights, streamlined the organizational governance structure of the Group, dissolved the Supervisory Board, while the boards of the companies have been reinforced with supervisory functions.

Consequently, the boards have become more authorized, they were granted more rights and responsibilities, whereas, the governance structure of the Group has become more efficient. Accordingly, the group-wide Audit Committee and Remuneration and Appointment Committee have become accountable to the newly formed Board of the holding company, which, in line with international good governance practice, consists of three independent members and two sole shareholder's delegates.

In 2019, following the start of a recent four-year term of the Board, a newly composed Audit Committee and Remuneration and Appointment Committee have been set up. Each of them has an independent and the Ministry-delegated member of the board. The committees are chaired by an external expert with an expertise of certain field selected through a public competition.

Moreover, a new Innovation and Development Committee has been formed. Its core function is to provide the Board with conclusions, recommendations or proposals on how to promote and develop innovation and increase the efficiency of EPSO-G Group's operations. We aim at contributing to the implementation of the goals set by the companies, the Group and the National Energy Independence Strategy with innovative solutions.

We feel proud that, while maintaining the continuity of the Group's strategic choices and the quality of its governance, EPSO-G has been awarded the highest possible grade A + for the work of the collegial bodies, the member selection procedure, competence and involvement. This is reflected by 2018/2019 (SOE) governance practice indicator assessed by the Monitoring and Forecast Agency of (SIPA) the Governance Coordination Centre.

Such an assessment is truly inspiring and at the same time committing us to be much better than we were yesterday. We already have almost all good governance policies in place, except for the compliance policy, which is due to be adopted and implemented in 2020. This is only half the job - it is important for us that the provisions of the adopted documents become part of the organizational culture of all companies within the Group. As a result, in 2019, in all the companies of the Group, the progress of the implementation of the provisions provided for in the policies was assessed and the steps to further increase of the efficiency of their implementation were discussed by the boards.

We must also witness that today the energy sector keeps changing faster than ever before – be it renewable energy, the search for climate change mitigation measures, technological progress or socially responsible development, without which sustainable business at present and in the future becomes difficult to imagine.

All this dictates a very clear agenda for our activities. At the strategic level, we have already decided and started working on EPSO-G Group's operational strategy before 2030, which will be introduced to all stakeholders in 2020. We must make strategic choices now in order to properly prepare for the new phase of activities following the

implementation of the strategic projects of national importance in 2025, thus making a meaningful contribution to the implementation of the goals set in the National Energy Independence Strategy.

Sustainability is not new for EPSO-G Group. Our goal is to raise it to the strategic level of choices and measurable goals. We will be able to achieve ambitious sustainability goals, covering social, economic and environmental issues, only through coordinated efforts by the entire group of companies, with the strongest impact in the medium and long term. Given this aspect of inertia, which is particularly acute in the field of climate change mitigation, we need to take extremely targeted and coordinated initiatives without delay, with ambitious objectives and indicators to measure progress.

We perceive sustainability as an integral organizational attitude of business culture of the entire Group and every single employee in the long run by consistently forming EPSO-G Group's identity, or to put it simply, *DNA* of EPSO-G.

I am confident that by the end of 2020, we will once again be able to enjoy the Group's performance - continued successful strategic projects, new activities and growing quality of governance , as well as increasing trust in the eyes of the public, business and all other stakeholders.

Yours faithfully,

Gediminas Almantas, Chairman of the Board

STATEMENT OF THE DIRECTOR GENERAL

Dear shareholders, partners, employees and stakeholders,

I am proud to introduce the consolidated performance results of the holding company EPSO-G and the group of 2019. They reflect that the projects of the strategic importance - synchronization and gas market integration - have moved from planning phase into targeted actions. We keep working reliably and steadily. We have been granted the highest governance rating among the state-owned enterprises.

In 2019, we earned more income and worked profitably. Rise in revenue was positively impacted by continued increase in electricity consumption in the industrial sector due to the national growing economy. However, significant air temperature deviations from the standard climatological normal reduced electricity demand in the service sector and in households.

The impact of warmer than usual temperatures on energy demand and at the same time on the income of the group of companies was amortized by the increased volume of natural gas transmission services in Lithuania and record gas transit to Latvia. This clearly highlighted the benefits of timely and future-oriented investments for market participants in Lithuania and the entire region.

In our day-to-day operations, we can all be proud of the significant progress made during the reporting period in implementing strategic projects important to the state's people and businesses.

During the reporting period, a connection contract was signed to start working with Europe on a single frequency in 2025 following the completion of updating and reinforcing the national energy network specified in the ENTSO-E catalogue of measures. We have secured the maximum European Union funding for the Lithuanian electricity transmission network's strengthening and renewal projects foreseen in the first stage of works. We are actively working on the same investment funding intensity in the second phase of work in preparation for the launch of the construction of the Harmony Link submarine cable with Poland.

A law was passed to give synchronization-related infrastructure projects the status of national importance. A plan of specific actions and measures has been drafted, on the basis of which synchronization projects are being implemented.

The isolated operation test of part of the Lithuanian power system and generators has been performed. During the test, the ability of the connectors to work together in frequency control maintenance mode with the generators has been checked. Parts of the isolated system functioning with the rest of the Lithuanian energy system, already operating in synchrony, were also tested as well as the technical capabilities of the generators to regulate the frequency and ability to remain stable in self-sustaining mode or in the event of a malfunction.

We have launched two new most powerful transformers in Vilnius substation. They ensure a reliable transfer of the necessary power to the residents and businesses of Vilnius region. An extremely powerful shunt reactor was transferred from the transformer substation of Ignalina Nuclear Power Plant to Elektrėnai. It will no longer be involved in the management of interconnection power flows with the Belarusian system.

The first of the strategic projects for the synchronization of Lithuania with the European electricity networks approved by the Government has been successfully completed - Bitėnai transformer substation has been expanded to a switchyard. The construction of the new line Bitėnai-Pagėgiai will be completed shortly and the modernization of the energy transmission infrastructure of Western Lithuania will be continued - the construction of the lines Darbėnai-Bitėnai and Bitėnai-Kruonis PSHP. This is particularly important in preparation for the construction of a new submarine Harmony Link with Poland.

No less important is the fact that the expanded Bitėnai transformer substation creates suitable conditions for the development of wind power plants in the region and the integration of the generation of existing wind power plants into the Lithuanian energy system.

We have also observed significant changes in the natural gas sector - in 2019, the benefits of timely and future-oriented investments became especially evident not only for the market participants in Lithuania, but also the entire region. Due to extremely favourable natural gas prices, especially LNG prices on the international market, the natural gas flow to Latvia increased 2.6 times to almost 6 terawatt-hours (TWh). During this period, the gas flow to Latvia and Estonia accounted for one-fifth (20%) of the total amount of gas intended for the consumers in Lithuania and other Baltic countries.

This had a positive effect on trading - the trading turnover of GET Baltic exchange during 2019 increased more than 2.5 times and was the largest annual trading turnover since the launch of GET Baltic operations. It is projected that in 2020, with the start of operations in Finland at the beginning of 2020, *de facto* turnover of the Baltic market will increase by more than a quarter.

Due to the well-developed transmission infrastructure in Lithuania that enables gas imports from different supply sources, in 2019, Lithuanian consumers were not affected by the gas pipeline repairs in Belarus. Following the completion of the construction of GIPL connection with Poland, notifications on repairs in this section will become technical information rather than news.

Consumer-friendly trends had formed in the biomass market as well - in 2019, with the price of biomass falling by 1/3 on Baltpool exchange, the heating season had been the most favourable for district heating users over the past few years. It is particularly positive that district heating producers are increasingly focusing on price risk management, taking advantage of the opportunities offered by the biomass market. The activity of market participants created preconditions for reducing trade prices for 2020.

All this clearly reflects that measured and timely investments in connections with the West and an increasing functioning of the energy exchange market create conditions for competition. As a result, the Lithuanian residents and the national economy benefit. That is the value and meaning of the work of EPSO-G group of companies.

We definitely have many things to be proud of. However, lessons must also be learned: every single project starts with public procurement. There is no place for details to be ignored here.

After completing the procurement procedures at the end of 2019, we are planning the construction of almost 2/3 of the pipeline connection with Poland in Lithuania in 2020, i.e. 100 km out of 165 km from Jauniūnai to Alytus. More than 10 tap sites will be installed per year and complex horizontal directional drilling will be carried out during the construction of pipeline sections under the largest Lithuanian rivers Neris and Nemunas. To implement the project on time, we will pay special attention to planning, employee safety, project management quality, and accountability for completed works.

With great confidence in the ambitious goals set for 2020 and by expressing my gratitude to every member, shareholder, board and committee members of the Group for their cooperation - I invite everyone, whatever we do, to be guided by our values first and foremost - Professionalism, Cooperation, Progress - in creating the country's energy future.

Rolandas Zukas, Director General of EPSO-G

EPSO-G IN BRIEF

7 029 km – This is the overall length of the high-voltage electricity transmission lines maintained by Litgrid.

2 114 km – This is the overall length of the pipelines operated by Amber Grid.

10 TWh – This is the amount of electricity transmitted to the residents of Lithuania and business entities thereof.

23 TWh – This is the amount of natural gas transmitted to the residents of Lithuania and business entities thereof.

30 % – This is the trend of decreased biofuel price, year-on-year, on Baltpool Energy Exchange due to increased competition.

2.6 times – This is the increase in volume of gas trading on the GET Baltic exchange.

98% – This the availability of Litpol Link and NordBalt interconnections to Lithuania's consumers.

100% – This is the availability of natural gas to users of the system.

A+ – This is the rating of the transparency and accountability of the EPSO-G group.

Key Performance Indicators of EPSO-G Group:

	2019	2018	Change	
			+/-	%
Income, thousand EUR	250 985	245 833	5 152	2,1%
EBITDA, thousand EUR	47 554	55 306	-7 752	-14,0%
Net profit, thousand EUR	11 403	-47 720	59 123	123,9%
Return on Equity (ROE)[1], %	6,0%	-22,5%		
Number of employees	992	1005	-13	-1,3%
Total electricity transmitted, GWh	10 277	10 491	-214	-2,0%
Total gas transported, GWh	23 530	22 320	1 210	5,4%
Turnover of the natural gas exchange, GWh	2 858	1 084	1 774	163,6%
Amount of biomass sold in the Energy Exchange, TOE	432	430	2	0,4%

1) Return on Equity (ROE) = Net profit/ (Equity at the beginning of the period + Equity at the end of the period)

THE 2019 CONSOLIDATED ANNUAL REPORT OF EPSO-G AND THE GROUP OF COMPANIES

The consolidated report of the holding company EPSO-G and the group of companies prepared for the twelve months period ended on 31 December 2019.

1. General information on EPSO-G group of companies

Company name	UAB "EPSO-G"
Legal form	Private limited company
Date and place of incorporation	25 July 2012, the Register of Legal Entities of the Republic of Lithuania
Company code	302826889
Registered office address	Gedimino Ave. 20, LT-01103 Vilnius
Mail address	Gedimino Ave. 20, LT-01103 Vilnius
Telephone	+370 665 20038
E-mail	info@epsog.lt
Website	www.epsog.lt
Authorised capital	EUR 22 482 695
Sole shareholder	Republic of Lithuania whose property and non-property rights are implemented by the Ministry of Energy of the Republic of Lithuania

EPSO-G is a 100 % state-owned group of energy transmission and exchange companies. The rights and obligations of EPSO-G holding shareholder are implemented by the Ministry of Energy of the Republic of Lithuania.

The main activity of EPSO-G Group with more than 993 qualified employees is to ensure uninterrupted, stable electricity transmission through high voltage grids and natural gas transportation through high-pressure pipelines and efficient management, maintenance and development of these transmission systems. The Group also manages and develops the biomass, natural gas and wood trade platforms designed to ensure competition in the market of energy resources and roundwood.

All the companies belonging to EPSO-G Group are responsible for effective and timely implementation of the projects of energy transmission and exchange infrastructure development that are important for the state by contributing to the implementation of the goals set in the National Energy Strategy thus creating a sustainable long-term value for the shareholder – the State of Lithuania, people and the economy of the country.

As of 31 December 2019, EPSO-G Group (hereinafter referred to as EPSO-G Group or the Group) consisted of the holding company EPSO-G UAB (hereinafter referred to as EPSO-G or the Company), four directly controlled companies of the group (LITGRID AB (hereinafter referred to as Litgrid), Amber Grid, AB (hereinafter referred to as Amber Grid) BALTPOOL UAB (hereinafter referred to as Baltpool), TETAS UAB (hereinafter referred to as Tetas) and the indirectly controlled company GET Baltic UAB (hereinafter referred to as GET Baltic)).

The structure of EPSO-G group of companies as at 31 December 2019:

Name	LITGRID AB	Amber Grid AB	BALTPOOL UAB	TETAS UAB	GET Baltic UAB
Legal form	Public limited company	Public limited company	Private limited company	Private limited company	Private limited company
Date and place of incorporation	16 November 2010, the Register of Legal Entities of the Republic of Lithuania	11 June 2013, the Register of Legal Entities of the Republic of Lithuania	10 December 2009, the Register of Legal Entities of the Republic of Lithuania	8 December 2005, the Register of Legal Entities of the Republic of Lithuania	13 September 2012, the Register of Legal Entities of the Republic of Lithuania
Company code	302564383	303090867	302464881	300513148	302861178
Registered office address	Viršuliškių Lane 99B, LT-05131, Vilnius	Savanorių Ave. 28, LT-03116 Vilnius	Žalgirio Str. 90, LT-09303, Vilnius	Senamiesčio Str. 102B, LT-35116, Panevėžys	Savanorių Ave. 28, LT-03116 Vilnius
Telephone	+370 5 278 2777	+370 5 236 0855	+370 5 239 3157	+370 45 504 670	+370 5 236 0000
Fax	+370 5 272 3986	+370 5 236 0850		+370 45 504 684	+370 5 236 0001
E-mail	info@litgrid.eu	info@ambergrid.lt	info@baltpool.lt	info@tetas.lt	info@getbaltic.lt
Website	www.litgrid.eu	www.ambergrid.lt	www.baltpool.lt	www.tetas.lt	www.getbaltic.lt
Nature of the activity	Electricity Transmission System Operator	Natural Gas Transmission System Operator	Energy exchange operator, administrator of the funds of services of public interest	Specialised services of maintenance, repair and installation of transformer substations and distribution points, works of testing and tests, design of energy objects	Operator of Natural Gas Exchange
Shares held by EPSO-G	97.5%	96.6%	67.0%	100%	96.6%

1.1. EPSO-G Group

EPSO-G, the holding company of a group of Energy Transmission and Exchange Companies, was established on 25 July 2012 as a result of the implementing of the mandatory requirements of the III Energy Package regarding the separation of energy production and distribution and transmission activities. Originally, the Company operated as a financial holding whose main function was consolidation of the financial results of the group's companies.

As Lithuania aimed to become the member of the Organization for Economic Co-operation and Development (OECD), it was decided by means of the decisions of the Government and the direct shareholder (the Ministry of Energy of the Republic of Lithuania) in 2015-2016 to carry out a major restructuration of EPSO-G into an active management company directly participating in the management of the subsidiaries, carrying out supervision and control of their activities, performing other independent functions related to the integrated management of the Group.

In accordance with the decisions of the Government of the Republic of Lithuania and the Ministry of Energy of the Republic of Lithuania "The Guidelines for the Corporate Governance of the Group of the State-Owned Companies of Energy Sector" (hereinafter referred to as the "Guidelines for the corporate governance") have been approved by the Order No 1-212 of the Minister of Energy of the Republic of Lithuania of 7 September 2015. The Guidelines have consolidated the new corporate governance model and core functions of the Group.

As of 31 December 2019, EPSO-G Group consists of a holding company, the transmission system operators managing the infrastructures of electricity and natural gas transmission, the market operators managing natural gas, biomass and timber exchanges, as well as the companies providing the infrastructure maintenance services:

1.2. Holding Company EPSO-G

EPSO-G UAB is a holding company with the objective of the sole shareholder – the Ministry of Energy – to create a group of energy transmission system and exchange operators providing advanced, efficiently managed and long-term benefits to shareholders, which ensures the implementation of the strategic Lithuanian energy interests and contributes to the expansion of the state's competitiveness and building the public well-being.

By implementing the activities outlined in the National Energy Independence Strategy (hereinafter – the NEIS) and the letter of the shareholder's expectations, the holding company establishes the strategic goals and tasks of the Group and its constituent companies, supervises their implementation, identifies and manages operational risks and implements measures to increase the efficiency of the group of companies.

The company also lays down the operating rules that are in line with a good business practice and coordinates the activities of the companies which are part of the Group in the fields of human resources, risk management, audit,

social responsibility, communication and in other fields increasing operational transparency and accountability in order to increase by means of socially responsible work a long-term value for Lithuania's people, business and shareholders.

The uniform good corporate governance practice of the EPSO-G group is implemented in accordance with the Corporate Governance Policy, joined by the companies of the Group, and by the direct involvement of the representatives nominated by the holding company in the work of the boards of the subsidiaries.

The EPSO-G holding company carries out its supervisory and control functions with the help of these means:

- By making decisions within the competence of the General Meeting of Shareholders in its subsidiaries, thus ensuring interconnection among policies, objectives, targets and measures;
- By nominating the employees of EPSO-G to the Boards of the companies of the Group, thus ensuring the targeted implementation of the goals set by the shareholder, coordinating the operating strategies of the subsidiaries of the Group with the directions of the Group's strategy;
- By organizing and carrying out the activities of the Audit Committee, thus ensuring the transparency, control and accountability of the decisions made in the Group;
- By organizing and carrying out the activities of the Remuneration and Appointment Committee, thus ensuring equal principles of appointment and remuneration in the Group;
- By setting up a centralized Group-wide internal audit that is accountable to the Audit Committee and the Board of the Company and is not subordinate to the administration of the companies;
- By adopting the Group's policies that regulate various areas of activity, thus implementing good sustainable development practices in the Group;
- By providing representative, standardised draft documents to the companies of the Group that equalize the activity of the companies;
- By implementing functional mentoring of activities in the Group;
- By providing consulting services to the companies of the Group.

Tasks and functions of the holding company EPSO-G and activities related to their implementation:

Tasks of EPSO-G	Projects / Functions	Activities
Management of strategic projects	Synchronization	▪ Control of strategic energy projects ▪ Representation of interests in Lithuania and international institutions ▪ Adjustment of actions towards result and ensuring integrity ▪ Ensuring transparency and efficiency of public procurement
	GIPL	
Corporate governance	Competent representation of shareholder interests in the governance bodies of the companies of the Group	▪ Group strategy and common objectives implementing shareholder expectations ▪ Integrated, uniform principles-based financial and business management practices (unified group policy) ▪ Implementation of good business practices
	Goal setting and integration	▪ Coordination and approval of business plans of companies

		▪ Establishment of annual goals on boards, compatibility assurance
	Opportunities identification and development empowerment	▪ Setting of ambitious goals, development of new activities, acquisitions of new companies
	Ensuring efficiency	▪ Assessment of the efficiency and anticipation and implementation of optimization measures of the activities of the companies of the Group ▪ Budgetary tasks and control of operational management costs ▪ Unified, mature and market-comparable remuneration management
	Operational control	▪ Centralized audit function ▪ Supervision of the implementation of operational plans ▪ Evaluation of annual results on boards
	Risk management	▪ Control of the identification and management of risk management tools
Ensuring accountability	Accountability to the shareholder	▪ Accountability according to the requirements of the Letter of Expectations ▪ High-quality and quick information on the status of the companies of the Group ▪ High-quality and quick information on the status of the projects ▪ Formal and non-formal communication
	Management of relations with stakeholders	▪ Identification of interest groups ▪ Determination of the expectations of stakeholders ▪ Ensuring communication strategy and functional leadership in risk management ▪ Communication
	Procurement criteria, control	▪ Participation in procurement commissions ▪ Analysis, evaluation and approval of essential contract terms on boards
	Determination of business and behavioural models	▪ Common values, policies and procedures that are followed by all companies of the Group
	Transparency	▪ Ensuring accountability to stakeholders ▪ Ensuring corruption prevention
Ensuring synergies	Finance management	▪ General treasury management
	Operational management	▪ Joint purchases ▪ Services for the companies of the Group

		▪ Know-how ▪ Search and implementation of innovations

Clients

The client of EPSO-G – the shareholder of the Group and the companies of the Group. Highly qualified specialists and a good reputation of the holding company are essential for quality management decisions that are crucial to the operations of the companies they manage, for the effective supervision of operations and consulting.

Detailed information on the activities of the EPSO-G holding company in 2019 is provided in Section 7 (*Governance Report*) of this report.

1.3. LITGRID

Litgrid, the electricity transmission system operator which is part of EPSO-G Group, ensures a reliable transmission of electricity and electricity balance, manages and operates a high-voltage electricity transmission grid as well as DC connection LitPol and NordBalt. The company takes care of the development of the transmission grid and electricity market, coordinates electricity flows and maintains a stable functioning of the country's power grid.

Litgrid implements strategic energy projects - synchronous interconnection with Continental Europe grids and prepares for asynchronous operation with a single integrated electricity synchronous area IPS / UPS (Interconnected Power System / Unified Power System), i.e. an area where the Lithuanian power grid currently operates.

The mission of the company: a reliable transmission of high quality electricity in the European market creating a value for the society.

In Lithuania Litgrid is responsible for the maintenance of 6,946 km of high voltage (400-330-110 kV grids) lines and of 236 transformer substations and switchgears.

The services provided by Litgrid:

- Electricity transmission through high voltage (110 and 330 kV) electricity equipment.
- System services to maintain reliable system functioning.
- Trade of electric energy to ensure generation and consumption balance.
- Services of public interest ensuring and increasing the national energy security.
- Maintenance and repair of electricity network.

Customers of Electricity Transmission System Operator:

- Operator of distribution grids ESO AB;
- Electricity consumers whose electrical equipment is connected to an electricity transmission grid and who buy electricity for consumption;
- Electricity generating entities connected to the transmission grid.

Balancing and regulating electricity suppliers – electricity generating and supplying entities.

The most important financial indicators of Litgrid group:

	2019	2018	Change	
			+/-	%
Income, thousand EUR	194 274	190 641	3 633	1,9%
EBITDA[1], thousand EUR	24 512	32 335	-7 823	-24,2%
Net profit, thousand EUR	4 610	-39 361	43 971	+111,7%
Asset, thousand EUR	377 369	366 267	11 102	3,0%
Number of employees[2]	290	267	23	8,6%

1) EBITDA = Profit (loss) before tax + Costs of financial operations – Income from financial operations + Depreciation and amortization costs + Costs of impairment of assets (including a negative revaluation of non-current tangible assets) + Costs of write off of assets
2) Number of employees of Litgrid.

1.4. AMBER GRID

Amber Grid, the natural gas transmission system operator, which is part of EPSO-G Group, is responsible for the natural gas transmission and operation of trunk gas pipelines, secure and reliable operation and development of gas transmission system.

The mission of the company: to efficiently and reliably carry out gas transmission, creating favourable conditions for competition in the gas market and development of renewable energy resources.

The transmission system managed by Amber Grid consists of trunk gas pipelines, gas compressor stations, gas distribution stations, gas accounting stations, anti-corrosion equipment for gas pipelines, data transmission and communication systems and other asset attributed to the transmission system.

System of natural gas transmission in Lithuania.

The Lithuanian gas transmission system is connected to the Latvian, Belarusian natural gas transmission systems and those of Kaliningrad Region of the Russian Federation, Klaipėda LNG floating storage and regasification unit terminal, the distribution systems of Lithuanian distribution system operators and to the consumer systems directly connected to the transmission system.

As of 31 December 2019, the Company operated 68 (in 2018 – 68) gas distribution stations (GDS), 3 gas metering stations (GMS) and 2 gas compressor stations (GCS).

The length of the pipelines operated is 2 115 km (in 2017 – 2 115 km), diameter from 100 to 1 220 mm. The design pressure of most of the transmission system is 54 bar.

Services

Amber Grid provides the system users, other operators and participants of the gas market with natural gas transmission services in the territory of Lithuania: it transmits gas to Lithuania's consumers, also transports natural gas to Latvia and Kaliningrad District of the Russian Federation.

The company renders these services to the system users, other operators, the participants of the gas market:

- Natural gas transmission in the territory of Lithuania;

- Natural gas flow balancing in the transmission system;
- Administration of the funds intended for the installation of the liquefied natural gas (LNG) floating storage and regasification unit terminal, its infrastructure and connections, and for the constant operating costs, and for the compensation of the reasonable costs of supply of the necessary amount of liquefied natural gas of the supplier appointed in 2016.
- As from 1 June 2019, the company started administering the register of guarantees of origin of green gas.

Customers

The customers of the company are the major Lithuanian companies of electricity, district heating generation as well as industrial companies, and the medium-sized Lithuanian business companies. Including the energy and natural gas supply companies of the Baltic states and the third countries to which the services of natural gas transmission are rendered. 105 system users used the services of Amber Grid as at 31 December 2019 (in 2018 – 105 system users).

GET Baltic

Amber Grid controls 100% of the authorized capital of GET Baltic. GET Baltic is a licensed operator of a natural gas exchange having the status of the Registered Reporting Mechanism (RRM) granted by the ACER Agency. The Company administrates the electronic trading system for trading spot and forward natural gas products in trading spots in Lithuania, Latvia and Estonia. By developing solutions adapted to natural gas trading, the Company seeks to increase the liquidity, competitiveness and transparency of the wholesale natural gas market in the Baltic states and Finland.

On 1 January 2019, amendments to legal acts of the Republic of Lithuania came into force, obliging the major regulated energy producers to purchase at least half of the gas demand on the Natural Gas Exchange GET Baltic. With regulated energy producers becoming players in a competitive and open natural gas market, the activity and turnover of the participants in 2019 on the GET Baltic Exchange increased significantly compared to the same period last year.

To create more favourable conditions for gas exchange participants to trade in short-term and long-term markets, in 2019, an agreement was signed with the Polish Commodity Clearing House IRGiT. The aim of the cooperation is to create an optimal clearing management and settlement model and risk management system for the short-term and long-term natural gas transaction markets administered by GET Baltic.

After GET Baltic expanded its geographical boundaries as from 1 January 2020, i.e. following the establishment of a trading spot in Finland and the provision of implicit capacity allocation service to the Finnish transmission system operator Gasgrid Finland Oy, price convergence in the region and cross-border trade between the Finnish and Baltic natural gas markets were facilitated.

Performance of GET Baltic Exchange in 2019:

- trade turnover increased up to 2.9 TWh. This is the largest annual trade turnover since the beginning of GET Baltic operations. Compared to 2018, the trade turnover increased more than 2.5 times (in 2018 - 1.1 TWh);
- 9,045 concluded transactions. Compared to 2018, the volume of trade increased nearly 3 times (in 2018 – 3,122 transactions);
- 32 exchange participants, or an average of 24 participants per month were active in 2019, i.e. submitted orders and concluded transactions. In 2018, an average of 16 participants traded per month;
- after concluding the first transactions in the long-term transactions market, in 2019, Baltic Gas Monthly Index (BGMI) was launched;
- in preparation for the opening of a new market - trading on the Finnish trading spot - from 1 January 2020, 22 exchange participants were registered, including 17 new ones.

The most important financial indicators of Amber Grid:

	2019	2018	Change	
			+/-	%
Income, thousand EUR	54 756	54 562	194	0,4%
EBITDA[1], thousand EUR	24 343	24 636	-293	-1,2%
Net profit, thousand EUR	11 838	-21 608	33 446	154,8%
Asset, thousand EUR	256 129	245 705	10 424	4,2%
Number of employees	323	334	-11	-3,3%

1) EBITDA = Profit (loss) before tax + Costs of financial operations – Income from financial operations + Depreciation and amortization costs + Costs of impairment of assets (including a negative revaluation of non-current tangible assets) + Costs of write off of assets

1.5. BALTPOOL

Baltpool, the operator of the Exchange for the energy resources and trading timber, organises trade, i.e. creates a level playing field for all market players to acquire biomass and timber under competitive conditions and thus ensure the maximum benefit to the consumers and return to the state.

In addition, from 2018, Baltpool organizes auctions of heat supplied to centralized networks and acts as an administrator of the electronic timber trading system.

The goal set for the company is to create equal conditions for market participants to purchase biomass and timber under competitive conditions and thus create conditions for the formation of prices that reflect the relationship between supply and demand.

In 2019, Baltpool traded in biomass in Lithuania, Latvia, Estonia and Denmark. Baltpool, for partners in Finland, the biomass exchange Finbex, provides system rental and maintenance services.

The main customers of the company as per the activities performed:

- The key customers in the activity of the biomass exchange are the biomass buyers (district heating companies, independent heat generating entities and other companies using in their activity the biomass products traded in the exchange) and biomass suppliers (manufacturers and suppliers of wood pellets and chips);
- Wood sellers, specifically the State Forestry Enterprise and its territorial subdivisions, are the key customers in the activity of wood auction organising. Wood buyers are the companies using wood products in their activity: from wood processing companies to biomass supply companies.
- The most important customers in the activity of heat auction organising are heat supply companies, which are obliged to buy the necessary quantity of heat from independent heat suppliers at heat auctions and independent heat suppliers who are connected to the heat supply systems and sell heat at the auction.
- The customers in the activity of administration of the PSO funds are the electricity consumers, which as per the valid legal regulation must pay the PSO funds for the electricity consumed by them. The PSO funds are collected from the electricity consumers connected to the distribution grid through the distribution grid operator. The consumers connected to the grids managed by the transmission system operator transfer the PSO funds directly to the administrator. The energy companies which in accordance with the legal acts render the services of public interest also are the customers of the company, i.e. the services such as generation of electricity from renewable energy sources, the services of electricity generation which is necessary for the ensuring security of electricity supply, and other services stipulated in the description of the procedure of rendering the services of public interest in the electricity sector.

2019 Baltpool biomass exchange in Lithuania:

- As of 31 December 2019, 393 participants were registered: 123 buyers and 293 sellers;
- In 2019, 65 new participants joined: 16 buyers and 51 sellers;
- The number of concluded transactions decreased from 5,783 to 5,254; however, they were bigger in volume. As a result, the volume of trade in wood chips remained almost unchanged, i.e. 432 thousand TOE.
- In 2019, the weighted average price of concluded transactions: wood chips - 143.40 EUR/TOE, wood pellets - 347.62 EUR/TOE, fuel peat - 107.27 EUR/TOE.
- In 2019, the BWCS SPOT LT index ranged from180.22 EUR/TOE to 112.67 EUR/TOE to a fixed price of 116.33 EUR/TOE at the end of the year;

2019 Baltpool biomass exchange in Latvia, Estonia, Finland, Poland and Denmark:

- 14 new participants from Latvia joined: 4 buyers and 11 sellers. As of 31 December 2019, 26 buyers and 49 sellers from Latvia were registered on the exchange;
- 8 new participants from Estonia joined. As of 31 December 2019, 3 buyers and 7 sellers from Estonia were registered on the exchange;
- In 2019, 2 new participants from Poland joined: 1 buyer and 1 seller;
- In 2019, at Biomass Pool biomass exchange in the Kingdom of Denmark, which was developed using Baltpool trading platform system, 9 transactions were concluded with a total value of almost EUR 1.475 million.

2019 Baltpool heat auction data management system:

- 56 participants were registered, 13 of which have the right to sell and buy heat at the heat auction;
- 728 orders to sell heat were submitted. The amount of heat offered for sale was 6,327 GWh;
- The amount of heat purchased at heat auctions was 4,683 GWh at a weighted average price of 2.68 ct/kWh. Baltpool started the administration of the heat data management system administration as from May 2018, therefore the data are not comparable with the corresponding annual period.

2019 Baltpool in the electronic timber sales system:

- 892 auctions took place, or by 103% more than last year;
- The increased number of transactions - by 45% - compared to 2018, amounting to 2,139,972 m3;
- The value of transactions decreased by 2% to EUR 73,148,455;
- The number of active buyers grew by 2% up to 361;
- In December 2019, the value of Baltpool Timber Spot Lithuania price index decreased by 36.9% to 29.99 EUR/m3, compared to 47.53 EUR/m3 in the same period last year.

PSO:

Under the Resolution No 1338 of 7 November 2012 of the Government of the Republic of Lithuania on Appointment of PSO Funds Administrator in the Power Sector, the Company was appointed as a PSO funds administrator in the power sector.

In performing this function, Baltpool collects, pays out and administers PSO funds in accordance with the procedure established by legal acts.

In accordance with the procedure established by legal acts, the costs of PSO funds administration are reimbursed not from the state, but from PSO funds budget.

From 1 April 2019, PSO price differentiation system was introduced, which will be applied until 31 December 2028. Entities using large amounts of electricity, having concluded contracts with Baltpool, which performs the functions of the PSO funds administrator, and meeting the requirements established by legal acts, will be able to recover 85% of the PSO price paid during the previous calendar year to promote electricity production from renewable energy sources. Electricity consumers will be able to use the recovered PSO funds for the implementation of energy efficiency measures.

As of 1 July 2019, contracts for the refund of the portion of PSO price were concluded with 39 entities operating in the electricity-intensive industry. They will have the right to recover the portion of the PSO price paid in 2019. In 2020, more electricity-intensive entities joined PSO differentiation activities: contracts for the refund of the portion of PSO price part were concluded with 9 companies and 7 more companies have applied.

The most important indicators of Baltpool performance:

	2019	2018	Change	
			+/-	%
Income, thousand EUR	975	903	72	8,0%
EBITDA[1], thousand EUR	168	232	-64	-27,6%
Net profit, thousand EUR	93	180	-87	-48,3%
Asset, thousand EUR	67 637	65 174	2 463	3,8%
Number of employees	17	11	6	54,5%

1) EBITDA = Profit (loss) before tax + Costs of financial operations – Income from financial operations + Depreciation and amortization costs + Costs of impairment of assets (including a negative revaluation of non-current tangible assets) + Costs of write off of assets

1.6. TETAS

The main activity of Tetas UAB is construction and repair of engineering networks, i.e. electrical equipment up to 400 kV. The company also performs construction works - constructs and installs building structures, installs electricity supply and distribution equipment, builds electrical networks, performs the installation of electrical engineering systems for buildings.

From 2019, Tetas has been carrying out the installation of fiber-optic cable engineering infrastructure, and has started providing photovoltaic power plant design services and installation works.

The company has a division providing design services, ensuring the provision of high intellectual and value-added services. The company also provides the market with unique testing and diagnostic services for electrical equipment.

In 2019, the company started providing outsourcing services to the German market. During 2019, Tetas income from foreign markets accounted for 20% of total income. This allowed to gain experience in work organization in Germany, to preserve jobs, as well as to further diversify the structure of the income basket, i.e. as at the end of December 2019, the share of the company's largest customer ESO in income fell to 37% from 90% in 2018.

Important projects implemented

In 2019, Tetas provided electricity network maintenance services to distribution and electricity transmission network operators, performed reconstruction works of distribution and electricity transmission network substations:

- Reconstruction of 35/10 kV Ežerėlis transformer substation: reconstruction works, equipment supply, and design services were performed. The value of the implemented works amounted to over EUR 2.2 million.
- Part of the reconstruction works in the 110 kV switchyard of the Vilnius 3rd Power Plant.
- Reconstruction of Rašė transformer substation.
- Ongoing works at Ignalina Nuclear Power Plant 330/110/10 kV transformer substation, Jurbarkas 330/110/10 kV transformer substation, Kaunas 330/110/10 kV transformer substation, Stiklo transformer substation, Aleksotas transformer substation, Cukraus transformer substation, Odos transformer substation, switchyard SP935 in Kaunas.

The most important indicators of Tetas performance:

	2019	2018	Change	
			+/-	%
Income, thousand EUR	14 779	21 243	-6 464	-30,4%
EBITDA[1], thousand EUR	947	462	485	105,0%
Net profit, thousand EUR	-204	-161	-43	26,7%
Asset, thousand EUR	8 397	9 790	-1 393	-14,2%
Number of employees	338	369	-31	-8,4%

1) EBITDA = Profit (loss) before tax + Costs of financial operations – Income from financial operations + Depreciation and amortization costs + Costs of impairment of assets (including a negative revaluation of non-current tangible assets) + Costs of write off of assets

2. Mission, vision, values

In the course of the implementation of the objectives posed for the EPSO-G management company by the shareholder we create an advanced, transparent, effectively managed group of future energy companies providing long-term benefits to shareholders and ensuring security and credibility of energy supply, efficient operation of energy transmission systems and market platforms, and enabling the regional consumers to freely exchange energy and get it at a competitive price whenever it is needed.

The value created by EPSO-G Group – a secure, sustainable and competitive energy market.

Secure – energy is transmitted in a secure and reliable manner.

Sustainable – an opportunity to freely exchange energy and get it at a competitive price whenever it is needed.

Competitive – open to the market players and allowing them to choose.

EPSO-G vision – a group of future energy efficiently operating in the international space.

EPSO-G mission – to ensure and create a secure, sustainable and open energy market enhancing the competitiveness of the national economy and the welfare of the population.

Implementation of the mission, pursuit of the vision and all activities of EPSO-G Group are based on the fundamental human and professional values: professionalism, cooperation and advancement.

EPSO-G values:

Professionalism – we strive for every employee in the group to be recognized and be able to grow as a professional in their field of activity. We understand what an important role play professional knowledge, hands-on experience and continuous learning in terms of the results of the group and ensuring continuity of activity.

Cooperation – we emphasize sincere and constructive cooperation with each other, which makes it possible to pursue the goals set in a coherent manner.

Advancement – openness to new business practices and ideas encourages the creation, renewal, implementation of meaningful changes and leads us forward.

In 2019, the process of unification of common values of EPSO-G, principles of leadership and their corresponding behaviours was launched in the companies of the Group. Adherence to value behaviours is integrated into the annual performance review system for managers and employees and is linked to the variable constituent of remuneration.

2.1. Operating and Regulatory Environment

In 2019, EPSO-G group of companies operated according to the four NEIS priorities. These include energy security, the breakthrough of renewable energy sources and sustainable energy consumption, competitiveness, and the development and export of innovative energy technologies.

NEIS emphasizes the importance of electricity market integration and the sustainable operation of the electricity system, ensuring the adequacy of capacity, reducing network maintenance costs and making more efficient use of existing infrastructure. These emphases were reflected in the strategic directions of EPSO-G group of companies in 2019.

In 2019, EPSO-G group of companies was affected by the growth trend of the country's economy, significant air temperature deviations from the standard climatic norm during the reporting period and the extremely favourable gas prices in LNG market, the increased gas consumption in Lithuania and transit to Latvia.

Revenue growth was positively impacted by the increased demand for electricity transmission in the industrial sector. However, in the household and services sector, electricity consumption was lower than in 2018.

The impact of warmer than usual weather on demand for energy transmission services, and consequently on the revenues of EPSO-G group of companies, was amortized by the increased volume of natural gas transportation services in Lithuania and record gas transit to Latvia, as 2019 was the year of extremely favourable gas prices in the global and regional markets.

This was due to a significant increase in the supply of liquefied natural gas (LNG) and, a slower demand for gas due to warm weather and other reasons. These trends have contributed to the increased gas consumption in Lithuania in 2019. The amount of gas transported via pipelines through Lithuania to other Baltic countries was the largest in the entire history of the company - compared to 2018, gas transmission to the Baltic countries more than doubled and gas flow to Latvia and Estonia accounted for 1/5 of the total gas for consumers in Lithuania and other Baltic countries.

This had a positive effect on trading - the trading turnover of GET Baltic exchange during 2019 increased more than 2.5 times and was the largest annual trading turnover since the beginning of GET Baltic operations. It is projected that in 2020, with the start of operations in Finland at the beginning of 2020, *de facto* turnover of the Baltic market will increase by more than a quarter.

Consumer-friendly trends had formed in the biomass market as well - in 2019, with the price of biomass falling by 1/3 on Baltpool exchange, the heating season was the most favourable for district heating users over the past few years.

It is particularly positive that district heating producers are increasingly focusing on price risk management, taking advantage of the opportunities offered by the biomass market. The activity of market participants created preconditions for reducing trade prices for 2020.

It is forecasted that the total electricity consumption in the ten-year perspective will grow from 12.11 TWh by 2% on average per year up to 14.63 TWh in 2028. Electricity consumption will be most affected by general economic trends, increasing efficiency of electricity consumption, the number of electric cars and heat pumps, and the amount of electricity consumed.

Although a reliably available local generation is not sufficient to meet the maximum system demand, this will be compensated by reliable interconnections. In the meantime, Lithuania will remain an importer: following 2028, after the integration of 700 MW of offshore wind power generation and the development of other renewable energy sources, it is planned that the goal set by NEIS will be achieved in 2030 – about 70% of electricity demand will be locally generated.

In the Baltic region's gas market, the most important changes in the near future are related to the integration of the Finnish gas market with the Baltic market. Balticconnector gas pipeline connection between Finland and Estonia became operational as from 2020, the liberalization of the Finnish gas market was completed, and Finnish gas trading on the regional GET Baltic gas exchange was integrated. The development of the regional market will also have a positive impact by GIPL gas pipeline connection with Poland, which will start operating at the end of 2021.

The regional gas market is expected to develop gradually. The single gas market from 2020 was agreed upon by Latvia and Estonia, which together with Finland will form a common tariff zone. Lithuania continues participating in discussions with regional partners with a view to the participation of all countries in the common gas market on mutually beneficial terms.

In the context of combating climate change, the stricter requirements of the European Union's environmental policy, the promotion and development of the use of renewable energy sources and more efficient use of energy are forecast to reduce the consumption of natural gas for energy purposes in Lithuania.

However, due to limited alternatives in some industries, segments of the transport sector and competitiveness in balancing and reservation services in the heat and electricity sectors, natural gas will play an important role as a transitional energy source for reducing European and national greenhouse gas emissions. At the same time, the gas transported via pipelines will change - an increasing part should be made up of green gas: biomethane and gas produced in the process of converting green electricity - hydrogen and synthetic methane.

NEIS has set ambitious goals that will significantly contribute to the Energy Union, the United Nations 2030 Agenda for Sustainable Development, the goals set in the Paris Agreement and the implementation of objectives of 2030 EU climate and energy policies. They aim to increase the share of renewable energy sources (including biomethane and other RES-produced gases) in the country's total final energy consumption: by 2020 - up to 30%, by 2030 - 45%, and from 2050 - 80%.

In Lithuania, as in the EU, gas is expected to remain an important energy resource in the transition to a low-carbon economy. In 2020-2030, gas demand in the country will reach about 20 TWh, of which more than 50% will be the demand for gas as a raw material in the fertilizer industry.

At the end of 2019, the European Commission presented the European Green Deal, an ambitious project to help European citizens and businesses benefit from the transition to sustainability and the environment. The measures presented with the initial roadmap for major policies include large-scale emission reductions, investment in cutting-edge research and innovation, and the preservation of Europe's natural environment. The Green Deal sets the target for 2030 - the EU will reduce its greenhouse gas emissions by 55% compared with 1990, and a climate-neutral level will be achieved by 2050.

In 2019, the first technologically neutral auction of electricity from renewable energy sources took place. The winner, which will develop the wind farm project, has been awarded 0.3 TWh of annual electricity production from renewable sources by applying a price premium of 0 EUR/MWh. Such results reflect the growing investor confidence and a clear

trend towards increasing the competitiveness of renewable energy sources. Given Lithuania's ambitious RES targets for 2030, for EPSO-G group, this means the need of focusing on the issues of network readiness for RES integration.

For the first time, as in other EU countries, in 2019, the National Energy and Climate Plan (hereinafter - NECP) for 2021-2030 was prepared and approved. It includes the country's commitments and targets for climate change mitigation, largely in the energy sector.

NECP sets out five key areas for reducing climate impact: reducing of dependence on fossil fuels, efficiency of energy consumption, energy security, developing the internal energy market, developing research and innovation. The commitments and targets set out in this plan will be relevant for 2020, when preparing the new EPSO-G group strategy until 2030.

An important factor in promoting investment in the development of reliable and competitive local energy production and ensuring the adequacy of the electricity system will be the development of a long-term capacity mechanism that will help ensure reliable operation of the Lithuanian electricity system and a sufficient level of security of electricity supply after 2025.

2.2. Regulatory Environment

Electricity and natural gas transmission activities carried out by the companies of EPSO-G group and the activities of the operators of energy resources and gas markets are licensed. The licenses grant exclusive rights to render the services of transmission and market operators in the territory of the Republic of Lithuania.

The operators of electricity and natural gas transmission systems, which are part of EPSO-G group of companies, are the only ones in Lithuania entitled to provide these services. They operate under the conditions of a natural monopoly and therefore their activities are state-regulated services. The fees charged for the energy resources belonging to EPSO-G Group and charged by gas market operators on trading exchanges are combined with the regulatory authority.

The National Commission for Energy Control and Prices (hereinafter referred to as "the Commission") performs the regulatory function and the supervision of the performance of the licensed activity. From 1 July 2019, following the reorganization and merger with the State Energy Inspectorate, it was renamed to the National Energy Regulatory Council (hereinafter - the Council or NERC).

The financial performance of regulated EPSO-G companies, the allocation of necessary operating costs, investments to ensure the reliability of electricity and gas transmission systems, as well as the possibility of financing strategic projects with own or borrowed funds depend directly on the decisions taken by the regulatory authority.

The prices of the transmission of electricity and natural gas are regulated by establishing the price ceilings. The permitted level of income consists of the reasonable required costs, including a return on investment that meets the criterion of reasonableness. The specific service prices that are within the established ceilings are set by the service providers.

The ceilings of service prices and / or income of electricity and natural gas transmission are set for the regulatory period of five years, and they may be adjusted in the presence of significant changes of one or several factors, in accordance to which they were established, including the factors of the scope of services, inflation, taxes and other objective factors (independent of the Company). The ceilings of the electricity transmission prices may be adjusted maximum twice a year, while the ceilings of natural gas prices – once a year.

At the end of 2018, the ceiling of service prices of electricity transmission was adjusted for the year 2019, while the ceiling of income level and price of natural gas transmission was set for the new regulatory period 2019-2023.

In 2019, electricity and natural gas transmission prices were higher in comparison to previous years - the average electricity transmission price - 0.658 ct/kWh was by 6.3% higher compared to 2018. This was due to objective reasons - easement compensations, costs of moving auto-transformers and with rising energy prices, increasing purchase costs to cover own needs and costs in technological equipment. The average price of long-term natural gas transmission services for the needs of Lithuanian consumers - 1.17 EUR/MWh was by 3.5% higher compared to 2018.

Due to the increase of operational efficiency, application of modern network maintenance technologies and preassignment of allowable income level to short-term services, the average price of long-term transmission services in 2019 did not reach the threshold set by the Commission.

In 2019, while implementing the provisions of the European Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonized transmission tariff structures for gas (TAR NC), the Council, earlier than usual, on 10 June 2019, set a maximum income cap for Amber Grid for providing the services of natural gas transportation through the natural gas transmission system, effective from 1 January 2020 – EUR 36.1 million per year.

Amber Grid set specific prices for natural gas transmission services within the above revenue level, which will take effect from 1 January 2020. They were approved by the Council on 10 October 2019. In 2020, the average price of transmission services applied to the needs of Lithuanian consumers (in terms of long-term and short-term services) decreased by slightly more than 16% on average compared to the average price applied in 2019 - up to 1.22 EUR/ MWh.

On 2 October 2019, the Council approved a maximum price cap of 0.814 ct/kWh for high-voltage electricity transmission service, which came into force on 1 January 2019. Within this limit and taking into account the resolution of the Council of 18 October 2019 on the price of electricity system services, Litgrid set the prices of electricity transmission services and the procedure for their application, which, in accordance with the legislation, on 31 October 2019, was announced by the Council.

From 1 January 2020, the approved average price of the electricity transmission service increased by almost 24% up to 0.814 ct/kWh. This increase was mainly due to the fact that in 2019 Litgrid's allowable income was reduced by the amount of excess return on investment for previous periods.

The price of system services from 1 January 2020 increased by almost 28 % up to 0.785 ct/kWh. The main reasons for the change in this price are the costs necessary to ensure the isolated operation of the electricity system throughout the year, as well as the costs actually incurred, but not assessed by Litgrid in the previous period, maintenance and conservation costs of Units 7-8 of Lithuania Power Plant and maintenance and conservation costs for the performance of the Baltic isolated test.

With reference to Baltpool's actual operating expenses of the previous year and the planned three-year sales volume, on 30 October 2019, NERC agreed on a new biomass trading price - 0.48 EUR/TOE. Compared to the previously valid fee, the current new fee, valid from 1 November 2019, is lower by 21.3 %. This was mainly due to Baltpool's 2017-2018 income earned from active trading on the biomass exchange, therefore this amount is reimbursed by reducing the price of services to exchange participants.

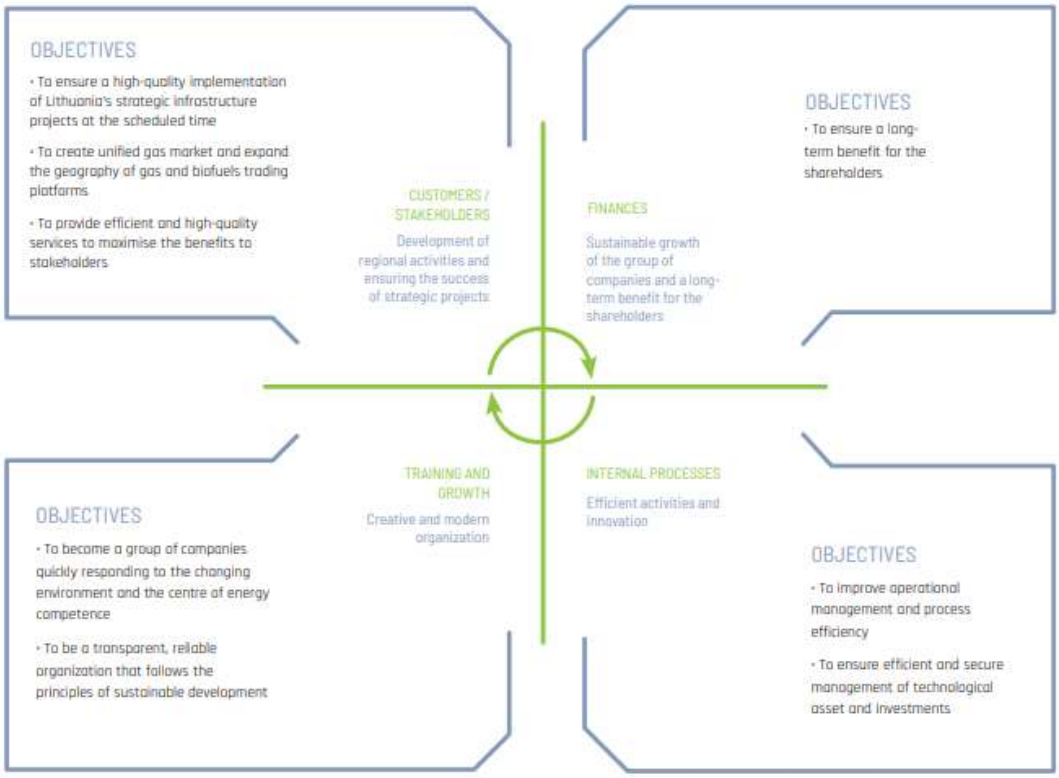
3. STRATEGIC OBJECTIVES

3.1. Strands of Strategy

In 2019, the strategic direction of the EPSO-G group has not changed - the implementation of the objectives of the renewed strategy of 2018, focusing on four directions of activities, was continued, i.e. development of regional activities and success of strategic projects, sustainable growth of the companies of the Group and long-term benefits for shareholders, effective activities and innovation, and creation of a development and progress organisation.

3.2. Objectives of the Strategy and their Implementation

The objectives formulated in the Shareholder's (the Ministry of Energy) Letter of Expectations are posed for the implementation of the EPSO-G strategies. The letter contains the indicators of the evaluation of the activities of the group of companies, accountability and other tasks that are important for the shareholder. The Shareholder's Letter of Expectations is published on the EPSO-G website, in the column "Objectives and Accountability".



Implementation of strategic projects

Strategic projects in the electricity and natural gas sectors to achieve the fundamental goal - integration into a common European energy system:

- Synchronization of the Baltic states with the networks of the continental Europe - the main goal is to adapt the legal framework of the European Union in the fields of electricity market, electricity system management and development, and to eliminate politicized and discriminatory system management practices by 2025. The synchronous work of the Baltic States with CEN is important in political and technical aspects: management of the system in accordance with non-discriminatory principles agreed with other TSOs, which meet the requirements of the EU's third energy package; equal opportunities for competition with third countries in the electricity market; conditions for trading and securing electricity reserves in the European single market; decentralized frequency regulation based on the technological capabilities of power plants, which will ensure greater independence of the Baltic electricity system.

- Construction of the gas pipeline between Poland and Lithuania (GIPL) is a natural gas infrastructure connecting the natural gas transmission systems of Poland and Lithuania, as well as the Baltic States and Finland, with the European Union (EU) system. The connection will enable the flow of natural gas in both directions. GIPL gas pipeline will run from Jauniūnai gas compressor station (GCS) in Širvintos district to the Hołowczyce GSC on the Polish side. It is estimated to complete the connection between Poland and Lithuania by the end of 2021.

Both projects have been recognized by the European Commission as Projects of Common Interest (PCI).

Detailed information on these projects and the progress of their implementation is provided in Section 3.4 "Summary of Significant Infrastructure Projects".

Development of markets

The common gas market of the Baltic states is a strategic interest of Lithuania. It is an important objective in reducing the risk related to a declining level of the infrastructure use that has been observed so far.

In 2019, negotiations on special conditions for Lithuania's participation in the common market according to the 3+1 formula and Lithuania's involvement in the common market of the Baltic states and Finland were continued. Lithuania is purposively seeking integration into the common gas market of the Baltic states and Finland, but has consistently taken the position that the integration must take place under conditions beneficial to all countries. A joint draft plan of the market development actions, valid as from 2020, for the accession to the Latvian-Estonian-Finnish common market from 2022, is projected to prepared for Q1 2020.

On March 2019, a public consultation was announced on the methodology for setting the prices of services provided by the Lithuanian natural gas transmission system operator in accordance with the requirements of the European Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonized transmission tariff structures for gas (TAR NC), where Lithuania's proposal for integration was made public: i) to apply a zero price on the gas connection with Latvia (both from Lithuania and Latvia side); (ii) to align prices at the gas entry point at the border with Belarus with the gas entry prices projected by the regional partners in Latvia, Estonia and Finland; (iii) to apply 75% discount on the price at the gas entry point of Klaipėda LNG terminal. Although this proposal of Lithuania was positively assessed by the EU Agency for the Cooperation of Energy Regulators (ACER), FINESLAT representatives informed that due to too short deadlines they do not see the possibility of a merger through the application of a zero tariff at the LT-LV point from 2020. As a result, natural gas transmission prices were set for 2020 without the application of the zero tariff at the LT-LV point. However, in order to adapt to the zone, it was decided to apply the same tariffs at LT entry points with BY and LV, and in order to create the best possible conditions for market participants to use the LNG terminal, as well as to increase competitive pressure in the gas market prices, to apply 75% discount at Klaipėda entry point.

GET Baltic directly patronized by the natural gas transmission system operator Amber Grid has become a regional gas exchange *de facto*, when together with the transmission system operators of the Baltic states has introduced the first innovative solution – an integrated trading model.

In 2019, GET Baltic was active in implementing another important step for the natural gas market projected in the strategy - to expand the geographical scope of operations to other Nordic countries and from 1 January 2020 to establish a new trading spot in Finland, thus contributing to the greater integration of the Finnish and Baltic gas markets.

Following the necessary preparations, on 1 January 2020, GET Baltic, the regional gas exchange GET Baltic operating in the Lithuanian, Latvian and Estonian markets, started operations in Finland, thus becoming a single regional trading platform for the Baltic and Finnish gas market participants.

Finnish gas market participants were given the opportunity of short-term and long-term trading, as well as to benefit from an implicit capacity allocation model acting as an integrated trading model. This will contribute to price convergence in the region and facilitate cross-border trade between the Finnish and Baltic gas markets. During 2019, changes were also made to the e-trading system by adapting it to the operation in the common zone of Latvia and Estonia from 1 January 2020.

Baltpool, that has become the Lithuanian biomass trading centre ensuring the stability of the biomass supply at a competitive price, incorporating small biomass suppliers to the supply chain as well, thus promoting a stable development of the biomass market, adapting the market platform to specific national needs and has already started operations in the regional market - having created all the conditions for the use of the exchange platform services for Latvian, Danish, Estonian and Finnish market participants, proceeds with the geographical development and introduces exchange opportunities and benefits to Swedish and Polish stakeholders.

In 2019, two participants of the Polish exchange (Enea Trading Sp.z o.o. and ECCO WOOD SP.Z O.O.) and the Swedish company Ekman, which decided to register the company's Danish branch - Ekman Denmark ApS, active in trading, registered on the Baltpool spot.

Heat auctions and roundwood trade have been launched. Index of prices of wood chips BALTPOOL WOOD CHIPS SPOT LITHUANIA (BWCS Lithuania) has been created and announced. It is intended for the market participants to objectively assess the current situation in the market and to monitor fluctuations in biomass prices and their trends. The meaning of the index has already become a handy tool for the pricing of bilateral contracts and intra-group transactions, market research, etc. Steps are made in this direction in wood market as well.

Effective and high quality services

Lithuanian energy consumers get the most benefit from the favourable conditions created by the energy transmission system operators for energy transmission to the market from various sources. The creation of the proper infrastructure opens up an opportunity for the consumers to exchange energy in a simple and comfortable manner.

In that context the aim here is to create operating harmonized conditions for the use of natural gas transmission system in the Baltic states in 2020, to ensure availability of interconnections in the electricity sector (without the third-country influence) ≥ 90 %. Moreover, in order to ensure the adequacy of the Lithuanian electricity system, in co-operation with the responsible institutions, the aim is to create power market mechanisms that would promote balanced investments in the development of a reliably accessible local generation and (or) maintenance of the existing one.

With reference to the above, in order to achieve regional market integration, Amber Grid has set the prices of natural gas transmission services, which create favourable conditions for market participants to use the LNG terminal - for 2020 75% discount on the price of transmission services at Klaipėda entry point was approved. Furthermore, in order to increase the simplicity and flexibility of the transmission system and to promote the development of the regional gas market, transmission service prices at entry points have been harmonized with entry prices in the neighbouring tariff zone covering Latvia, Estonia and Finland. In addition, in 2020, at entry points and at the discharge point with Latvia, lower multipliers for short-term service prices are applied compared to those applied in 2019.

In 2019, after the replacement of the couplings of the electricity connection with Sweden Nord Balt, this connection was in a stable operation and in 2019, 97.6% market access was ensured. The availability of the connection with Poland LitPol Link was 97.9%, compared to the targeted 95%.

The electricity transmission system operator assesses the adequacy of the Lithuanian electricity system.

Taking into account the results of this assessment, Lithuania has been implementing a project aimed at creating and applying a capacity mechanism that would ensure a transparent, technologically neutral and competition-based system that would help the state to promote the capacity of continuously accessible, flexible and rapidly activated electricity generation, storage and load regulation necessary to ensure a reliable electricity supply in the country after 2025.

In 2019, the concept of establishing a long-term capacity mechanism in Lithuania in the scope of this project was prepared, which should become the basis for the development of a capacity mechanism in Lithuania. In December 2019, the Government of the Republic of Lithuania approved the amendments to the Law on Electricity implementing the concept; the draft amendments to the Law will be considered in the Seimas of the Republic of Lithuania in the 1st half of 2020. The first auction of the capacity mechanism is scheduled for the 2nd half of 2020.

Sustainable growth and long-term benefit

The strand of a sustainable growth of the group of companies and a long-term benefit for the shareholders stipulates a financial objective – an indicator of return on equity (ROE). It shows how effectively the capital invested by the shareholders is used in the activities of EPSO-G Group.

The financial objective of EPSO-G Group has been formed given that the group's activities are directly dependent on the regulatory principles and the implementation of the strategic infrastructure projects ensuring the interests of the state.

It is aimed that EPSO-G's average return on equity would be higher than the target set by the Lithuanian Government in 2019-2021, i.e. 5.7%. It is lower compared to the return of 8.8% set for the previous three-year period. Such decision was mainly influenced by the regulatory principles applied by the Council, which aim to determine prices for consumers based on necessary costs as well as return on investment and create conditions for the more significant competitiveness of the national economy.

Efficient management of activities and processes

In order to achieve an operational and financial management that would be efficient and based on uniform principles at the group level, EPSO-G group of companies have implemented uniform practices and financial management practices. In the implementation of good governance, the Group has applied a Corporate Governance Policy. It is one of the most important documents in the group that consolidates common good governance practices based on cooperation and clarity and transparency of decision-making processes.

The documents outlining the main principles of the integrated management of activity and finances in the group of companies, other documents or their summaries are published in the EPSO-G website: www.epsog.lt, in the column "Operating Policies".

In order to further increase the value created by the holding company for the group of companies and the shareholder, with priority functional areas identified, and curators of the functional areas of the Group and companies appointed it is planned to continue the implementation of the functional mentoring model.

It is important to note that from 2019 the focus was on the Group's innovation activities contributing to increasing the efficiency of the Group's operations and managing challenges related to changes in the operating environment. At the end of the year, it was decided to set up the Innovation and Development Committee, an advisory body to the EPSO-G Board at the Group level, which would provide conclusions, opinions, recommendations or suggestions to the Board on promoting innovation, increasing development and the efficiency of the Group's activities. Innovative solutions will aim to contribute to the implementation of the strategy of the Group, companies, as well as the National Energy Independence Strategy.

In 2019, a project was initiated to analyse the scenarios of the development of the Lithuanian electricity system and the electricity market in 2020-2050 in accordance with the goals set in the National Energy Independence Strategy and to assess the implementation possibilities, as well as to analyse the possibilities of applying Power to Gas (P2G) and hydrogen technologies in Lithuania.

In order to fulfil in efficient and sustainable manner the new objectives of increasing energy efficiency in Lithuania arising for the group out of the Law on Energy Efficiency, in October 2017 the companies of EPSO-G group and the Ministry of Energy have signed the agreement for the actions and measures that will help the consumers of the country to save 269 GWh (0.27 TWh) of energy. In 2018, it was estimated that the savings determined for the Group's companies were achieved, therefore possible energy efficiency trends from 2020 are analysed.

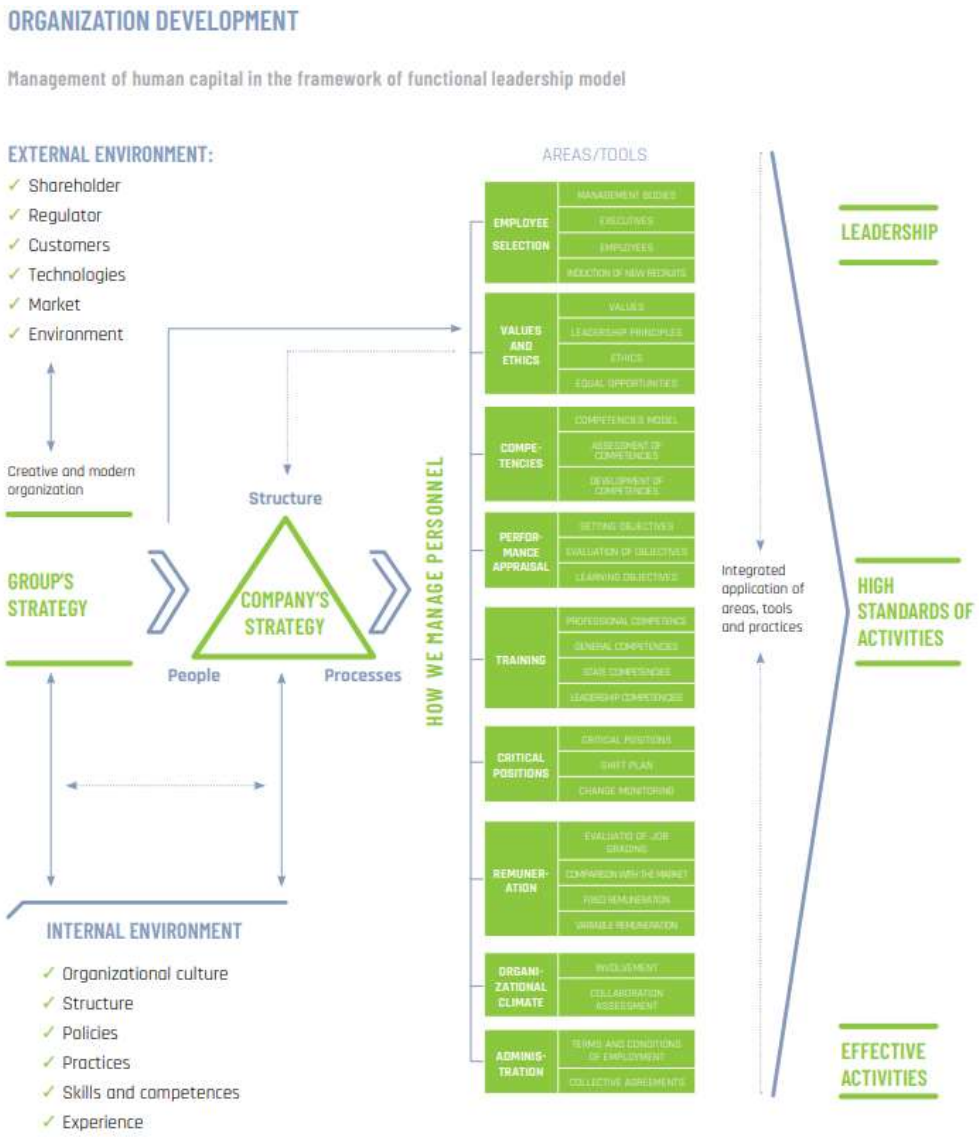
Efficient and safe management of technological asset and investments

The objective of EPSO-G Group: to manage technology asset and investments in efficient and rational manner. The group of companies managing technological assets, Amber Grid and Litgrid are subject to the Group policy for technological assets development and operation, which establishes uniform principles of asset management. In 2018-2019 natural gas and electricity transmission system operators implemented an asset management system allowing for the systematic collection of information on assets and their condition through the creation of a digital database. The aim is for the management of technological assets to be based on data and risk assessment, good asset management practices and to meet the requirements of the ISO 55000 standard.

A group of companies quickly responding to the changing environment and the centre of energy competence

Fast, high-quality decision making and responsiveness to the changing environment. These are the factors that will determine the success of the implementation of the strategic objectives pursued. The companies of EPSO-G group employ highly qualified staff, the companies have the practical experience of implementing international projects.

In EPSO-G Group, the human resources management strategy focuses on maintaining, developing and attracting new competences.



In 2019, the implementation of the competence assessment model in EPSO-G holding company and other Group's companies was continued: strategic competence modelling sessions in Litgrid, Amber Grid, Tetas were organized, and competency models of these companies were prepared. Moreover, in order to determine clear directions and areas of growth of the professional competence of the Group's employees, a draft of the Group's training policy has been prepared.

A transparent, reliable organisation that follows up the principles of sustainable development

Compliance with the highest standards of professional ethics, continuous raising of public awareness of the strategic projects being carried out, market trends, services rendered, financial results – these are the indicators showing that the organisation is a responsible, open and reliable organisation.

For this purpose a transparency and communication strategy of the companies of EPSO-G group that emphasizes accountability to the stakeholders has been prepared. The responsibilities have been shared and the periodicity of the communication of separate topics as well as the responsible persons have been provided for in the communication strategy of the group.

EPSO-G is a group of energy companies. Thus, responsibility to the public and the environment in which it operates is of great significance. Therefore, it is important to assess on a continuous basis the environmental impact of the activities carried out, to apply effective pollution prevention, not only use the essential material resources in a rational manner and develop employee competences and responsible attitude towards their work and environmental protection, but also share experience accumulated among the Group's companies. In 2019, EPSO-G received the highest A + rating in the index of good governance from the Monitoring and Forecast Agency of (SIPA) the Governance Coordination Centre and was recognized as a leader in the transparency category among state-owned enterprises.

The approved Social Responsibility Policy is used as the basis for the periodic preparation and publication of the progress reports on social responsibility of the Group.

To ensure the system of corporate social responsibility, in 2019, the focus was on the analysis and evaluation of the established control system and the development of a compliance management model.

3.3 Operational and Financial Objectives

Based on the strands of action approved in the Shareholder's Letter of Expectations and the strategy of EPSO-G, the Board of the holding Company raised these annual operational objectives for 2019.

METINIAI TIKSLAI			
	Strateginis tikslas	Metinis tikslas	Siekiamas rodiklis
1.	Užtikrinti kokybiškų strateginių infrastruktūros projektų įgyvendinimą numatytu laiku	Įgyvendinant Lietuvos elektros energetikos sistemos parengimo sinchroniniam darbui su kontinentinės Europos tinklais (KET) programą užtikrinamas: 1) Programos rizikų suvaldymas, kad būtų pasiektos gainės: pasirašyta sujungimo sutartis (Connection agreement) ir suderintas prijungimo sąlygų katalogas (Catalog of measures); 2) Projekto finansavimo modelio atnaujinimas ir palaikymas; 3) Komunikacijos plano parengimas ir įgyvendinimas.	Kiekybinis rodiklis - įgyvendinimas 100% pagal kiekvienam rodikliui priskiriamą svorį: 1) Pasiektos plano gainės: pasirašyta sujungimo sutartis (Connection agreement) ir suderintas prijungimo sąlygų katalogas (Catalog of measures) - 50%; 2) Palaikomas ir laiku atnaujinamas projekto finansavimo modelis - 25%; 3) Parengtas ir įgyvendinamas komunikacijos planas - 25%.
2.		Įgyvendinant dujotiekių jungties tarp Lenkijos ir Lietuvos statybos Lietuvos teritorijoje projektą užtikrinamas rizikų valdymas, kad būtų tinkamai atliktos pirkimų dėl vamzdžių tiekimo ir rangos darbų procedūros bei sudarytos ir tinkamai vykdomos vamzdžių tiekimo ir rangos darbų sutartys	Sudarytos vamzdžių pirkimo ir rangos sutartys, parengtas rangos sutarties įgyvendinimo grafikas ir atlikti grafike 2019 m. numatyti veiksmai
3.	Sukurti vieningą dujų rinką, plėsti dujų ir biokuro prekybos platformų geografiją bei vystyti elektros rinkos integraciją	Įgyvendinama tarptautinė Grupės įmonių plėtra: 1) BALTPOOL prekybos aikštelės veikla: Švedijoje ir Lenkijoje pasirengimas; 2) Eksportuojamos TETAS paslaugos bent į vieną užsienio rinką; 3) GET Baltic prekybos aikštelės įsteigimui Suomijoje pasirengimas.	Kiekybinis rodiklis - įgyvendinimas 100% pagal kiekvienam rodikliui priskiriamą svorį: 1) BALTPOOL prekybos aikštelėje užsiregistravę bent po 1 biržos dalyvį iš Švedijos ir Lenkijos - 33%; 2) TETAS paslaugos iš užsienio rinkos - 0,5 mln. EUR - 34%; 3) Techniškai pasirengta GET Baltic prekybos aikštelės veikmui Suomijoje - 33%.
4.	Tapti greitai reaguojančia į besikeičiančią aplinką įmonių grupe ir energetikos kompetencijų centru	Projektų ar veiklų, prisidedančių prie Nacionalinės energetinės nepriklausomybės strategijos įgyvendinimo, inicijavimas	Atlikta idėjų ar galimų veiklos krypčių analizė ir inicijuotas bent vienos idėjos įgyvendinimo projektas ar sukurtas veiklos planas
5.		Valdymo bendrovės kuriamos vertės didinimas	Kiekybinis rodiklis - įgyvendinimas 100% pagal kiekvienam rodikliui priskiriamą svorį: 1) Valdymo bendrovės kuriamos vertės teigiamas pokytis nuo 0,7% (2018 m.) iki 10% (2019 m.) - 50%; 2) Grupės įmonėse įgyvendintos per 2019 m. numatytos įgyvendinti politikos - 25%; 3) Siekiant efektyvumo supaprastinta Grupės struktūra - 25%.
6.	Užtikrinti žigalaikę naudą akcininkams	Nuosavybės grąžos rodiklis (ROE) 2019-2021 m. - 5,7 % (2019 - 0,4 %, 2020 - 9,5 %; 2021 - 7,1 %)	ROE 2019 m. ± 0,4%

The Director General of EPSO-G is accountable to the Board for the achievement of the objectives set. The company's financial and non-financial objectives are identical to those of the Director General of EPSO-G.

The Board of annually evaluates the achievement of the objectives. Its result determines the amount of the variable part of the remuneration, which does not exceed the proportion established in the remuneration policy.

In 2019, EPSO-G's centralized internal audit department performed an assessment of the reliability of the implementation of the operational objectives of all Group companies in 2018. The findings were presented to the management and boards of the audited companies, as well as to the EPSO-G Board and the Audit Committee.

The objectives set for EPSO-G holding company, according to the Board, were met by 92.5 % in 2019.

EPSO-G 2020 operational objectives:

UAB EPSO-G 2020 m. veiklos tikslai

METINIAI TIKSLAI					
Eil. Nr.	Metinis tikslas	Siektinas rodiklio dydis[1]	Tikslo svoris (%)	Matavimo vienetas	Nustatytas rodiklio dydis
1.	Energetikos kompetencijų centro praktikos išvystymas	Išgyvintos Grupės prioritetinės kompetencijų srityse (pvz.: dujų, elektros rinkų efektyvus vystymas, atsinaujinančių integracija, darni tinklo plėtra, energetikos sistemos adekvatumas, inovacijos) ir parengtas kompetencijų centro veiklos planas ir atlikti veiklos plane 2020 m. numatyti veiksmai.	20%	proc.	100%
2.	Grupės įmonių strateginių projektų įgyvendinimo valdymas	1) Sinchronizacijos su KET programos projektų tarpinių gairių vykdymas laiku (vėlavimas neviršija tolerancijos ribų) - rodiklio svoris 20%; 2) Palaikomas ir laiku atnaujinamas Sinchronizacijos su KET finansavimo modelis - rodiklio svoris 20%; 3) GIPL projekto tarpinių gairių vykdymas laiku (vėlavimas neviršija tolerancijos ribų) - rodiklio svoris 20%; 4) Įkurta Grupės PMO (Project Management Office), kuris veikia kaip Grupės projektų valdymo kompetencijų centras - rodiklio svoris 40%.	30%	proc.	100%
3.	Įgyvendinama Grupės įmonių plėtra: 1) BALTPOOL prekybos apimčių užsienio rinkose didinimas; 2) TETAS veiklos AEI įrengimo ir/ar eksploatavimo srityje vystymas; 3) Naujų GET Baltic biržos produktų bei paslaugų vystymas.	1) BALTPOOL pajamų augimas iš užsienio siekia ne mažiau nei 90 proc. lyginant su 2019 m. - rodiklio svoris 33%; 2) Parengtas ir patvirtintas TETAS ilgalaikio veiklos planas AEI srityje - rodiklio svoris 34%; 3) Atlikta Europos žaliavų biržų produktų ir paslaugų analizė ir priimti sprendimai dėl identifikuotų naujų produktų ir (ar) paslaugų vystymo GET Baltic biržoje - rodiklio svoris 33%.	15%	proc.	100%
4.	Projektų ar veiklų, tiesiogiai susijusių su IT funkcinių Veiklos planų, inicijavimas	Įsisąsiuoti ir patvirtinti trys skaitmenizavimo projektai / priemonės grupės įmonėse.	10%	proc.	100%
5.	Valdymo bendrovės kuriamos vertės didinimas	1) Grupės įmonėse įgyvendintos per 2020 m. numatytos įgyvendinti politikos - rodiklio svoris 30%; 2) Parengta Grupės strategija 2030 ir grupės mastu nustatyti ilgalaikiai darnumo tikslai ir rodikliai - rodiklio svoris 70%.	15%	proc.	100%
6.	Nuosavybės grąžos rodiklis (ROE)	ROE 2020 m. ≥12,5%	10%	proc.	100%
			Viso:	100%	

3.4. Summary of Significant Infrastructure Projects

Preparation of the power grid for a synchronous operation with the grids of continental Europe

The synchronization of the Baltic States through power grids is a strategic energy security project of Lithuania, after the implementation of which the Baltic States will disconnect from the Russian-controlled IPS / UPS system and connect to the continental European grids.

The National Energy Independence Strategy sets out that the Lithuanian electricity system synchronization project must be implemented by 2025.

Understanding, harmonizing and coordinating national and international interests is crucial for its implementation.

Synchronous work with the continental European networks will ensure:

- Reliable operation of energy systems and secure transmission of electricity;
- Combined actions for facility maintenance and network development planning;

- Common rules for the management of energy systems – network codes that will be applied equally in all European Union countries;
- Access to electricity from Western European energy systems.

Important events during the reporting period:

- On 29 May 2019, the agreement on interconnection to the European electricity networks entered into force - the transmission system operators of the three Baltic states, Poland and ENTSO-E signed the interconnection agreement and technical terms and conditions of interconnection upon the implementation of which – Lithuania, Latvia and Estonia will become a part of the European power system by 2025. The interconnection agreement defines the rights and duties of the parties to ensure compliance of the Lithuanian, Latvian and Estonian power transmission system operators (TSOs) with the established requirements and assumed obligations. The Agreement will be implemented in accordance with the catalogues of connection conditions. It is a code of 409 technical and practical operational standards and indicators, upon implementation of which, Lithuania, Latvia and Estonia will connect and operate in the same frequency with continental European power system. At the moment of signing, Lithuanian power system met approximately 40 per cent (169) measures established in the connection catalogue.
- In May 2019, the isolated operation test of part of the Lithuanian power system and generators works was completed. According to the planned scenario, Kaunas cogeneration power plant, part of Mažeikiai power plant, Kaunas HPP, Kruonis PSHP, unit 9 of Lithuania Power Plant and DC converters Nord Balt and LitPol Link were segregated into independent islands. By disconnecting these zones from the BRELL system, we tested the ability of the generators in conjunction with the DC converters to control the frequency of the part of the isolated system. The rest part - the biggest - Lithuanian energy systems continued to function in the BRELL ring, and the isolated parts were successfully synchronized with it.
- On 13 June 2019, the Seimas of the Republic of Lithuania passed the Law on Connection of the Lithuanian Power System to the Synchronous Grid of Continental Europe and related legal acts. They provide the main conditions for the organization and implementation of the synchronization process. The law also stipulates that the synchronization project and related infrastructure projects will be granted the status of a project of special state importance. This will speed up spatial planning procedures in synchronization-related projects, establish easements and promptly carry out environmental impact assessment procedures. Competent authorities shall be obliged to authorize, coordinate projects and perform other procedures within a shorter period of time for synchronization-related projects.
- On 20 June 2019, a political Roadmap was signed on the implementation of the synchronization of the Baltic electricity system with the European grids. The Roadmap confirms the continued political commitment of the three Baltic States, Poland and the European Commission to the strategic energy security project of the Baltic states. It was agreed that the implementation of the project would be supervised and coordinated at the highest political and technical level in order to carry out the planned necessary work by 2025 in a targeted manner and within the agreed deadlines. The BEMIP high-level group headed by the European Commission was delegated at the political Roadmap with the task to supervise practical implementation of the project and to ensure that the agreed schedule of works will be met when implementing the key projects of the agreement on interconnection of Continental European energy networks.
- In September 2019, the Government of the Republic of Lithuania approved an action plan and measures for the synchronization of the Lithuanian electricity system with the continental European networks. It has been prepared in implementation of the Law on Connection of the Lithuanian Power System to the Synchronous Grid of Continental Europe adopted by the Seimas in June and provides for specific actions and measures on the basis of which the synchronization project will be implemented. The plan includes 65 actions and measures, as well as 14 synchronization projects. The list of projects are available at: https://www.e-tar.lt/portal/lt/legalAct/9ddcd470d2f011e98c12b3138b15576c

Investment:

The total investment value of the synchronization with the CEN project for the three Baltic States is up to EUR 1,650 million. This project is included in the European Commission's list of Projects of Common Interest (PCI). It is estimated that the project will be implemented in separate funding phases.

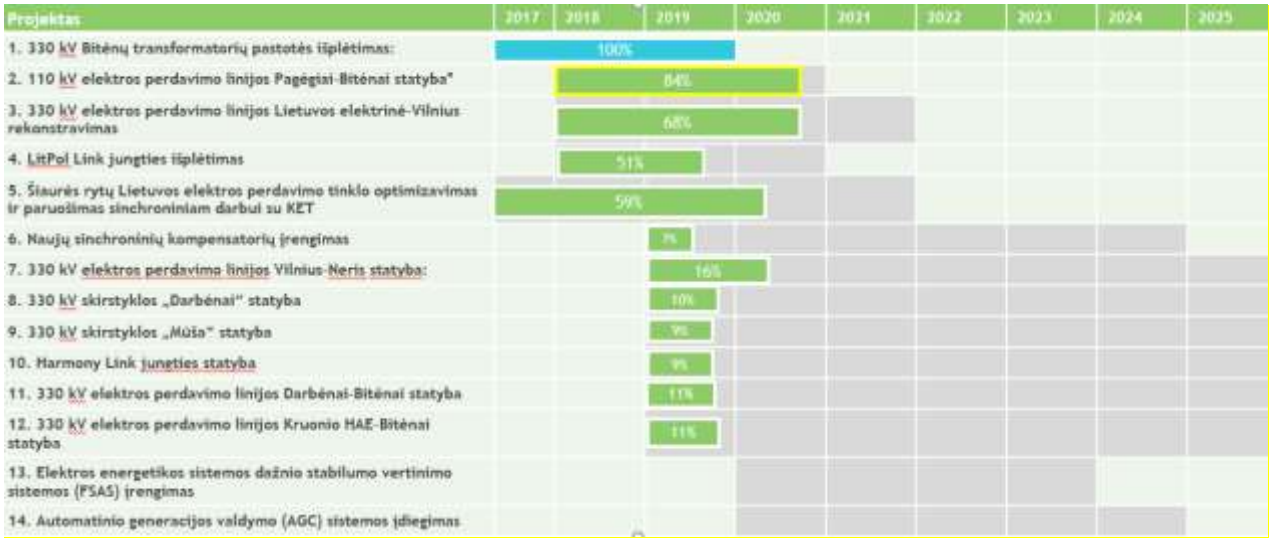
- The total value of the investments in the first financing phase of the three Baltic states amounts to EUR 432.55 million, of which EUR 167 million - for the renewal and strengthening of the Lithuanian electricity system. In 2019, for the first investment phase, the EU allocated EUR 125 million to Lithuania or 75% of the necessary amount from the Connecting Europe Facility for infrastructure.
- The total value of the investments in the second financing phase of the three Baltic states amounts to EUR 1,220 million. The value of investments in this phase is the largest due to the planned construction of the submarine interconnection Harmony link and the planned construction of synchronous compensators: three in Lithuania, three in Latvia and three in Estonia. The goal is to achieve 75% the amount required in the second phase of the project, i.e. EUR 915 million would be financed by the Connecting Europe Facility for infrastructure.

Important events during the reporting period

In 2019, in preparation for the Lithuanian energy networks for synchronous operation with CEN, other reconstruction works of electricity transmission nodes were implemented and carried out, and the preparatory works for new projects were initiated:

- Litgrid implemented the project of conversion of 330 kV Bitėnai switchyard into transformer substation. It is the first project contributing to the synchronization with CEN. EUR 1.482 million of the EU funds was allocated for the project. The total value of the project is EUR 3.1 million.
- At the beginning of 2020, Litgrid will complete the second synchronization project - the construction of a new 110 kV transmission line connecting Pagėgiai and Bitėnai.
- Litgrid is implementing a reconstruction project of a 330 kV power transmission overhead line from the Lithuania Power Plant to Vilnius. An additional electrical circuit will be installed on the existing overhead line during the reconstruction works. This project is needed to ensure a reliable electricity supply for the residents and businesses of the rapidly growing city of Vilnius. The contract was signed with the winner of the public procurement, Žilinkis ir Co UAB. The contract amount is EUR 17.99 million, and the works are scheduled to be completed by the end of 2020. This project is intended to be EU financed by up to 50% of eligible costs.
- Litgrid is implementing a project to optimize and prepare the North-East Lithuanian electricity transmission network for synchronous operation with the continental European energy system, during which two 330 kV transformer substations in Ignalina and Utena will be reconstructed and 330 kV shunt reactor will be transferred from Ignalina substation to 330 kV Elektrėnai switchyard. The most powerful 750 kV high-voltage line connecting Ignalina Nuclear Power Plant substation with Belarus will be dismantled as well. EUR 10.8 million has been allocated from the EU structural funds for this economic project of national importance, funded by 45% of the project value. During the project, advanced infrastructure will be implemented, which will ensure reliable electricity transmission and higher quality of services to both existing and new electricity network users in Visaginas and Utena district municipalities. The reconstruction of the electricity transmission system unit in North-Eastern Lithuania is estimated to take four years and will be completed in 2021. The total value of the project is EUR 23.9 million. The project is being implemented by a group of economic entities: Kauno tiltai AB, ABB OY and ABB AS.
- In 2019, contracts were signed on the preparation of spatial planning documents and EIA reports of 330 kV power transmission lines Vilnius-Neris, Kruonis PSHP-Bitėnai, Darbėnai-Bitėnai and 330 kV Darbėnai and Mūša switchyards.

Status of implementation of projects of special state importance constituting the synchronization program:



Harmony Link

The technical scenario for the synchronization of the Baltic states forecasts that the synchronization with CEN will take place using the existing connection between Lithuania and Poland (LitPol Link) by laying a new submarine cable between these countries. This scenario was approved on 14 September 2018 by the BEMIP high-level group. The network synchronization process is monitored by the Regional Group Continental Europe of the European Network of Transmission System Operators for Electricity (ENTSO-E), while the Harmony Link project will be implemented by PSE and Litgrid.

On 21 December 2018, Lithuanian and Polish electricity transmission system operators agreed on the implementation of a new submarine interconnection project. Litgrid and PSE executives signed a contract committing to start the works of the preparatory phase of a new Lithuanian-Polish submarine high-voltage direct current cable construction project. On 4 December 2019, a EUR10 million contract for Harmony Link preparatory works - route selection study, seabed surveys, preparation of technical specifications for the connection, and spatial planning work - was signed.

On 20 December 2019, a contract was concluded on the special spatial planning and selection of EIA services for the electricity system synchronization project "Construction of Harmony Link connection and 330 kV Darbėnai switchyard".

Technical characteristics of Harmony Link: the planned capacity of the connection is 700 MW, the length – about 450 km.

The final decision on the investment should be taken in 2020-2021.

Gas interconnection Poland-Lithuania

The project is intended for integration of the gas markets of the Baltic states into the common EU gas market, to diversify the gas supply sources and increase gas supply security. Amber Grid implements a part of the gas project in the territory of the Republic of Lithuania, and a part thereof in the territory of the Republic of Poland is implemented by the Polish gas transmission system operator GAZ-SYSTEM S.A.

The Gas Interconnection Poland-Lithuania (GIPL) is a natural gas infrastructure connecting the transmission systems of Poland and Lithuania, as well as the Baltic States and Finland, with the European Union (EU) system.

The European Commission has identified the GIPL project as a critical infrastructure project for security of gas supply, making a significant contribution to the EU's energy security. Amber Grid is implementing the GIPL project together with the Polish gas transmission system operator GAZ-SYSTEM S.A.

GIPL project goals:

• to integrate the Baltic and Finnish gas markets into the common EU gas market,
• diversify gas supply sources,
• increase security of gas supply.

The total planned length of the pipeline – up to 508 km, of which 165 km in the territory of Lithuania. The capacity created will allow transport to the Baltic countries up to 27 TWh per year; transferred gas flow to Poland – up to 21 TWh per year, while the Baltic gas and Finnish markets will become part of the EU's common gas market.

Benefits of GIPL:

- Will integrate gas markets of the Baltic countries and Finland into a common EU gas market;
- Will open access to alternative gas supply routes and sources; will increase the competitiveness of the gas market.
- Will increase security and reliability of natural gas supply – by creating both additional gas transmission capacity and the possibility of applying EU solidarity mechanisms in the event of an emergency;
- Will enable more flexible and efficient use of LNG terminals and transmission infrastructure in Poland and Lithuania;
- Will increase the liquidity of gas trade in the Polish and Baltic trade zones and strengthen their regional role;

Important events during the reporting period:

- On 25 July 2019, Amber Grid signed a contract with the Polish company Izostal S.A., the winner of a public tender for the procurement of pipes for the pipeline connection between Poland and Lithuania (GIPL). The contract value is EUR 26.4 million (excluding VAT).
- On 23 December 2019, Amber Grid signed a contract with the consortium of Alvora UAB and Šiaulių dujotiekio statyba UAB that submitted the most economically advantageous tender for the contract works of GIPL project. The contract value is EUR 79.85 million (excluding VAT). It enabled the launch of this region-wide project in January 2020.

Investment:

The GIPL project is funded with own funds of Amber Grid and GAZ-SYSTEM S.A. and with borrowed funds, the EU financial assistance under the European Commission Trans-European Networks for Energy (TEN-E) Programme and the EU Connecting Europe Facility (CEF). In addition to the EU financial assistance, the construction operations of the GIPL project will be funded by Lithuania, Latvia and Estonia according to the cross-border cost allocation solution covering the part of the GIPL infrastructure costs in the territory of Poland. It is estimated that EUR 500 million investments in the GIPL project on the Lithuanian side will be lower by EUR 22 million due to high competition in the procurement tender compared to the initially planned EUR 136 million.

More information on the GIPL project, its progress and news can be found on the project website (www.ambergrid.lt/lt/projektai/dujotiekiu-jungtis-tarp-lenkijos-ir-lietuvos-gipl).

Increase of capacities of gas interconnection Latvia-Lithuania

The project is intended for the enhancement of capacities of the gas interconnection between Latvia and Lithuania, ensuring security and reliability of natural gas supply, more efficient use of the infrastructure and a better integration of the gas markets of the Baltic states. The better conditions for the use of the Latvian Inčukalns Underground Gas Storage will be also created. Project operators – AS "Conexus Baltic Grid" and Amber Grid.

Feasibility study and cost-benefit analysis of the Lithuanian-Latvian gas interconnection capacity enhancement assessing the regional market gas demand and flow modeling showed that after the construction of the gas interconnections between Finland and Estonia (Balticconnector) and between Poland and Lithuania (GIPL), and between Lithuania and Latvia, greater capacity will be needed to ensure the regional gas market demand and security of gas supply – up to 130.47 GWh per day in the direction of Latvia and up to 119.5 GWh per day in the direction of Lithuania.

To increase the interconnection capacity in the territory of Lithuania, it will be necessary to boost the capacity of Kiemėnai gas metering station and to restructure the gas pipeline at Panevėžys compressor station, and in the territory of Latvia – to reconstruct a part of the main gas pipelines in the southern, central and western parts of the country to increase the maximum design pressure in the pipelines up to 50 bar and to install a new compressor station near the Inčukalns underground gas storage. The completion of the project is scheduled for the end of the year 2023.

The new gas interconnections between Finland and Estonia (Balticconnector) started operating from 1 January 2020.

The investments will increase the gas interconnection capacity to 130.47 GWh per day in the direction of Latvia (now 67.6 GWh per day) and to 119.5 GWh per day in the direction of Lithuania (now 65.1 GWh per day).

Investments:

The planned investment amount of the project is EUR 10.2 million, of which EUR 4.7 million – in the territory of Lithuania.

Important events during the reporting period:

At the end of May 2019, NERC approved EUR 4.7 million for the investment intended for the Lithuanian-Latvian pipeline interconnection capacity enhancement, and the Lithuanian and Latvian regulators have decided on the cross-border cost allocation of the project.

On 20 December 2019, INEA, the Company and Conexus Baltic Grid signed a contract to finance construction works for the Lithuanian-Latvian gas pipeline capacity enhancement project. The total investment for this project will amount to EUR 10.2 million, the EU support from CEF up to 50% of eligible costs of the project financing, i. e. up to EUR 2.1 million for the Lithuanian share.

3.5. Development of the Transmission Network

Whilst respecting the right of stakeholders to assess in advance the impact of projects developed in the near environment on their economic and social interests, the companies of EPSO-G group, which are the transmission system operators, annually update and publish ten-year network development plans.

3.5.1. Development Plan of Natural Gas Transmission Network

In 2019, Litgrid updated and on 28 January 2020 coordinated with the NERC the ten-year network development plan for the Lithuanian power system of 400 kV, 330 kV and 110 kV networks. It is based on current and projected supply and demand and requirements to ensure security and reliability of supply.

The purpose of the plan – following the assessment of the current state and resolutions of the electricity system, to anticipate possible changes in electricity and power needs, generating capacity and generation in the long run, to forecast the volumes of transmission network development and reconstruction, to assess investment needs, etc.

The plan assesses the challenges facing the country's transmission system for the next decade: to develop and adapt the energy system for synchronization with the networks of continental Europe and to implement the goal set by NEIS - to ensure that by integrating the renewable energy resources, the electricity produced in the country would satisfy 70% of the need by 2030.

The ten-year network development plan provides the following:

- Forecasted investments will amount to EUR 1,063 million. It should be noted that this will not significantly affect the growth of the transmission share in the electricity tariff;
- Total electricity consumption is projected to increase by an average of 2% from 12.11 TWh per year to 14.63 TWh in 2028 and final consumption – to 13.54 TWh. From 1,999 MW, the maximum power required by the system, which can reach 2,364 MW, will also increase.
- Electricity consumption will be mainly affected by general economic trends, increasing electricity consumption efficiency, the number of electric cars and heat pumps, and the amount of electricity consumed.
- It is noted that although a reliably available local generation is not sufficient to meet the maximum system demand, this will be compensated by reliable interconnections. In the meantime, Lithuania will remain an importer: following 2028, after the integration of 700 MW of offshore wind power generation and the development of other renewable energy sources, it is planned that the goal set by NEIS will be achieved in 2030 – about 70% of electricity demand will be locally generated.

The plan is published on external website (http://www.LITGRID.eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-/3850).

3.5.2. Natural Gas Transmission Network Development Plan

Following the 2019 changes in NERC procedures for the assessment and coordination of investments of energy companies, the ten-year gas transmission network development and investment plan is updated every two years. Therefore, Amber Grid 2018-2027 development plan will be updated in 2020.

2018-2027 plan forecasts investments in the development of the gas transmission system aimed at achieving the strategic goals of the European Union and Lithuania in the natural gas sector: diversifying the gas supply sources, ensuring security and reliability of gas supply, promoting competitiveness, and integrating the Baltic gas markets into the common European gas market and to develop a common Baltic regional gas market.

The estimated value of investments in gas transmission system development projects foreseen in 2018-2027 plan will amount to EUR 211.45 million in the next decade.

Gas consumption in Lithuania is forecast to decrease over the next decade, but at the same time increasing cross-border gas flows to other Baltic countries are expected. Moreover, there will be an opportunity to transport gas in new directions – by a gas pipeline between Poland and Lithuania.

2018-2027 network development plan provides for the implementation of the following strategic gas infrastructure projects:

- By the end of 2021, together with the Polish gas transmission system operator GAZ-SYSTEM, it is planned to build a gas pipeline connection between Poland and Lithuania. The objectives of the project are to integrate the Baltic and the Finnish gas markets into the common EU market for gas, diversify gas supply sources and increase the security of gas supply;
- In cooperation with the Latvian gas transmission system operator Conexus Baltic Grid, it is planned to implement a project to increase the capacity of the gas pipeline connection between Lithuania and Latvia. This project aims to create preconditions for greater integration of the Baltic gas markets, to ensure the safety and reliability of the natural gas system.

These projects will be relevant to the processes of regional gas market formation in the Eastern Baltic region and will provide an opportunity to transmit gas to other gas market participants in the region.

In addition to strategic infrastructure projects, the plan foresees investments in the development, reconstruction and modernization of the transmission system, which will enable to ensure the security and reliability implementation, sufficiency of the existing transmission system capacities, implementation of advanced natural gas transmission infrastructure, using the funds provided by the European Structural Funds.

The ten-year Amber Grid network development plan has been prepared in accordance with the provisions of the national strategic documents, the needs of gas market participants, ensuring the security of supply and efficient operation of the transmission system, the company's strategy, its environmental policy and legal requirements. It is published at:

Amber Grid development plan is available at:

https://www.ambergrid.lt/uploads/documents/Gamtini%C5%B3%20duj%C5%B3%20PSO%2010%20m_%20(2018-2027%20m)%20tinklo%20pl%C4%97tros%20planas.pdf

4. PERFORMANCE REVIEW

4.1. Important Events in the Reporting Period

January

On 1 January 2019, electricity and natural gas transmission prices approved by the National Commission for Energy Control and Prices (NCECP) came into effect. This affects the activities of EPSO-G group of companies. The average regulated electricity transmission price increased by 6.3% up to 0.658 ct/kWh. The average price of long-term natural gas transmission services for the needs of Lithuanian consumers increased by 3.5% up to 1.17 EUR/MWh.

On 1 January 2019, legislative changes came into force obliging the largest regulated energy producers to purchase at least half of their gas needs on the GET Baltic Exchange, which belongs to the EPSO-G group.

On 15 January 2019, the Government approved a target of 5.7% of return on equity for EPSO-G group of companies, for the period 2019-2021. The decision was mainly influenced by the regulatory principles applied by NERC aiming to

determine prises substantiated by the necessary costs, as well as the return on investment, for consumers and create conditions for greater competitiveness of the state's economy.

On 23 January 2019, the European Commission allocated 75% funding for the first phase of the synchronization of the Baltic energy system with the continental European networks.

February

On 27 February, Amber Grid and EPSO-G holding company entered into a cashpool based loan agreement. It enables a more efficient use of temporarily available Group funds and creates an alternative to short-term borrowing from credit institutions.

March

On 15 March 2019, Amber Grid completed the project of modernising the gas transmission system facility significant for the managing of domestic and international gas flows. Investments in the 3-year renovation of Panevėžys compressor station amounted to EUR 5.6 million (excluding VAT). Half of the funding is from the European Union Structural Funds.

On 20 March 2019, Litgrid and Žilinskis ir Co UAB signed a contract for the design and construction of the expansion of the strategic link with Poland - LitPol Link. The contract amount is EUR 26.193 million, and the works are scheduled to be completed by the end of 2020.

April

On 1 April 2019, the new-term Board of EPSO-G elected the independent member Gediminas Almantas as the Chairman.

On 9 April 2019, Litgrid and and energy company group Ignitis (former Lietuvos Energija) have renewed the sale of shares of Duomenų logistikos centras (DLC), which provides data transmission and data center services. LITGRID is expected to sell its 20.36% shares and Lietuvos Energija will transfer its 79.64% shares of DLC.

May

On 9 May 2019, Amber Grid commenced the reconstruction of sections of the international pipeline Vilnius-Panevėžys-Riga, reaching the Lithuanian-Latvian border with the winning contractor company MT Group. The total value of the project is EUR 8.1 million (excluding VAT). Half of the funds will come from the European Union Structural Funds. The pipeline reconstruction works are expected to last until the end of 2019. Through this pipeline, gas is transmitted to and from the Inčiukalns gas storage in Latvia, as well as supplied to the needs of the Baltic States and Lithuania.

On 19 May 2019, Litgrid completed the isolated operation test of part of the Lithuanian power system and generators. During the test, the ability of the connectors to work together in frequency control maintenance mode with the generators was checked. Parts of the isolated system work with the rest of the Lithuanian energy system, already operating in synchrony, were also tested as well as the technical capabilities of the generators to regulate the frequency and ability to remain stable in self-sustaining mode or in the event of a malfunction.

On 28 May 2019, Amber Grid modernized two gas distribution stations in Alytus and Jonava. The value of the projects is EUR 4 million (excluding VAT), half of the funds are from the EU Structural Funds. The stations are equipped with advanced technological equipment. The producer of fertilizers Achema, the largest gas consumer in Lithuania, is also supplied with part of the gas through the modernized Jonava gas distribution station.

On 29 May 2019, Regional Group Continental Europe of the ENTSO-E, the European Network of Transmission System Operators, announced about signing of the interconnection agreement and technical terms and conditions of interconnection by the power transmission operators of Poland, three Baltic States and supporting countries, upon implementation of which – Lithuania, Latvia and Estonia will become a part of the European power system.

June

On 1 June 2019, by promoting green gas production in Lithuania, Amber Grid started providing guarantees of origin for gas produced from renewable energy sources to business; this is provided for in the order issued by the Minister of Energy in May. Amber Grid, which administers the National Registry for Guarantees of Origin for green gas, provides guarantees of origin for producers of gas from renewable energy sources and administers their transfer to suppliers or end users using green gas in their operations.

On 6 June 2019, Amber Grid applied to the Innovation and Networks Executive Agency (INEA) under the European Commission for financing the construction works for the Lithuanian-Latvian gas pipeline capacity enhancement project.

On 10 June 2019, NERC set a maximum income cap for the regulated activities of Amber Grid (by providing the services of natural gas transportation through the natural gas transmission system) for 2020 - EUR 36.1 million per year.

On 13 June 2019, the Seimas of the Republic of Lithuania passed the Law on Connection of the Lithuanian Power System to the Synchronous Grid of Continental Europe and related legal acts.

On 13 June 2019, GET Baltic, operating in Lithuania, Latvia and Estonia, announced that from 1 January 2020 it plans to establish a new trading spot in Finland, thus contributing to the greater integration of the Finnish and Baltic gas markets.

On 25 June 2019, the Board of Amber Grid made a decision regarding the conclusion of a contract for the procurement of steel gas pipes for the construction of the GIPL with the Polish company Izostal S.A. The value of the contract is EUR 26.4 million (excluding VAT).

On 20 June 2019, a political Roadmap was signed on the implementation of the synchronization of the Baltic electricity system with the European grids. It sets out a specific action plan and key projects to be implemented by 2025, when the Baltic States join the secure and reliable European energy system.

On 27 June 2019, Daivis Virbickas, the CEO of Litgrid, was appointed to the Board of ENTSO-E, the organisation uniting 43 European transmission system operators from 36 countries, for a new term. The Board is composed of eleven members and a chairperson, they are appointed for a period of two years.

July

On 2 July 2019, LITGRID announced that Polish and Lithuanian TSOs, PSE and LITGRID, the only shareholders of the LitPol Link subsidiary, decided to liquidate the company on 19 June 2019. This decision was made because the mission of the companies of both countries was accomplished - the first Polish-Lithuanian interconnection was built. It has been in streamlined operation since 2016. PSE and LITGRID, basing on the positive previous cooperation experiences, will cooperate directly on the construction of the second interconnection - the submarine cable Harmony Link.

On 10 July 2019, Amber Grid transferred a part of Amber Grid's amount of energy savings planned to be achieved by the end of 2020 (30,875.5 MWh) to Litgrid, the company belonging to EPSO-G group, free of charge. The opinion of the EPSO-G Group Audit Committee that the transaction is in line with market conditions is fair and reasonable for all its shareholders was obtained.

On 23 July 2019, the Extraordinary General Meeting of Shareholders of Amber Grid approved the decision of the Board of the Company regarding the conclusion of the contract for the procurement of pipes required for the construction of the gas pipeline connection GIPL with the winner of the tender - the Polish company Izostal S.A. The contract, worth EUR 26.4 million (excluding VAT), was signed on 25 July.

August

On 6 August 2019, the Board of Amber Grid made a decision on the conclusion of the GIPL contract for the construction of an international gas pipeline connection between Poland and Lithuania with the construction of Alvora and Šiauliai

gas pipeline. The value of the contract is EUR 79.85 million. (excluding VAT). The decision was approved on 28 August, at the Extraordinary General Meeting of Shareholders of Amber Grid.

September

On 16 September 2019, GET Baltic and the Polish Commodity Clearing House IRGiT signed a consulting services agreement, which includes consultations for Baltic and Finnish natural gas exchange GET Baltic on risk management and clearing and settlement model development issues. IRGiT is a subsidiary of the Polish electricity and gas exchange operator TGE. Both belong to the WSE group of companies.

On 19 September 2019, by creating conditions for the development of green gas in Lithuania, Amber Grid joined a European association developing the European cross – border system of exchange guarantees of origin for renewable gas - ERGaR European Renewable Gas Registry). The association, together with registers of guarantees of origin of other countries, transmission or distribution system operators and participants in the renewable gas market, foresees the creation of a single European system ensuring clear and common rules for the exchange of guarantees of origin for green gas among EU countries.

October

On 2 October 2019, the states of the European Union approved the European Commission's proposal to provide funding for projects on the EU List of Projects of Common Interest from the Connecting Europe Facility (CEF) for two projects run by EPSO-G group of companies.

EUR 10 million funding was provided by CEF for the preparatory works of a new submarine cable between Lithuania and Poland Harmony Link - a feasibility study of a connection across the Baltic Sea. This project is being implemented by Litgrid together with the Polish partners.

EUR 4.88 million has also been allocated from CEF to support Lithuanian-Latvian gas pipeline development works. This project, together with Latvian partners, is implemented by Amber Grid. Increase of the gas transmission capacity between Lithuania and Latvia will create better conditions for the market to use Klaipėda LNG terminal, the Inčukalns underground gas storage in Latvia, and from 2022 - GIPL connector.

On 10 October 2019, NERC approved the prices for natural gas transmission services set by the Board of Amber Grid on 23 September 2019, which will take effect from 1 January 2020.

On 28 October 2019, Saulius Bilys, CEO of Amber Grid, resigned. The Board of Amber Grid appointed Nemunas Biknius, the Chairman of the Board of the company, as the acting CEO of the company. While N. Biknius is the head of the company's administration, his activities in the Board of Amber Grid performing the supervisory function, have been suspended. Algirdas Juozaponis, a member of the Board and CFO of EPSO-G, took over the position of the Chairman of the Board.

On 29 October 2019, the Board of Amber Grid decided to repeal the decision of 6 August 2019 on the approval of the substantial terms of the gas connection transaction between Poland and Lithuania. This resulted from the comments made in the opinion of the Public Procurement Office.

On October 30, 2019, taking into account Baltpool's actual operating costs of the last year and the planned three-year trading volume, NERC agreed on a new biomass exchange fee of 0.48 EUR/TOE. Compared to the previous price, the current new trade fee applicable from 1 November 2019 is lower by 21.3 %.

On October 31, 2019, NERC announced the prices of electricity transmission services approved by the decision of the Board of Litgrid on 18 October 2019 and the procedure for their application in the Register of Legal Acts. As from 1 January 2019, the approved average price of electricity transmission service was 0.814 ct/kWh, the price of system services was 0.785 ct/kWh. On 31 October 2019, NERC also set the price for the use of interconnection services - 5.87 EUR/MWh, which will apply from 1 January 2019.

November

On 11 November 2019, the sole shareholder of EPSO-G, the Ministry of Energy, appointed Tomas Tumėnas, a financier, as the third independent member of the Company's Board. This appointment completes the formation of the EPSO-G Board, which is in line with good governance.

On 26 November 2019, the sole shareholder of the holding company, the Ministry of Energy, approved the updated EPSO-G remuneration guidelines. They came into force as of 1 December 2019. The changes relate to the remuneration of the independent members of the boards and committees of the holding company EPSO-G and the group of companies – they provide for a fixed rather than an hourly remuneration. They reflect the recommendations of the Governance Coordination Center (SIPA) that the hourly remuneration system promotes excessive administrative burden and creates inefficient and surplus control over the members of the collegial body. As before, the members of the Board nominated by the sole shareholder or EPSO-G are not remunerated in the Group companies.

On 27 November 2019, with a strong focus on transparency and accountability, EPSO-G was recognized as a leader in the transparency category, while the quality of governance received rating A.

On 28 November 2019, Amber Grid updated the rules for the use of the transmission system, which from 1 January 2020 will open the possibility for system users to use the Klaipėda LNG terminal more easily, to more widely apply the implicit capacity allocation model relevant to market participants and to sign the gas transmission service agreement electronically. The aim is to create more flexible conditions for using the services of the natural gas transmission system.

On 29 November 2019, following the approval by the shareholders of EPSO-G and its subsidiary Litgrid, it was decided that EPSO-G would directly hold 100% of the shares in the contracting company Tetas. The purpose of this change is to simplify the management structure of the state-controlled group of companies and make it more efficient. The value of the transaction between the two EPSO-G group companies was EUR 3.15 million. The value is based on an independent valuation of the assets performed by ERNST & YOUNG BALTIC.

On 29 November 2019, the Innovation and Development Committee was set up by decision of the EPSO-G Board. The newly established Committee acts as an advisory body to the EPSO-G Board, as well as the Audit or Remuneration and Appointment Committee. It operates group-wide, i.e. provides conclusions, opinions, recommendations or proposals to the Board regarding the promotion of innovations, development, increase of the efficiency of the Group's activities.

December

On 4 December 2019, Litgrid and PSE, the Polish transmission system operator, signed a contract for EUR 10 million of EU support for the submarine connection Harmony Link. EUR 4 million has been allocated to Lithuania under this contract.

On 20 December 2019, Litgrid started working at a new system management and data security center, which will ensure stable and secure operation of the national energy system and management of energy transmission flows, as well as a higher level of physical and cyber security.

On 23 December 2019, upon the approval of the essential terms of the transaction by the shareholders' meeting, Amber Grid signed a contract with the consortium of Alvora UAB and Šiaulių dujotiekio statyba UAB that submitted the most economically advantageous tender for the contract works of the gas pipeline connection between Poland and Lithuania GIPL. The contract value is EUR 79.85 million (excluding VAT).

On 30 December 2019, the registration address of the holding company EPSO-G was changed to correspond to the actual place of business of the Company, i.e. Gedimino Ave. 20, Vilnius, LT-01103. Before that, EPSO-G had its registered office at the same address as its subsidiary Litgrid (A. Juozapavičiaus St. 13), which was set up at the new system management and data security center in Vilnius at Viršuliškių Lane 99B.

On 30 December 2019, Litgrid signed an agreement with Ignitis gamyba, a subsidiary of the state-owned Ignitis grupė, as well as with Kaunas CPP, Panevėžio energija and Orlen Lietuva to ensure the operation of the isolated electricity

system. Such a service is required for the Lithuanian energy system to be ready to operate in isolation throughout the year if, for political or technical reasons, it is separated (or separates) from the IPS/UPS synchronous zone. Litgrid does not plan to perform isolated work tests in 2020. The price of the service without the gas security component in 2020 will be EUR 34.6 million. The final amount will depend on whether the service is activated and how many times a year.

On 30 December 2019, Litgrid signed a 25-month contract with the international company FTI France (Compass Lexecon), which will draft documents and solutions regulating the capacity market in Lithuania - methodologies, technical IT solutions and regulations - in preparation for the first technologically neutral power auction in Lithuania.

Key Performance Indicators

In 2019, the country's further growth had a positive impact on the performance of EPSO-G group of companies. As a result, electricity consumption in the industrial sector had increased. However, significant deviations of air temperature from the standard climate norm reduced energy demand in the service sector and households. As a result, total electricity transmission was slightly lower compared to 2018.

The impact of warmer than usual weather on the revenue of EPSO-G group of companies in 2019 resulted from the increased demand for natural gas transmission services in Lithuania, especially in the fertilizer production sector, increased transit to Latvia due to extremely favourable gas prices and higher trade turnover on natural gas and biomass exchanges.

High-voltage transmission networks for the needs of the country's residents and businesses during 2019, transferred 10,277 million kilowatt hours (kWh) of electricity. This is 2% less compared to the same period last year. The distribution network operator (Energijos Skirstymo Operatorius AB) supplied with 9,351 GWh of electricity to consumers, i.e. by 0.7% less. Other consumers directly connected to the transmission network received 926 GWh of electricity or by 14% less.

The most important indicators of the performance of the companies of EPSO-G group:

	2019	2018	Change		2017
			+/-	%	
Electricity					
Electricity amount transmitted, GWh	10 277	10 491	-214	-2,0%	9 992
ENS (energy not delivered), MWh *	32,33	0,95			1,68
AIT (average interruption time), min. *	1,13	0,04			0,06
NordBalt availability, %	98%	97%			84%
LitPol Link availability, %	98%	98%			99%
Natural gas					
Gas amount transported to the internal discharge point, GWh	23 530	22 320	1 210	5,4%	24 290
Gas amount transported to the internal discharge point, GWh **	31 991	30 140	1 851	6,1%	28 262
Turnover of the natural gas exchange, GWh	2 858	1 084	1 774	163,6%	442
Biomass					
Biomass amount sold in the energy exchange, TOE	432	430	2	0,4%	413

*Only for the reasons that fall within the responsibility of the operator and for the unidentified reasons.

**The transmission systems of Latvia and Kaliningrad region of the Russian Federation.

In 2019, 23,530 GWh of natural gas was transported for the Lithuanian. That is 5.4 % more compared with 22,320 GWh for the same period last year. This was mainly due to a stable demand for natural gas and consumption in the fertilizer sector.

5,990 GWh of natural gas were transferred to the Republic of Latvia via the Kiemėnai DAS system (2018: 2,308 GWh). 26,002 GWh of natural gas were transported to the Kaliningrad Region of the Russian Federation during the reporting period (2018: 27,832 GWh).

In 2019, 32.33 MWh was not delivered to consumers due to high voltage network failures, for which the operator is responsible. The performance of 2019 was mostly affected by the event in July, when the contractors working on the reconstruction of the 110 k kV Kapsai transformer substation stumbled over the constructions of the operating facilities during their works, as a result all the substation equipment was shut down during the event. Electricity supply to Marijampolė residents and businesses was restored in more than an hour. This event added almost 24 MWh to the ENS indicator. The investigation of the incident was carried out by specialists of the National Energy Regulatory Council and recommended the implementation of measures that are planned to be implemented by transmission and distribution network operators in 2020. The accessibility of the gas transmission network to the system users was 100%.

Asynchronous connections worked reliably. They open up the possibility of importing cheaper electricity from the Nordic countries. After 2018 repair work of the connection with Sweden, in 2019, the accessibility of the NordBalt connection to the market reached 97.6% (2018: 97%). The market accessibility of the Polish LitPol Link reached 97.9% during this period, operated almost without interruption.

In 2019, the natural gas exchange trading volume of GET Baltic amounted to 2,585 GWh. Compared to 2018, the volume of trade more than doubled. Amendments to Lithuanian legislation had the greatest impact on the increased trade volumes, which came into force on 1 January 2019, and regulated energy producers in Lithuania became free participants in the natural gas market and active participants in the natural gas exchange.

In 2019, heating supply companies, independent heat producers and industrial companies centralized on Baltpool energy exchange purchased 432 thousand TOE biomass. That is by 0.4% more compared to 2018.

4.3 Financial Indicators

Financial indicators, thousand EUR	2019	2018	Change		2017
			+/-	%	
Income	250 985	245 833	5 152	2,1%	225 246
Operating costs	235 210	318 171	-82 961	-26,1%	225 607
EBITDA[1]	47 554	55 306	-7 752	-14,0%	77 213
Net profit	11 403	-47 720	59 123	123,9%	-2 796
Normalized net earnings[2]	11 403	14 365	-2 962	-20,6%	26 888
Assets	719 546	684 663	34 883	5,1%	770 456
Non-current assets	565 052	540 535	24 517	4,5%	629 559
Current assets	154 494	144 128	10 366	7,2%	140 897
Equity	193 961	183 873	10 088	5,5%	236 247
Liabilities	525 585	500 790	24 795	5,0%	534 209
Net debt[3]	307 709	342 916	-35 207	-10,3%	414 865
Dividends*	Not allocated	750	-	-	682
Relative financial indicators					
EBITDA margin[4]	18,9%	22,5%			34,3%
Return on equity (ROE)[5]	6,0%	-22,5%			-1,2%
Normalized Return on Equity (ROE)[6]	6,0%	6,8%			11,3%
Turnover of assets[7]	34,9%	35,9%			29,2%
Net debt-to-equity ratio	158,6%	186,5%			175,6%
Equity/asset ratio	27,0%	26,9%			30,7%

Total liquidation factor[8]	0,8	0,8	0,8

*Dividends for the reporting year are paid in the following year.

1) EBITDA = Profit (loss) before tax + Costs of financial operations – Income from financial operations + Depreciation and amortization costs + Costs of impairment of assets (including a negative revaluation of non-current tangible assets) + Costs of write off of assets

2) Normalized net earnings = Net profit – "Litgrid's" and "Amber Grid's" asset revaluation result - Changes in deferred income tax due to the revaluation of "Litgrid's" and "Amber Grid's" assets – Change in "Litgrid's" price supplement

3) Net debt = Long-term financial debt + Short-term financial debt + Liability to "Lietuvos energija", UAB for the acquisition of the shares of LITGRID AB. – Short-term investments – Fixed term deposits – Cash and cash equivalents

4) EBITDA margin = EBITDA/Income

5) Return on Equity = Net profit/ (Equity at the beginning of the period + Equity at the end of the period)/2

6) Normalized Return on Equity = Normalized net earnings/ (Equity at the beginning of the period + Equity at the end of the period)/2

7) Turnover of assets = Income/Assets

8) Total liquidation factor = Current assets/Current liabilities

Revenue

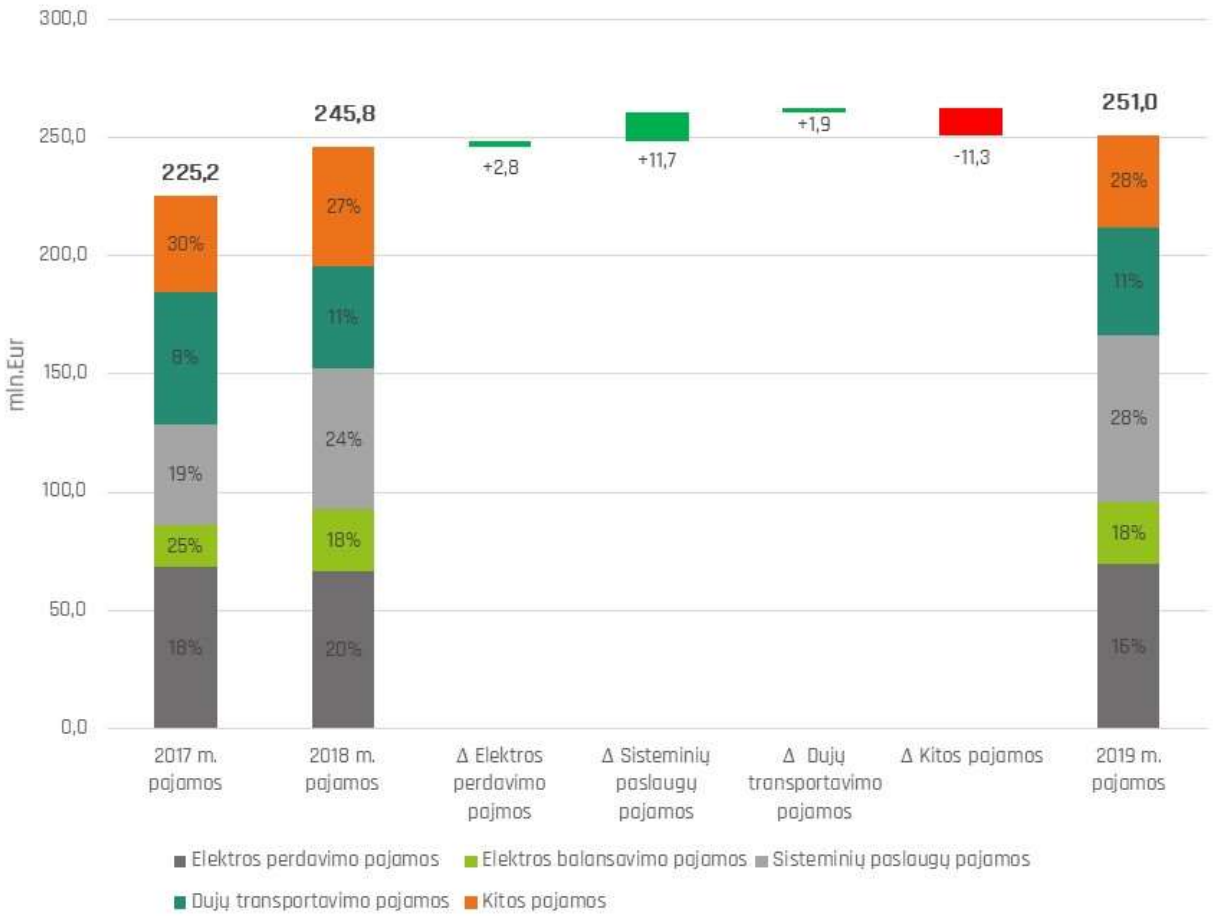
EPSO-G consolidated revenue of 2019, in comparison with the same period last year increased by 2.1% from EUR 245.8 million up to EUR 251 million.

The revenue from electricity transmission increased by 4.2% to EUR 69.3 million and amounted to 27.6% of the entire Group's revenue. Revenue growth was driven by 6% higher average actual electricity transmission price.

Revenue from natural gas transportation services in 2019 increased by EUR 1.9 million and amounted to EUR 45.5 million, 18.1% of all EPSO-G Group revenue. Revenue growth was mainly driven by 5.4% increased transmission of natural gas in Lithuania. In addition, transfers to Latvia more than doubled.

Due the tariff of the system services higher by 16%, established by the National Energy Regulatory Council since 1 January 2019, revenue from systemic electricity services increased by 19.8% up to EUR 70.8 million. Balancing (regulatory) electricity sales revenue decreased by 0.2% up to EUR 26.4 million.

Other Group's revenue decreased by EUR 11.2 million and amounted to EUR 39.0 million. The main reason for the decrease, due to the drop-off in the number of ESO orders, the decrease in TETAS revenue.



Operating costs

At the end of 2019, tests of the value of property, plant and equipment of Litgrid and Amber Grid were performed, which showed that there were no changes in the carrying amount of the assets.

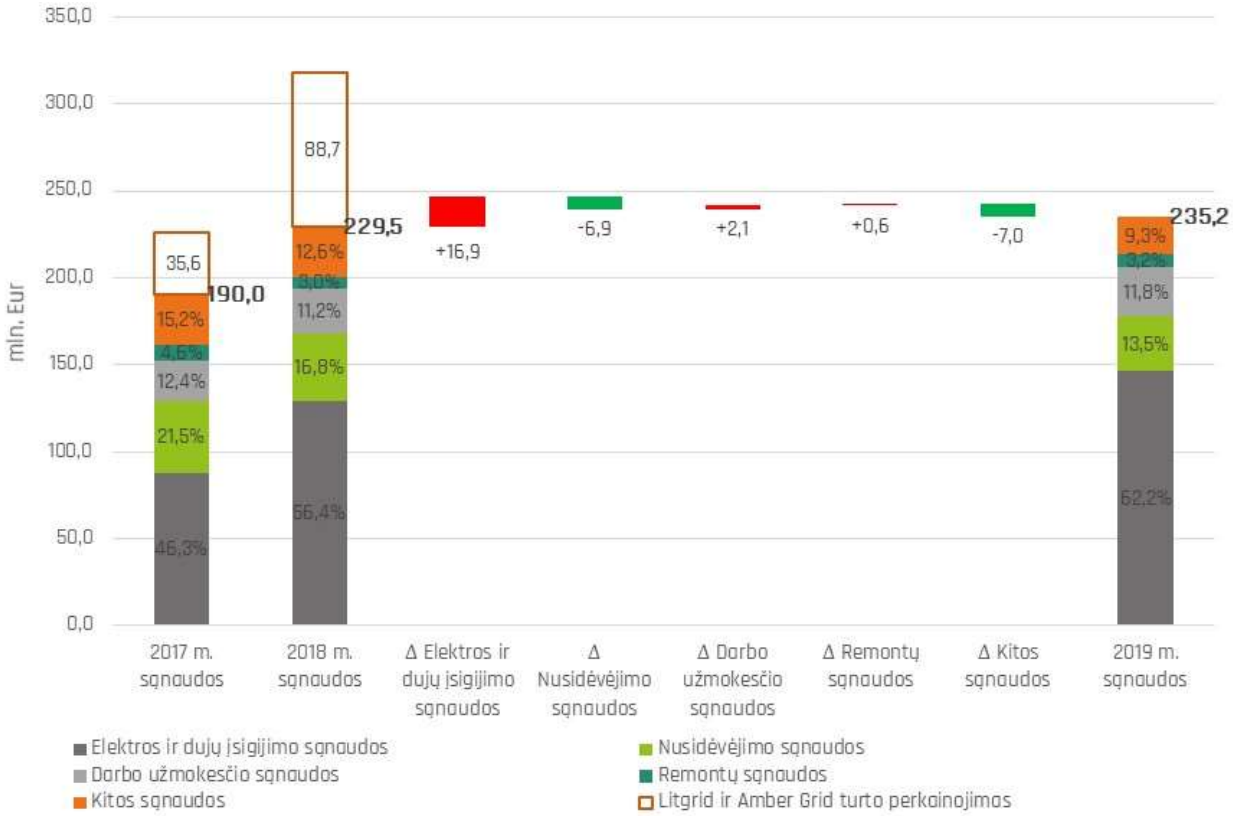
The largest portion of operating costs was accounted for by the purchase of energy resources and related services – EUR 146.3 million or 62.2% of total costs. The purchase costs of electricity and related services increased by 13.4% up to EUR 134.9 million due to higher costs of system services, natural gas acquisition costs grew by 8.8% up to EUR 11.3 million due to increased balancing gas volumes.

Depreciation and amortization costs of fixed assets accounted for a significant portion of the costs – EUR 31.7 million (13.5% of total costs) and, compared to 2018, due to the revaluation of Litgrid and Amber Grid fixed assets at the end of 2018, decreased by 17.9%.

With a strong focus on efficiency, the EPSO-G Group's operating costs in 2019 amounted to EUR 235.2 million. Excluding increased costs for energy resources, decreased depreciation costs and impairment and write-off costs, the total costs level decreased by EUR 4.0 million compared to 2018.

Wages and associated costs increased by 8.2% up to EUR 27.8 million. The increase in wage costs was determined by 5.3% increased average number of employees when comparing 2019 to 2018 (the decrease in the number of employees was recorded at the end of the year, however the trend became opposite during the year).

Repair and maintenance costs increased by EUR 0.6 million up to EUR 7.5 million; the rise was due to an increase in the amount of work on the maintenance of power lines, i.e. performing some of the work uncompleted in 2018 due to the withdrawal of one of the largest contractors from the market. Telecommunications and ITT costs amounted to EUR 2.9 million, the remaining costs – to EUR 18.9 million.



Performance result

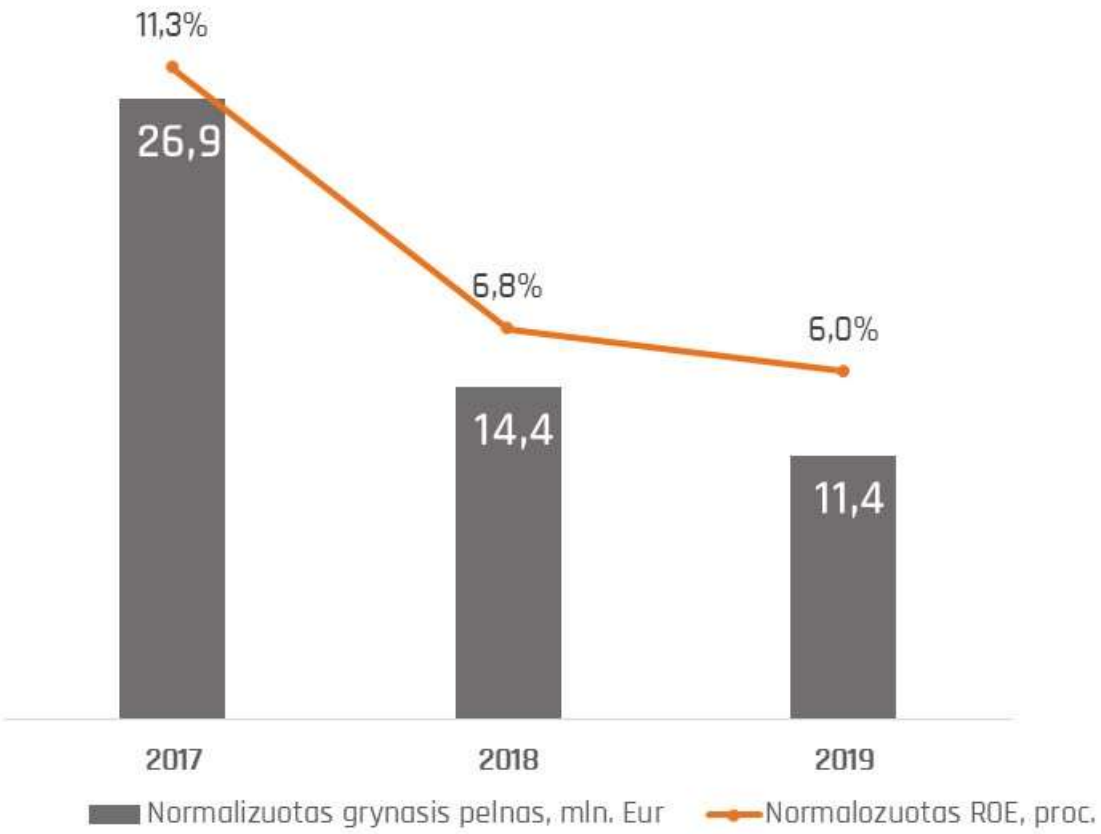
Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Group's performance in 2019 were EUR 47.6 million. Compared to the same period the year before EBITDA has decreased by 14%. The EBITDA margin in 2019 was 18.9 (in 2018 – 22.5%).

The main reasons for the decrease in the Group's EBITDA are the following:

• Compared to 2018, in 2019, Litgrid repaid EUR 3.9 million more of previous periods profit to consumers, exceeding the amount set by the Board.

• The balance result of revenues and costs of electricity system services activities (excluding operating costs) was lower by EUR 2.9 million.

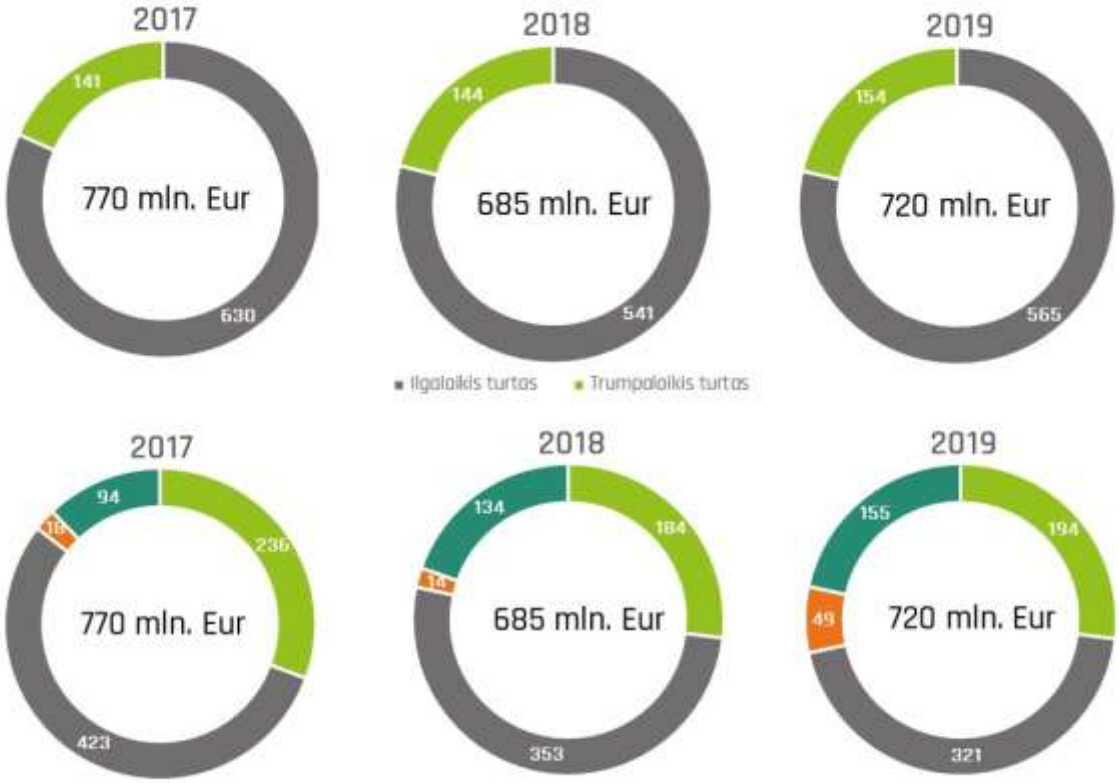
• Revenues from connection of new producers and replacement of equipment were lower by EUR 2.8 million compared to 2018.



In 2019, EPSO-G Group's net profit was EUR 11.4 million, i.e. lower by 20.6% compared to 2018, when EUR 14.4 million of normalized net earnings were earned.

Average normalized return on equity of the EPSO-G Group in 2016-2018 amounted to 11.3% during the period, i.e. was higher by 2.5% than 8.8% set for this period to the Group by the Government of the Republic of Lithuania. 2019- 2021 targeted return on equity for the EPSO-G group set by the Government of the Republic of Lithuania is 5.7%. In 2019, the EPSO-G Group exceeded this indicator by 0.3%.

Statement of financial position



On 31 December 2019, the Group's assets amounted to EUR 719.6 million, the non-current assets of the Group amounted to EUR 565.1 million and constituted 78.5% of all of the Group's assets. Fixed assets increased by 4.5% due to the launch of important and strategic projects for the state. The value of the Group's current assets at the end of 2019 amounted to EUR 154.5 million, compared to 2018, increased by 7.2%. This change was mainly influenced by the increase in the amount of deposited funds for guarantees and the deposit position.

In 2019, the Group's equity increased by 5.5% and at the end of the reporting period amounted to EUR 194.0 million. The equity at the end of the reporting period amounted to 27.0% of total assets of the Group.

At the end of 2018, the financial liabilities of the Group to the credit institutions amounted to EUR 321.1 million, including EUR 156.6 million of liabilities to Ignitis Group UAB for the acquisition of the shares of Litgrid). Compared to the end of 2018, the Group's financial liabilities decreased by 9% due to the temporary use of congestion management funds (EUR 27.3 million). Cash and cash equivalents amounted to EUR 13.5 million. Net debt-to-equity ratio constituted 158.6%.

At the end of 2019, other liabilities (excluding financial liabilities) increased by EUR 56.5 million. Long-term liabilities grew by EUR 35.5 million due to increased congestion management funds and the application of IFRS 16, and amounted to EUR 49.3 million; long-term liabilities increased by 15.6% up to EUR 155.1 million.

Investments

In 2019, the investments of Litgrid (works performed and assets acquired regardless of payment terms) amounted to EUR 45.9 million, 66% of them for the implementation of the strategic electricity projects that are important for the state and 34% for the reconstruction and development of the transmission grid and ensuring the company's operations.

Amber Grid investments in 2019 to reconstruction and modernization, compared to 2018, increased by 12.4% and amounted to EUR 18.0 million. The growth was due to the increased volumes of reconstruction of main gas pipelines in 2019.

4.4. Research and Development Activity

Innovation and continuing training

The goals of NEIS for the integration of renewable energy sources and the ongoing Baltic synchronization project with continental European networks, as well as regional gas market integration processes, invites EPSO-G group of companies to search for new innovative solutions for the reliable operation of the Lithuanian energy system at present and in the future. Research and studies, planning and implementation of innovation activities encourage the companies of the Group to increase the efficiency of their activities by applying new methods, tools and good practices.

In carrying out these activities, the group EPSO-G follows the Guidelines of Scientific Researches, Experimental Development and Innovative Activities (hereinafter - GSREDIA) in order to ensure continuity, effectiveness, competitiveness of the activities of the group of companies, creation of competitive conditions, significant contribution into implementation of the National Energy Independence Strategy, and creation of added value to the society through researches, innovations and new solutions.

The guidelines determine common concepts of scientific researches, experimental development, innovations and innovative activities applicable to the entire group EPSO-G, common performance directions and priorities of GSREDIA, classification principles and recommendations for operators of transmission system regarding funds attributable to the GSREDIA activities not covered by the regulated activities.

RAIDA 2050 and P2G analysis

The goal of the National Energy Independence Strategy is for Lithuania to become an energy-sustainable and independent state by 2050. In order to implement and enable this scenario, it is important for us today to understand possible scenarios for the development of the energy sector and what measures should be taken to reduce the energy sector's dependence on fossil fuels, market integration, digitalisation, urbanization and rapid development of renewable energy production.

In response, in 2019, EPSO-G launched the study "Scenarios for the Development of the Lithuanian Electricity System for 2020-2050" (hereinafter - the Study RAIDA 2050), in which, taking into account the strategic goals set by NEIS, planned tasks and results, the development scenarios of the Lithuanian electricity sector (hereinafter - LES) must be formed until 2050, the assessment of the adequacy of the electricity system (generating capacities, electricity market, electricity transmission network) was performed and technical, economic and legal measures for the efficient operation of the electricity system were presented.

One of the present technologies with the greatest potential to enable the accumulation of energy generated by high-capacity RES is the production of hydrogen (by electrolysis) or synthetic methane (produced by combining hydrogen with carbon dioxide) gas (Power to Gas, P2G). Hydrogen or methane produced by P2G equipment can be fed into existing natural gas infrastructure blended with conventional natural gas.

In order to assess the relevance and applicability of hydrogen gas and P2G technologies in Lithuania, in March 2019, Amber Grid initiated a project to analyse these issues. As electricity generation and consumption forecasts are required to assess the relevance of the technology, it was decided to combine the performance of the Study RAIDA 2050 and the objectives of the Amber Grid P2G project into a common innovation project for the EPSO-G group of companies.

The project RAIDA 2050 and P2G analysis is expected to be completed by the early 2021.

Pilot project "Installation of Battery Energy Storage System in Lithuanian Power System"

At the start of 2019, Litgrid initiated a two-year experimental pilot project "Installation of Battery Energy Storage System in Lithuanian Power System".

Its purpose is to properly prepare for the project of synchronization of the Baltic States with the Continental European Network (CEN), to test the possibilities of battery storage systems in real conditions of operation of the Lithuanian electricity system, to identify areas of installation and use of high-capacity battery storage systems in Lithuania, identify requirements for batteries that would provide different types of services.

During the project, 1 MW lithium-ion battery energy storage system (BESS) will be connected to the 10 kV switchyard of Vilnius transformer substation, which will contribute to the reliable operation of the Baltic electricity systems after the synchronization with CEN.

Pilot project "Drones for Fault Detection in Power Lines"

At the end of 2019, Litgrid initiated the project "Drones for Fault Detection in Power Lines.

In case of a single-phase or multi-phase short circuit to the ground (e.g. a fallen tree) occurs in 110/330/400 kV overhead lines (OL), after a lightning discharge or a bird striking an overhead line, the line, depending on the size and duration of the damage, is switched off for a short period (in the case of successful auto-restart) or is completely switched off by protective relay devices until the fault location and fault are detected. An overhead line engineer should proceed to the point of potential malfunctioning, as prompted by protective relay devices, and promptly find a solution to fix it. However, often calculated distance to the exact location of the incident has an error of up to 5 km. The use of the drone will help to pinpoint the exact location of the fault at least twice as fast. After testing and developing good practices, these solutions could be applied to other companies in EPSO-G group. If such a technical solution answers the purpose, the use of drones could be extended to other EPSO-G group of companies.

Pilot project "Intelligent NordBalt Cable Fault Location"

At the end of 2019, Litgrid initiated the project "Intelligent NordBalt Cable Fault Location". This is important, as the reliable operation of the connection with Sweden opens up the possibility of importing cheaper electricity from Scandinavia.

To ensure the reliability of the NorBalt link and to increase the availability of the cable, we will employ and test automated cable fault detection equipment that is currently not available in the link. The transient recorder HiRES Locator will help to locate a breakdown in real time. It locates the fault location of a cable up to 200 km by installing the equipment at only one end of the high-voltage direct current (HVDC) connector. The purpose of this experimental pilot project will be to test the operation of such equipment on the twice-longer (400 km) NordBalt connection cable.

REGATRACE

As of 1 June 2019, the Company administers the National for Guarantee of Origin for gas produced from renewable energy sources (RES), i.e. it performs the functions of issuing, transferring and cancelling guarantees of origin, supervision and control of the use of guarantees of origin and recognition of guarantees of origin issued in other states, in Lithuania. This system is beneficial for energy consumers seeking to use environmentally friendly fuel produced in Lithuania or other European Union state. In cooperation with the designated bodies of other countries and organizations of RES sector, the Company, since 1 June 2019, has been participating in the project REGATRACE (Renewable GAs TRAde Center in Europe), funded by the European Union's Horizon 2020 research and innovation program, to develop a European scheme for the operation of the registry for guarantees of origin for biomethane and other renewable gases and to promote the development of green gas production and market.

SecureGas

From June 2019, the Company has started implementing SecureGas research and development project together with its international partners. The project aims at safeguarding the security and resilience to cyber and physical threats to the EU gas network. The project is funded by the European Union's Horizon 2020 research and innovation program.

The goal of the project, taking into account the requirements set by the European Energy Security Strategy, the European Program of Critical Infrastructure Protection, the EU Regulation 2017/1938 concerning measures to safeguard security of gas supply, is "to develop methodologies, tools and guidelines to protect existing and future gas transmission infrastructure facilities and make them cyber and physical threat resistant".

Gas market harmonization

As the Company proceeds with the implementation of the GIPL project, it also cooperates with the Polish partners: Amber Grid - with the Polish gas transmission system operator Gaz-System, while the gas exchange operator GET Baltic (the subsidiary of Amber Grid) - with the Polish power exchange TGE (Towarowa Giełda Energii SA). A study is planned to conduct to increase the commercial opportunities and market value of GIPL and, based on its findings, in cooperation between operators, regulators and governments of both countries, to decide on further steps towards market harmonization.

Adequacy study

At the request of EPSO-G, in 2019, scientists of Kaunas University of Technology (KUT), Department of Electrical Power Systems finalized the adequacy assessment of the Lithuanian electricity system in 2019-2025 and 2025-2030 periods.

For the first time, during probabilistic assessment the probability of load loss for 2019–2030 and price were estimated, the volumes of the need for reliably accessible local capacities needed to ensure the adequacy of Lithuanian electricity system were measured, the assessment of uncertainties and their influence on the model results were performed and suggestions for volume of the need for reliably accessible local capacities were proposed.

The findings of the scientists' assessment suggest that from 2024 onwards, due to the tightening environmental requirements and the aging generation, the challenge of deficit of the power adequacy could become particularly relevant. This means that one of the most important future work will be to manage the imbalance that is emerging between the country's growing electricity consumption and the decline of uninterruptedly accessible, flexible and rapidly activated electricity generation capacity. In addition, following 2025, the streamlined operation of the Baltic electricity system and reliable electricity supply will have to be ensured, after the start of the synchronous operation with continental Europe electricity grids.

The results of the study showed that in order to maintain reliable operation of the electricity system and security of electricity supply, it must be ensured that apart from the currently operating capacities, new sources of reliable local electricity production will have to be created in Lithuania by 2025.

The implementation of the power mechanism is particularly important for the implementation of the goals set in the National Energy Independence Strategy, related to the development of electricity generation from renewable energy sources, the increase of local electricity production in the country, and the streamlined implementation of the Lithuanian electricity system synchronization with continental European energy system.

The completed study will contribute to the implementation of development stages of the state's power capacities set by the National Energy Independence Strategies.

4.5. Competence and Membership in Organizations

EPSO-G and the transmission system operators participated in the activities of the national and various international organisations and associations, such as the European Association of Transmission System Operators for Electricity ENTSO-E and the European Association of Transmission System Operators for Gas ENTSO-G, Central Europe Energy Partners Association (CEEP), transmission system operators and the Association of Other Electricity Companies "Best Grid".

- Rolandas Zukas, Director General of the holding company EPSO-G is elected as Chairman (President) of the Council of the National Lithuanian Energy Association for a two-year term of office. The term ends in February 2020.
- Rolandas Zukas, Director General of EPSO-G is elected as member of the Board of the CEEP Association.

- In 2019, Litgrid's Director General Daivis Virbickas was appointed a member of the Board of the ENTSO-E, the organization uniting European transmission system operators. The Board consists of eleven members and a chairman, appointed for a term of two years.

Memberships of the companies of EPSO-G group:

Organisation	Representing company	Link	Description of organisation
Central Europe Energy Partners (CEEP)	EPSO-G	www.ceep.be	The association bringing together the companies of energy and energy-intensive sectors of the Central Europe.
National Lithuanian Electricity Association (NLEA)	EPSO-G Amber Grid Litgrid	www.nlea.lt	The association bringing together Lithuanian companies operating in the electricity and natural gas sectors, as well as scientific establishments.
ENTSO-E	Litgrid	www.entsoe.eu	The organisation that brings together European electricity transmission system operators.
ENTSO-G	Amber Grid	www.entsog.eu	The organisation that brings together European natural gas transmission system operators.
International Gas Union (IGU)	Amber Grid	www.igu.org	A non-profit organization seeking to promote international trade in gas, the application of advanced technologies, and the establishment of transparent market practices.
European Renewable Gas Registry	Amber Grid	www.ergar.org	An organization with the objective to develop trade in guarantees of origin for gas produced from renewable energy sources among countries.
Polish-Lithuanian Chamber of Commerce	Amber Grid	www.plcc.lt	The association seeking to improve economic cooperation between Lithuania and Poland.
Project Management Association	EPSO-G	www.ipma.lt	The association bringing together project management professionals.

4.6 Transactions with Associated Parties

In 2019, EPSO-G followed the Policy of Transactions with Associated Parties. It establishes supervision and disclosure procedures of the transactions carried out by the companies of the group EPSO-G with the associated parties that allow assessing properly the conflicts of interests related to such transactions and minimizing possible negative consequences of such transactions to the companies, minority shareholders and unrelated persons. This document is published on the EPSO-G website, in the column "Operating Policies".

Information on the transactions of the related parties is disclosed in the annual financial reports in the note 28.

4. RISK MANAGEMENT AND AUDIT

EPSO-G consistently holds the view that in the course of the implementation of the operating strategy proper risk management is a prerequisite for increasing the efficiency of subsidiaries, quality of management, safe environment for the employees and in creating the trust of the stakeholders in the group of companies.

Three Lines of Defence of EPSO-G:

The first line of defence includes the leaders and employees of EPSO-G who identify and manage operational risk in the daily activities.

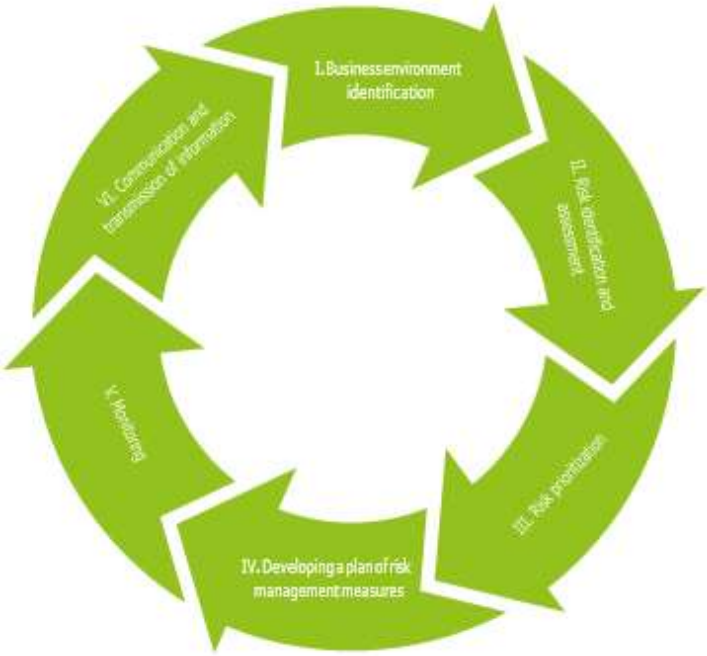
The second line of defence consists of the centralized functions of EPSO-G with the responsibility of envisaging risk:

- The function of financial control includes the responsibility for the continuous control of the financial results of the Group;
- The function of risk management includes the responsibility for the creating and coordinating of the risk management system of the Group. This function summarizes the main risk areas of all companies of the Group and coordinates the implementation of their actions of management.
- The data protection function includes the ongoing monitoring of the functioning of personal data protection measures.

The third line of defence includes the responsibility for the independent assessment of risk management. The Centralized Internal Audit Unit assesses whether the first two lines of defence adequately perform their functions in the risk management process. In accordance with the laws, the annual financial reports of EPSO-G companies are audited by the independent companies of external audit. The companies of external audit are elected by the General Meetings of Shareholders of the companies of the Group.

5.1 Risk Management System

EPSO-G understands risk management as a structured approach to uncertainties management by methodologically evaluating risk effect and probability, and by applying the proper measures of management.



In 2019, the EPSO-G Group followed the Group's Risk Management Policy and Risk Management Methodology. They imbedded a uniform risk management system that is based on common principles and meeting good practice according to COSO ERM (Committee of Sponsoring Organisations of the Treadway Commission Enterprise Risk Management) methodology and standards applicable in the international practice.

All the companies of the Group have joined the Risk Management Policy of EPSO-G and, by using the Risk Management Methodology of the Group, have identified the risks relevant to them as well as made plans for managing these risks.

In January 2019, the process of the monitoring of risk management was reviewed and its amendments approved with respect to the changes in the corporate governance structure that took place in 2018.

In addition, EPSO-G Board also approved the list group-level risks after assessing the risks identified and managed in the Group companies and their level (impact on the Company's operations as well as on the EPSO-G Group as a whole).

Each quarter of 2019, the Audit Committee of EPSO-G had assessed the changes in the key risk indicators of each Group company, the effectiveness of risk management and presented its conclusions and recommendations to the boards of the companies. The EPSO-G Board monitored the way group-level risks are managed, i.e. risks that might have the greatest impact on companies and the group as a whole.

After the risk assessment has been carried out, the companies of EPSO-G group have found out that they encounter the following main risks in their activities:

Risk of non-compliance with legal requirements and regulatory risk

The prices of electricity and natural gas transmission and related services are regulated, the price ceilings are set by the NERC. The performance results of the companies of EPSO-G group and the funds granted by the companies for the necessary operating costs, investment to maintain the reliability of the transmission grid as well as the opportunities to finance strategic projects using own or borrowed funds directly depend on these decisions.

In June 2019, NERC approved the new wording of the Rules on Sanctions and the Description of the Procedure for Inspections of Regulated Activities of Energy Companies. These legal acts do not provide for significant regulatory changes affecting the companies of the Group.

For clear regulation and in order to reduce the negative impact on their performance, the companies actively cooperated with the NERC, participated in the deliberations of the legislative amendments being prepared by raising as an argument in respect of their proposals an effect of their prospective decisions and an importance of long-term, strategic objectives of the companies.

Information security (cyber security) risk

EPSO-G and its subsidiaries Litgrid and Amber Grid are companies crucial for the national security. They manage facilities and assets important for national security as well. The information and data managed by the group of companies are of strategic importance for the national security of Lithuania, therefore, loss of such information and/or data, illegal change or disclosure, damage thereof, or termination of the data flow which is necessary for a secure

operation of transmission systems may cause disturbances of the activities of the companies of EPSO-G group, cause damage to other natural persons and legal entities.

The Government of the Republic of Lithuania, in accordance with Paragraph 2 of Article 15 of the Law on the Protection of Objects of Importance to Ensuring National Security and the Description of the Procedure for Requirements for the Security Plan of an Enterprise of Importance to Ensuring National Security, in the 2nd half of 2019, approved the security plans of EPSO-G and its companies Litgrid and Amber Grid. They set out the following:

- physical security measures of facilities and assets for national security,
- cyber security measures set out in the Law on Cyber Security and its legislation,
- personnel security measures to protect the Company's personnel from illegal actions of persons aimed at impacting on the Company's personnel by restricting or eliminating the opportunities to perform their functions, information confidentiality measures.

Cyber incident prevention:

- In order to avoid cyber incidents, information systems of the companies of EPSO-G group, their physical protection, security management systems were assessed on a regular basis in 2019, also the existing security measures, systems and/or tools are continuously updated, and the new ones that meet the strict requirements stipulated in the legal acts of the European Union and the Republic of Lithuania governing information security are installed.
- The staff members of the companies of EPSO-G group also actively participate in the cyber security simulation training, during which they are trained to control and counteract cyber-incidents against critical information systems and grids, and to ensure functioning of the services they render.

Technological risk

One of the most important functions and responsibilities of the companies of EPSO-G group is to ensure secure, reliable and efficient operation of natural gas and electricity transmission systems.

Due to this, Litgrid and Amber Grid are introducing and improving specialized information systems, modern business management systems, updating on a continuous basis accident and technological disruption and emergency management, business continuity plans, and posing high requirements for the contractors.

In order to avoid disturbances of transmission systems operation, the specialists of Litgrid and Amber Grid:

- carried out a continuous supervision of the systems,
- respectively drew up the maintenance plans,
- planned in a timely manner the necessary new investment in the network.

Business Transparency Risk

EPSO-G Group implements the projects of the regional and national significance. These are major investment projects. Their success depends on the awareness, trust and support of the shareholders, partners, controlling and regulating institutions and the people of Lithuania. Accordingly, much attention is paid by EPSO-G in its activities to the supervision of public procurement procedures and the prevention of corruption.

In 2019, the Public Procurement Office (PPO) compared the data provided in the contract publication subsystem and in the annual / procurement procedures / CPO LT reports. According to the second report published by PPO, EPSO-G and all the companies in the Group duly complied with the 100% duty of publishing contracts of mandatory publicity.

In order to ensure transparency of activities, from 1 January 2019 all employees of the holding company EPSO-G and its subsidiaries involved in public procurement declared their private interests publicly.

In September / October 2019, PPO performed an inspection of the procurement of construction works for the Polish-Lithuanian gas pipeline GIPL by Amber Grid and provided conclusions on the identified deficiencies. In response, EPSO-G took steps to remedy the deficiencies identified and to reduce the risk of delays in the ongoing strategic project by renewing Amber Grid GIPL Construction Procurement Commission by delegating additional EPSO-G representatives

and inviting representatives of the Central Project Management Agency as observers. Amber Grid signed a construction contract with GIPL in December, after eliminating the violations of public procurement legislation identified by PPO.

In support of the initiative of the Ministry of Energy, the holding company EPSO-G appealed to the members of the Board of subsidiaries to voluntarily submit public declarations on their private interests, although such obligations are not imposed by the laws of the Republic of Lithuania. The absolute majority of the declarations of private interests of the members of the boards of EPSO-G subsidiaries are made public on the companies' websites.

During the reporting period, the companies of EPSO-G group purposefully focused on the intolerance of corruption, family members, relatives, friends, or any other forms of trade in influence, and consistent and systematic implementation of the prevention of conflicts of interest between the company and private interests. The companies of the Group encourage the employees and other interest holders to report directly or anonymously possible violations, unethical or unfair behaviour by trust line at pranesk@epsog.lt without being afraid of any negative consequences or directly to the address of the Special Investigation Service of the Republic of Lithuania.

Risk of non-compliance with occupational safety requirements

Litgrid, Amber Grid and TETAS, holded by EPSO-G, pay close attention to occupational safety. TETAS has prepared Occupational Risk Assessment Work Plan. Workplaces, work equipment, technological processes with the highest level of occupational safety risk have been identified. Occupational safety days are organized in departments. Cooperation with customers as occupational safety partners is also taking place, i.e. ESO AB and Litgrid cooperate in pursuance of effective occupational safety control and a higher occupational safety culture. Amber Grid places great emphasis on preventive occupational safety inspections.

Risk of lack of relevant qualification of employees, staff turnover and motivation

The companies managed by EPSO-G are facing the emerging labour market challenges, while the competition for highly qualified professionals, who can contribute to the implementation of projects of strategic importance to the Lithuanian state, is intensifying. During the reporting period, critical job rotation plans were improved, cooperation with universities was established in order to train highly qualified specialists needed by the companies.

During the reporting period, the companies of the Group purposefully adhered to the provision not to tolerate corruption, nepotism or protecting friends or any other forms of impact trade, to implement in a consistent and systemic manner prevention of corporate and private conflicts of interests. The companies of the Group encourage the employees and other stakeholders to report directly or anonymously without fear for negative consequences about the possible infringements, unethical or unfair behaviour via trust line pranesk@epsog.lt

In 2019, a study on tolerance of employee corruption was carried out in all EPSO-G group of companies. 335 employees of the group of companies were surveyed and answered the questions of the corruption tolerance study.

The results of the survey will be analysed and presented in the companies in 2020 ongoing anti-corruption training.

The survey is planned to be repeated every year. Based on the obtained results, anti-corruption training topics will be planned.

5.2. Information about the Internal Audit

The internal audit mission of EPSO-G is to create added value for all the companies of the Group and to contribute to the achievement of their operational objectives, by systematically and comprehensively assessing and helping to improve the effectiveness of management, risk management and control processes. These functions are implemented through an independent and objective assurance and advisory activity.

In order to ensure transparency and efficiency of operations, a centralized Internal Audit Unit operates in the group of companies EPSO-G. The unit carries out on the group scale the functions assigned and is directly accountable to the Board of EPSO-G the majority of whom are the independent members.

The auditors of EPSO-G are not subordinate to the administration of the company audited. This creates better preconditions for identifying possible deficiencies in order to eliminate them and to highlight the areas for increasing efficiency.

The staff members of the unit carry out internal audits and monitor on a regular basis how the recommendations are implemented, as well how the other deficiencies related to the internal control, which have been identified by the external auditors, regulatory authority and the public control institutions, are corrected.

The activities of the centralized Internal Audit Unit in 2019 covered the following areas that were selected based on the performed assessment of risks and by identifying the priority companies/processes to be inspected:

- Assessment of control of acquisitions (public procurements);
- Assessment of vehicle use control;
- Assessment of control over the granting and payment of easements;
- Assessment of reliability of the performance of all companies in the EPSO-G Group;
- Assessment of compliance with the requirements of the General Data Protection Regulation;
- Assessment of compliance of information security with security standards and the actual functioning of information security tools;
- Assessment of revenues from gas transmission services and costs control;
- Assessment of the control and grounding of business trips expenses;
- Survey of company managers on the evaluation of the functioning of the elements of the internal control system.

A lot of attention was also paid to monitoring the implementation of internal audit recommendations by companies and to assessing the impact of implemented actions.

Conclusions of the internal audit were submitted to the management and Board of the audited companies, as well as to the Board and Audit Committee of EPSO-G.

5.3. Information about the External Audit

In 2019, at the Extraordinary General Meetings of Shareholders of Litgrid and Amber Grid, it was decided to elect Deloitte Lietuva UAB as an audit firm of the companies and the remuneration for the audit services of financial and related statements was set. Deloitte Lietuva UAB will provide these services to all companies of EPSO-G group.

Information on the external audit companies of the companies of EPSO-G group:

Company	The firm that has carried out an audit of the financial statements in 2019	Fixed remuneration for the audit firm for the audit of the financial statements for 2019*, EUR (VAT excluded)	The firm that has carried out an audit of the financial statements in 2018
EPSO-G	DELOITTE LIETUVA UAB	14 170	DELOITTE LIETUVA UAB
LITGRID AB		39 240	
Amber Grid		35 970	
Baltpool		8 393	
TETAS		7 630	
Litgrid Power Link Service		-	
Get Baltic		4 360	

*Conditions set by the General Meetings of Shareholders of companies.

1) On 19 December 2019, Litgrid Power Link Service UAB was liquidated and removed from the Register of Legal Entities. Audit was not performed.

In 2019, DELOITTE LIETUVA UAB provided non-audit services to EPSO-G group of companies for EUR 4,950 - training of the Group's employees on the topics of international financial reporting standards. The services were procured in accordance with the EPSO-G Group's policy on procuring non-audit services from the audit firm or any network to which the audit firm belongs.

6. SHAREHOLDERS AND DIVIDENDS

6.1. Shareholders

The Republic of Lithuania is the sole shareholder of EPSO-G (100% of the shares). The property and non-property rights of the shareholder, in accordance with Clause 2.3 of Resolution No 826 of the Government of the Republic of Lithuania of 4 July 2012 "Regarding the establishment of the Private Limited Company and investment of the state's property", are implemented by the Ministry of Energy of the Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania.

No changes occurred in the structure of the shareholders of EPSO-G in 2019. The authorized capital of the company did not change.

On 31 December 2019, the authorized capital of EPSO-G Company was EUR 22 482 695, and divided into 77 526 533 ordinary registered uncertificated shares of a nominal value of EUR 0.29 each. All shares are fully paid and provide the shareholders with equal rights.

Shareholder of the company	Number of shares	The nominal value per share, EUR	Authorized capital, EUR	Shareholding, %
Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania	77 526 533	EUR 0,29	22 482 695	100

Restrictions on the transfer of securities other than those stipulated in the legal acts are not applied for the shares of EPSO-G.

Neither EPSO-G nor the companies of the Group have issued the Convertible Securities.

EPSO-G has not acquired own shares. EPSO-G has neither acquired nor transferred own shares during the reporting period. The subsidiaries of the company have not acquired the shares of the Company either.

The shareholder of EPSO-G does not have special rights of control other than those stipulated by the legal acts of the Republic of Lithuania.

The shares of Litgrid and Amber Grid, the companies managed by EPSO-G, are traded on the Nasdaq Vilnius Stock Exchange:

Company	ISIN code	Securities abbreviation	Trading list	Securities manager
LITGRID AB	LT0000128415	LGD1L	BALTIC SECONDARY LIST	AB SEB bank
AB Amber Grid	LT0000128696	AMG1L	BALTIC SECONDARY LIST	AB SEB bank

The securities of the other companies managed by EPSO-G are not traded on the stock exchange.

6.2. Dividends

In 2019, the management company EPSO-G allocated and paid to the state budget EUR 750 thousand of dividends for the operating results (in 2018, EUR 682 thousand dividends were allocated for the results of 2017).

On the basis of the decision of the Government of the Republic of Lithuania EPSO-G must pay until 2022 directly to the state budget the dividends amounting to 0.5% of the distributed profit. Such the decision has been made after having considered the necessity to allocate sufficient funds for the purpose of fulfilling the financial liability of EUR 210 million to the state-owned company "Lietuvos energija" for the shares of the subsidiary Litgrid.

A balanced structure of capital plays a very important role in the course of the preparation for the works of synchronization and the regional integration of the natural gas markets that are of great importance for Lithuania. Therefore, EPSO-G has set a target for itself to fulfil this obligation within the shortest possible period of time.

6.3. Dividend Policy

On 14 July 2017, the Board of EPSO-G approved the Dividend Policy that governs the policy of determining the dividend amount, pay-out of and publication about dividends for all companies that form the group.

The most important purpose of the EPSO-G policy is to establish clear guidelines of expected return on equity and return on investment for the existing and potential shareholders while at the same time ensuring a sustainable long-lasting growth of corporate value, timely implementation of strategic projects that are of great importance for the country, thereby gradually strengthening confidence in the entire energy transmission and exchange group of companies.

The Dividend Policy of EPSO-G has directly linked the amount of dividends to be paid with efficiency of use of the company's equity – as bigger benefit is created by the company for the shareholder as bigger share of profit it may allocate for the further development and implementation of other important projects.

At the end of the reporting period, on 7 February 2020, the EPSO-G Board updated the Group's dividend policy. The amendments are related to the changes in the corporate governance structure, i. e. the liquidation of the supervisory board, as well as changes in the legislation governing the payment of dividends. Other key policy provisions have remained unchanged.

The Dividend Policy is published on the EPSO-G website in the column "Operating Policy" https://www.epsog.lt/lt/apie-mus/veiklos-politikos/dividendai.

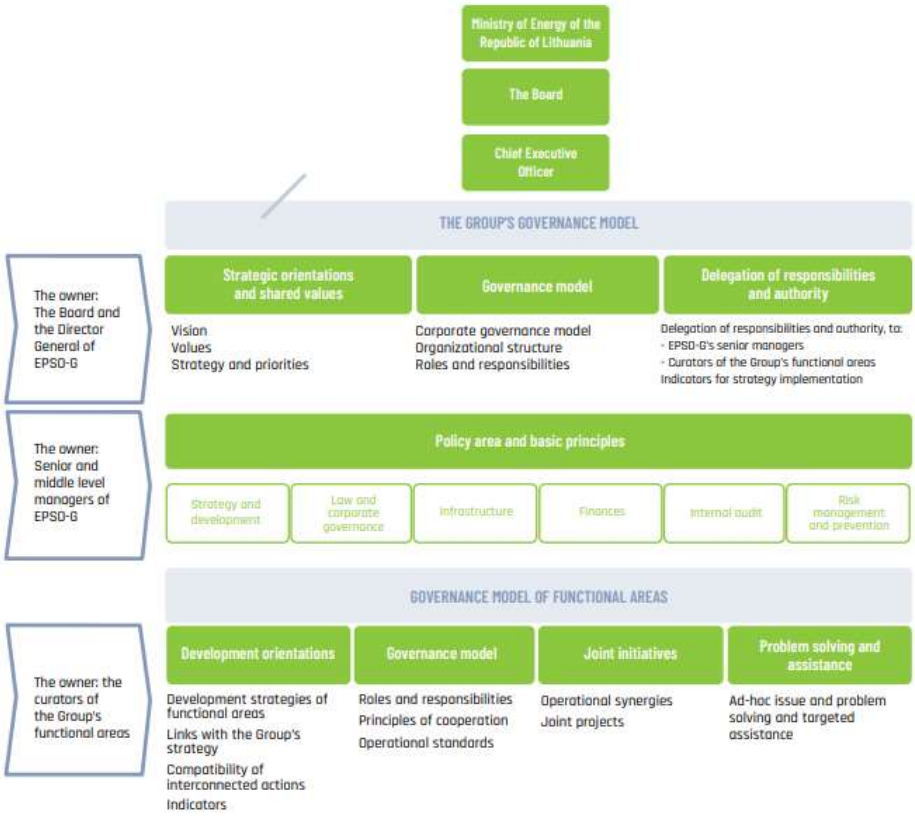
6.4. Ratings

The international credit rating agencies have not issued the companies of EPSO-G group with credit ratings.

7. GOVERNANCE REPORT

In 2019, corporate governance of the holding company EPSO-G was carried out in accordance with the Corporate Governance Guidelines of the group of state-owned companies of energy sector approved on 7 September 2015 by the Minister of Energy of the Republic of Lithuania and updated on 24 April 2018 by the decision of the sole shareholder. They establish the common corporate governance principles, which are applicable to the entire EPSO-G group of companies, the management organizing model, the structure of management, the systems of accountability and performance supervision and control.

The governance system of EPSO-G:



EPSO-G adheres to the following important corporate governance principles:

- Operational transparency;
- Separation of state ownership and regulatory functions;
- Certainty and sustainability of objectives;
- Proper realization of the shareholders' rights;
- Compliance with the legislative requirements and best practice standards;
- Operational efficiency, sustainability and competitiveness;
- Responsibility and accountability of the management and supervisory bodies to the shareholders.

EPSO-G relies on the good governance practices outlined in the recommendations of good governance published by the Organization for Economic Cooperation and Development (OECD), the recommendations of the United Nations and NASDAQ Baltic stock exchange, other internationally recognized standards and the recommendations of good governance, the main objective of which is to ensure that the state-owned companies are managed in efficient and transparent manner.

In an effort to purposefully build trust in ongoing strategic projects and extremely focus on transparency and accountability, the governance quality of EPSO-G group of companies has been rated A+. This was evidenced by the Good Governance Index of State-Owned Enterprises (SOE) published on 25 September 2018, which is calculated by the Monitoring and Programming Agency (MPA). MPA's Good Governance Index is the most comprehensive tool for evaluating the quality of management of all SOEs. The index consists of three main assessment dimensions: transparency, collegial bodies and strategic planning and implementation.

In terms of the transparency dimension, EPSO-G received the highest A + rating, by identifying areas for improvement in future sustainability practices.

The highest possible rating A + was also awarded for the work of collegial bodies, the process of selection of their members, competence and involvement.

EPSO-G's strategic planning, implementation and maintenance were rated with the highest A + score, however, the overall assessment of the third dimension A- was affected by the impairment of assets accounted for by the regulator's decisions and by the high level of EPSO-G borrowings due to the financial obligation to pay Ignitis for Litgrid's shares.

In preparation of the 2020 operational plan, the holding company EPSO-G will continue to improve governance by consistently implementing MPA recommendations.

7.1 The Articles of Association of EPSO-G

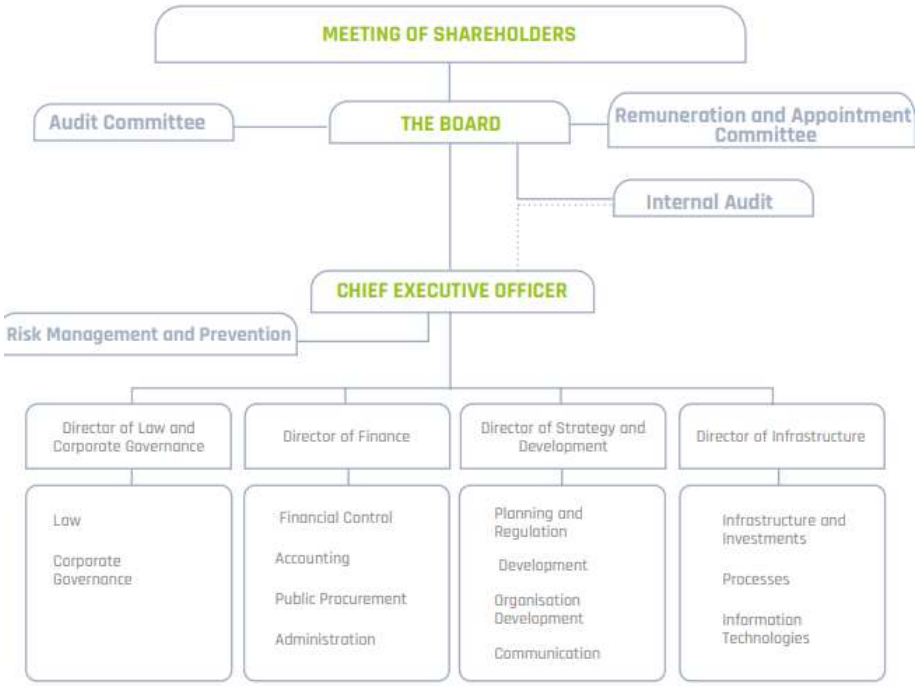
In 2019, the Articles of Association did not change – as of 31 December 2019, the updated version of the Articles of Association of the holding company EPSO-G was registered on 1 August 2018 with the Register of Legal Entities was in force; it increased the Board's responsibility by assigning a supervisory function to it. The current corporate governance model ensures the effectiveness of the EPSO-G group's organizational and management structure and meets the highest standards of governance.

Please get acquainted with the Articles of Association of EPSO-G at www.epsog.lt, in the column of *Corporate Governance*.

The Articles of Association of EPSO-G can be changed by the decision of the General Meeting of Shareholders adopted by at least 2/3 of all votes attached to the shares of the shareholders participating in the General Meeting of Shareholders, with the exception of statutory exceptions.

7.2 Supervisory and Management Structure of EPSO-G

The organisational structure of EPSO-G ensures an optimal organization of activities, accountability, process efficiency and responsibility:



The EPSO-G group's corporate governance documentation system consists of the following:

- Corporate governance guidelines
- The Statutes of EPSO-G
- Corporate Governance Policy
- EPSO-G Board Work Regulations
- Terms of Reference for the EPSO-G Audit Committee
- Regulations of the Remuneration and Appointment Committee
- Approved corporate governance documents of the Group companies
- Documents of the Group companies approved on the basis of corporate governance documents.

All the above documents are available at the website of the holding company EPSO-G www.epsog.lt.

7.3. General Meeting of Shareholders of EPSO-G

The rights and obligations of the sole shareholder of EPSO-G Group are implemented by the Ministry of Energy of the Republic of Lithuania.

The sole shareholder of EPSO-G:

- Adopts decisions on strategic issues of operational activities;
- Approves the most important operational guidelines (guidelines for corporate governance, guidelines for collegiate body remuneration, etc.).

In 2019, EPSO-G's sole shareholder took the following decisions:

Date	Key decisions
19 February 2019	With regard to the fact that Raimondas Rapkevičius, a member of the Audit Committee, had been recognized as having lost his independence due to his other current duties, the shareholder recalled Raimondas Rapkevičius, a member of the EPSO-G Audit Committee, and appointed Gediminas Almantas, as an independent member of the Audit Committee. Approved the amendment to the remuneration guidelines for the collegial management bodies of the Group companies.
20 March 2019	With regard to the changes in corporate governance (the supervisory role previously assigned to the Supervisory Board was transferred to the Board), recalled the EPSO-G Board and two independent members, Gediminas Almantas and Robertas Vyšniauskas, and two members nominated by the Ministry of Energy, Dainius Bražiūnas ir Gediminas Karalius were elected for a new term.
15 April 2019	Following the appointment of Robertas Vyšniauskas, who has professional experience in risk management, financial reporting and taxation, and the appointment of Gediminas Almantas to the Remuneration and Appointment Committee, Gediminas Almantas, an independent member of the EPSO-G Audit Committee, was recalled and the independent member of the Board Robertas Vyšniauskas was appointed to the Audit Committee.
30 April 2019	Approved the set of 2018 EPSO-G consolidated and company financial statements. Approved the decision on profit distribution.
19 June 2019	An audit company Deloitte Lietuva UAB was selected to perform 2019 EPSO-G audit of the consolidated and company's financial statements and consolidated annual report.
11 November 2019	Approved the new Guidelines for Remuneration for Activities in the Bodies of the Companies of EPSO-G UAB and EPSO-G UAB group of companies and, in accordance with the approved new version of the document, as from 1 December 2019 set new

	remuneration for the members of the Board and the Audit Committee, approved the budgets for 2020 and the standard operating conditions of a member of the Board and the Audit Committee. Tomas Tumėnas, an independent member of the Board, was also elected to the Board until the end of the term of office of the current Board.
28 November 2019	Approved the decision of the EPSO-G Board, by which the EPSO-G Board decided to approve the conclusion of the TETAS share purchase agreement and approved the substantial terms of 100% share purchase agreement of TETAS.
18 December 2019	Approved the new wording of the Articles of Association of Amber Grid and the new wording of the Articles of Association of Baltpool proposed by the Board of the Company; decided to change the address of EPSO-G's registered office from A. Juozapavičiaus St. 13, Vilnius to Gedimino Ave. 20, Vilnius. EPSO-G registered office was registered in the Register of Legal Entities on 30 December 2019 and corresponds to the actual place of business of EPSO-G.

7.4. The Board of EPSO-G

According to the current version of the Articles of Association of EPSO-G, the Board consists of 5 (five) members appointed by the sole shareholder of EPSO-G for a term of 4 (four) years with regard to the recommendations of the Remuneration and Appointment Committee.

The continuous term of office of a member of the Board shall not exceed 2 (two) consecutive terms, i.e. no more than 8 (eight) consecutive years. Members of the Board are elected in accordance with the selection description of a list of candidates to the board of the state enterprise or municipal company and the candidates to the board of the state or municipal company for the selection of a collegial supervisory or management body elected by the General Meeting of Shareholders, approved by Resolution No 631 dated 17 June 2015 of the Government of the Republic of Lithuania.

With regard to the changes in the governance model in 2018 and the fact that the EPSO-G's Board members are appointed by the sole shareholder, while the independent members of the Board operating during the reporting period were appointed by the Supervisory Board that has suspended its activities, it has been decided to reform the Board of EPSO-G.

As a result, the Ministry of Energy announced and started the selection of independent board members. On 20 March 2019, Dainius Bražiūnas, the Head of the Energy Security Group of the Ministry of Energy, Gediminas Karalius, the Adviser to the Strategic Change Management Group of the Ministry of Energy, and independent members of the Board: Gediminas Almantas, the member of the Board of SE Oro Navigacija, and Robertas Vyšniauskas, the consultant on corporate governance, law and taxation, were elected as members of the EPSO-G Board for the new term. Following the selection of the third independent member of the Board, on 11 November 2019, by the decision of the sole shareholder of EPSO-G, the fifth member of the EPSO-G Management Board, Tomas Tumėnas, the CFO and the member of the Board of Linas Agro Group AB, was elected.

On 29 March 2019, the members of the EPSO-G Board elected Gediminas Almantas as a Chairman of the Board.

The Board of EPSO-G:

- Forms a common corporate governance policy of the group of companies;
- Is responsible for the organizational and systematic development and management of the Group within the scope of its competence;
- Carries out the monitoring of the implementation of the activities of the Group's companies, their strategies, performance targets and plans, the documents approved by the Board and other decisions in the Group's companies;

- Carries out the supervision and control of the management of the strategic projects carried out by the Group's companies that are included in the national energy strategy, the projects of the particular national interest, the economic projects that are of great importance for the state.
- Performs supervisory functions as provided for in the Law on Companies of the Republic of Lithuania.

During the reporting period, 23 Board meetings were held. Ten decisions were taken by written vote. During the reporting year, there were also held two strategic sessions of the Board.

The composition of the Board of EPSO-G and its changes during the reporting period:

Full name	Position held	Term of office	Other positions	Education
Gediminas Almantas	Independent member Chairperson	From 10 November 2016 to 19 March 2019 and from 20 March 2019	Member of the Board of SE Oro Navigacija, Chairman of the Audit Committee	Master's degree in Law from Vilnius University and the University of Bern, PhD candidate of Negotiation, Business Ethics at Copenhagen Business School.
Robertas Vyšniauskas	Independent member	From 20 March 2019	Consultant on corporate governance, law and taxation	Mykolas Romeris University, Master of Laws.
Dainius Bražiūnas	Member	From 21 September 2018 to 19 March 2019 and from 20 March 2019	Ministry of Energy of the Republic of Lithuania, Head of the Energy Security Group; the member of the Board of Klaipėdos nafta AB	Vilnius Gediminas Technical University, Bachelor of Energy Sciences.
Gediminas Karalius	Member	From 21 September 2018 to 19 March 2019 and from 20 March 2019	Ministry of Energy of the Republic of Lithuania Advisor on electricity issues	Mykolas Romeris University, Master of EU Law; ISM University of Management and Economics, Master of Science in Management and Business Administration.
Tomas Tumėnas	Independent member	From 11 November 2019	CFO and the member of the Board of Linas Agro Group AB	Vilnius University, Master of Science in Financial Management; Aalborg University, Economics of International Business; Manchester Business School, Master of Science in Financial Management
Rytis Ambrazevičius	Independent member Chairperson	From 10 November 2016 to 19 March 2019	Association "Baltic Institute of Corporate Governance"	
Valdas Vitkauskas	Independent member	From 10 November 2016 to 13 March 2019	European Bank for Reconstruction and Development	

Attendance and key decisions of the Board meetings in 2019:

● Present
○ Absent

No	Meeting date	Gediminas Almantas	Dainius Bražiūnas	Gediminas Karalius	Robertas Vyšniauskas	Tomas Tumėnas	Rytis Ambrazevičius	Valdas Vitkauskas
1.	January 15	●	●	●	-	-	●	●
2.	January 25	●	●	●	-	-	●	●
3.	February 15	●	●	○	-	-	●	●
4.	March 8	●	●	●	-	-	●	●
5.	March 12	●	●	●	-	-	●	●
6.	March 29	●	●	●	●	-	-	-
7.	April 12	●	●	●	●	-	-	-
8.	April 19	●	●	●	●	-	-	-
9.	April 26	●	●	●	●	-	-	-
10.	May 10	●	●	●	●	-	-	-
11.	May 17	●	●	●	●	-	-	-
12.	June 10	●	●	●	●	-	-	-
13.	June 28	●	●	●	●	-	-	-
14.	July 12	●	●	●	●	-	-	-
15.	July 26	●	●	●	●	-	-	-
16.	August 27	●	●	●	●	-	-	-
17.	September 27	●	●	●	●	-	-	-
18.	October 25	●	●	●	●	-	-	-
19.	November 6	●	●	●	●	-	-	-
20.	November 18	●	●	●	●	●	-	-
21.	November 29	●	●	○	●	●	-	-
22.	December 13	●	●	●	●	●	-	-
23.	December 13	●	●	●	●	●	-	-

2019 key decisions of the Board:

January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
15 January 2017-2025 strategy was approved. 25 January Interest management and risk management policies were updated, the selection policy was approved and the 2018 performance assessment report of the Director General and implementation of the Company's objectives were approved.	15 February 2019 objectives of the Director General, the substantial conditions for Amber Grid and Tetas lending and borrowing using the Group's cashpooling were approved; internal audit activity plan for 2018-2020 was updated.	8 March Voting at the extraordinary general meeting of shareholders of Litgrid was discussed; the remuneration of the members of the Remuneration and Appointment Committee was updated. 12 March The fixed part of the Director General remuneration was reviewed. 29 March	12 April Current debt obligations were discussed. 19 April Voting at general meetings of shareholders of subsidiaries was discussed. 26 April EPSO-G and consolidated annual report, set of financial statements, profit distribution projects were approved; the general meeting of shareholders was initiated.	10 May The report on the implementation of the Group's strategy for 2018 was approved. 17 May The conclusion of the overdraft agreement was approved, voting at the extraordinary general meeting of shareholders of Tetas was discussed, the activity plan of the Remuneration and Appointment Committee was approved, the amount of the variable part of	10 June It was decided to propose to the sole shareholder to make a decision on the 2019 appointment of an audit firm, decisions were taken on the EPSO-G management consultation model. 28 June Requirements related to the increase of energy efficiency were discussed.

		The Chairman of the Board was elected, the Remuneration and Appointment Committee was re-formed, and the Group-level risk list was approved.		the remuneration was discussed.	

July 2019	August 2019	September 2019	October 2019	November 2019	December 2019
12 July Voting at the extraordinary general meeting of shareholders of Amber Grid was discussed. 26 July A new version of EPSO-G's list of essential terms and conditions and transactions to be decided by the Board was approved, 2019-2021 activity plan was amended, the plan of the Company's risk management measures was updated.	27 August The conclusion of a holding management service agreement with subsidiaries, voting at the extraordinary general meeting of shareholders of Amber Grid were discussed, the formation of the Innovation and Development Committee was initiated.	27 September Integrated planning and monitoring and transport policies were approved.	25 October The updated strategy draft of the Group for 2017-2025 was approved, the updated rules of procedure of the EPSO-G Board and corporate governance policy were adopted, voting at the extraordinary general meeting of shareholders of Baltpool was discussed.	06 November Strategic projects were discussed, and the acquisition of Tetas shares was discussed. 18 November Voting at the extraordinary general meeting of shareholders of Litgrid was discussed. 29 November Activity plans of the Board, the Audit Committee and the Remuneration and Appointment Committee for 2020 were approved, voting at the extraordinary general meeting of shareholders of Litgrid and Amber Grid was discussed, the employee performance assessment and selection policies	13 December Voting in writing at the extraordinary general meeting of shareholders of Amber Grid and Baltpool was discussed. 13 December During the meeting, the accounting policy and the policy for managing the interests of members, executives and employees of collegial bodies were updated, EPSO-G's 2020 operating budget and 2020-2022 activity plan were approved, voting at the extraordinary general meeting of shareholders of Amber Grid was discussed.

				were approved, and the Innovation and Development Committee was completed.	

7.5. Remuneration and Appointment Committee of EPSO-G

Under the current Articles of Association of EPSO-G, the Remuneration and Appointment Committee shall be composed of at least 3 (three) members appointed by the Board for a period of up to 4 (four) years by a reasoned decision. The appointment of members of the Remuneration and Appointment Committee ensures that this Committee has at least 1 (one) independent member. The continuous term of office of a member of the Remuneration and Appointment Committee shall not exceed two consecutive terms of office.

The EPSO-G Board, re-elected for the new term, at the meeting of 29 March 2019 formed the Remuneration and Appointment Committee - the Board members Gediminas Almantas and Dainius Bražiūnas were appointed to the Committee until the end of the term of office of the Board. At the Board's meeting of 17 May 2019, Jolita Lauciuvienė, an independent member of the previous term, was elected an independent member of the Remuneration and Appointment Committee following the public competition for candidates.

On 28 June 2019, the EPSO-G Board approved the appointment of J. Lauciuvienė as a Chair of the Remuneration and Appointment Committee.

The Remuneration and Appointment Committee of EPSO-G:

- Assists in carrying out the selections of candidates to the members of the bodies in all companies of the Group;
- Provides the companies of the Group with recommendations regarding the appointment of the members of the management bodies, entry into contracts with them and setting remuneration for them;
- Provides recommendations regarding the documents of the corporate governance of the Group of remuneration of the employees of the collegiate bodies, the companies of the Group, assessment of their activities;
- Provides recommendations on the Group's collegial bodies, management, executives and planning system of shifts of critical positions.

13 meetings of the Remuneration and Appointment Committees took place in 2019.

Composition of the Remuneration and Appointment Committee of EPSO-G as of 31 December 2019 and its changes during the reporting period:

Composition of the Remuneration and Appointment Committee of EPSO-G during the reporting period:

Full name	Position held	Term of office	Other positions	Education
Jolita Lauciuvienė	Independent member, Chair	From 31 August 2018 to 19 March 2019 and re-elected from 20 May 2019	Personalo vertė verslui UAB, Director	Vilnius University, Master of Economics; Lithuanian University of Educational Sciences, Bachelor of Psychological Sciences.
Dainius Bražiūnas	Member	From 28 September 2018 to 19 March 2019 and re-elected from 29 March 2019	Ministry of Energy of the Republic of Lithuania, Head of the Energy Security Group; the member of the Board of Klaipėdos nafta AB	Vilnius Gediminas Technical University, Bachelor of Energy Sciences.
Gediminas Almantas	Independent member	From 29 March 2019	Member of the Board of SE Oro Navigacija, Chairman of the Audit Committee	Master's degree in Law from Vilnius University and the University of Bern, PhD candidate of Negotiation, Business Ethics at Copenhagen Business School.
Viktorija Trimbel	Independent member, Chairwoman	From 31 August 2018 to 2019-03-19	Quantum capital UAB	

Attendance and key decisions of the Remuneration and Appointment Committee in 2019:

● - Present
○ - Absent

No	Meeting date	Jolita Lauciuvienė	Gediminas Almantas	Dainius Bražiūnas	Viktorija Trimbel
1.	January 24	●	-	●	●
2.	February 13	●	-	●	●
3.	February 22	●	-	●	●
4.	February 28	●	-	●	●
5.	March 6	●	-	○	●
6.	April 9	-	●	●	-
7.	June 12	●	●	●	-
8.	July 18	●	●	●	-
9.	August 14	●	●	●	-
10.	September 11	●	●	●	-
11.	October 16	●	●	●	-
12.	November 13	●	●	●	-
13.	December 9	●	●	●	-

2019 key decisions of the Remuneration and Appointment Committee:

January 2019	February 2019	March 2019	April 2019	June 2019

24 January The Group's selection policy was approved, material benefits for the Group's employees were discussed, and the selection description of the TETAS Board was approved.	13 February Activities and activity improvement plans, and 2018 activity report of the Remuneration and Appointment Committee were approved; assessment of the activities of the Group's management bodies was performed and recommendations for the improvement of activities were provided. 22 February The issues of changing the remuneration of independent board members were discussed. 28 February The selection of TETAS Board members was carried out.	6 March The selection of TETAS Board members was carried out.	9 April The selection of TETAS Board members was carried out; 2018 activity plan of the Remuneration and Appointment Committee was updated.	12 June The implementation of the policies assigned to the competence of the Remuneration and Appointment Committee and the relevance of the Group's remuneration system for long-term employee motivation were assessed.

July 2019	August 2019	September 2019	October 2019	November 2019	December 2019
18 July The use of the Group's staff training budget was observed.	14 August Assessed EPSO-G and the Group's compliance with the applicable provisions on the disclosure of remuneration information, reviewed the decisions of the Group's boards and executives, assessed the signing of a standard employment contract within the Group.	11 September The formation of shift plans of the Group companies was observed.	16 October Made recommendations on the competitiveness of the remuneration of Group companies, discussed regarding the end of the term of office of the boards of EPSO-G subsidiaries in 2020.	13 November Provided feedback to the selection and employee performance assessment policies, discussed the draft of 2020 activity plan of the Remuneration and Appointment Committee.	9 December Provided feedback on the draft policy for the management of the interests of members, executives and employees and updated the annual self-assessment guidelines.

7.6. Audit Committee of EPSO-G

According to the current version of the Articles of Association of EPSO-G, the Audit Committee shall be composed of at least 3 (three) members appointed by the sole shareholder of EPSO-G for a maximum period of 4 (four) years, subject to the recommendations of the Remuneration and Appointment Committee (if submitted). The continuous term of office of a member of the Audit Committee shall not exceed 2 (two) consecutive terms. Only an independent member may chair the Audit Committee.

At the beginning of the reporting period, the Audit Committee had two independent members, Raimondas Rapkevičius and Gediminas Šiušas, as well as Gediminas Karalius, a member of the EPSO-G Board nominated by the Ministry of Energy.

On 24 January 2019, taking into account the newly held position of R. Rapkevičius, the Audit Committee acknowledged that he no longer met the criteria of an independent member, therefore Gediminas Šiušas was elected the Chairman of the Audit Committee.

On 20 February 2019, following the decision of the sole shareholder of EPSO-G, R. Rapkevičius was removed from the position of a member of the Audit Committee. Gediminas Almantas, an independent member of the EPSO-G Board, was elected as a new member of the Committee.

On 15 April 2019, following a proposal from the EPSO-G Board on the competencies of existing members, the sole shareholder of EPSO-G decided to remove Gediminas Almantas as a member of the Audit Committee and to appoint Robertas Vyšniauskas, an independent member of EPSO-G Board, as a member of the Audit Committee.

The Audit Committee of EPSO-G:

- Carries out the monitoring of the preparation and auditing of the financial statements of the Group's companies;
- Is responsible for the ensuring of the observance of the independence and objectivity principles by the auditors of the Group's companies and of audit companies;
- Is responsible for the monitoring of effectiveness of the internal control of the Group's companies, risk management and internal audit systems, activity processes;
- Is responsible for the control of provision of non-audit services by the auditor of the Group's companies and/or audit firm; evaluates the transactions concluded by the Group's companies with the parties concerned.

20 meetings of the Audit Committees took place during the reporting period.

Composition of the Audit Committee of EPSO-G and its changes during the reporting period:

Full name	Position held	Term of office	Other positions	Education
Gediminas Šiušas	Independent member, Chairperson*	From 12 September 2016	Western Union Processing Lithuania UAB	Stockholm School of Economics in Riga, Bachelor of Economics and Business Administration; Vilnius University, Bachelor of Management and Business Administration; Vilnius University, Master of Economics.
Gediminas Karalius	Member	From 21 September 2018	Adviser to the Strategic Change Management Group of the Ministry of Energy	Mykolas Romeris University, Bachelor of Law and Management; Mykolas Romeris University, Master of EU Law; ISM University of Management and Economics, Master of Science in Management and Business Administration.
Robertas Vyšniauskas	Independent member	From 15 April 2019	Consultant on corporate governance, law and taxation	Mykolas Romeris University, Master of Laws.

Gediminas Almantas	Independent member	From 20 February 2019 to 14 April 2019	Member of the Board of SE Oro Navigacija, Chairman of the Audit Committee	Master's degree in Law from Vilnius University and the University of Bern, PhD candidate of Negotiation, Business Ethics at Copenhagen Business School.
Raimondas Rapkevičius	Independent member Chairperson**	From 19 September 2016 to 19 February 2019	Member of the Supervisory Board of the Public Investment Development Agency	

* The Chairman of the Audit Committee since January 24, 2019.
** The Chairman of the Audit Committee until January 24, 2019.

Attendance and key decisions of the Audit Committee in 2019:

● - Present
○ - Absent

No	Meeting date	Gediminas Šiušas	Gediminas Karalius	Robertas Vyšniauskas	Raimondas Rapkevičius	Gediminas Almantas
1.	January 10	●	●	-	●	-
2.	January 24	●	●	-	●	-
3.	February 7	●	●	-	●	-
4.	February 26	●	●	-	-	●
5.	March 12	●	●	-	-	○
6.	March 25	●	●	-	-	●
7.	April 4	●	●	-	-	●
8.	April 18	●	○	●	-	-
9.	April 24	●	●	●	-	-
10.	May 20	●	●	●	-	-
11.	May 31	●	●	●	-	-
12.	June 17	●	●	●	-	-
13.	July 22	●	●	●	-	-
14.	August 20	●	●	●	-	-
15.	September 23	●	●	●	-	-
16.	October 21	●	●	●	-	-
17.	October 25	●	●	●	-	-
18.	October 31	●	●	●	-	-
19.	November 25	●	●	●	-	-
20.	December 9	●	●	●	-	-

2019 key decisions of the Audit Committee:

January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
10 January Opinion on the related party transaction was approved. 24 January	7 February 5 opinions on related party transactions related to the transfer of tax losses and the introduction of	12 March The assessment of the achievement of 2018 objectives of the head of Internal Audit and the annual 2019 objectives of the	4 April The opinion of the Audit Committee on the financial statements of Baltpool 2018 was approved.	20 May Opinions on Litgrid and Amber Grid's lists of transactions in the ordinary course of business and criteria for	17 June The recommendation on business continuity plans of the Group of

New versions of the risk management policy and methodologies were approved.	a cash poll account were approved. 26 February Group-level risk list was approved.	head of Internal Audit were approved. 25 March Opinions on the separate and consolidated financial statements of the Group of companies (excluding EPSO-G and Baltpool) for 2018 were approved.	18 April Opinion on the related party transaction was approved. 24 April Opinion on EPSO-G's separate and consolidated financial statements for 2018 was approved.	assessing unusual market conditions were approved. 31 May Opinion on the related party transaction was approved.	companies was approved.

July 2019	August 2019	September 2019	October 2019	November 2019	December 2019
22 July 2 opinions were adopted on the forecasted transactions of Amber Grid and Litgrid regarding the acquisition of management (holding) services from EPSO-G as a related party.	20 August No decisions were adopted.	23 September 2019 Group audits plan was discussed with the representatives of Deloitte Lietuva UAB.	21 October Opinion on Get Baltic's transactions in the ordinary course of business and opinion on Litgrid's planned transaction of 100% of Tetas share purchase and sale transaction with EPSO-G were approved.	25 November The 2020 plan of the Audit Committee was approved and recommendations on EPSO-G risk management plan were submitted.	9 December A new wording of the Group's accounting policy was approved.

7.7. Innovation and Development Committee (IDC)

In line with EPSO-G Statutes, the EPSO-G Board has the right to set up temporal (*ad hoc*) or permanent specialized committees tasked with examining and making proposals and recommendations on areas and issues falling within the competence of such committees to the EPSO-G Board or other bodies of the Group or Group's companies in order to ensure an effective internal control system and operational risk management at the Group level. Under the decisions of the Board of 13 August 2019 and 29 November 2019, a new Innovation and Development Committee of the EPSO-G Group was formed.

The Innovation and Development Committee is an advisory body to the EPSO-G Board on innovation, development and efficiency. It acts in the same way as the Audit Committee and the Remuneration and Appointment Committee - at the Group level, i.e. may submit conclusions, opinions, recommendations and proposals to a board of the competent Group company on issues related to the functions and responsibilities of the Innovation and Development Committee.

The Board approves and amends the activity regulations and the activity plan of the Innovation and Development Committee, and forms tasks for the Committee.

The purpose of forming the Innovation and Development Committee: (i) to pay more attention to innovations, search for new activities of the Group, operational efficiency; (ii) synergies of innovative ideas at the Group level and coordination of innovation directions; (iii) greater involvement of independent members of the Board in the activities

of the Group, use of their knowledge and experience; (iv) the members of the Innovation and Development Committee shall act as ambassadors for innovation, development and efficiency in the Group companies.

On 29 November 2019, the following members were appointed to the Innovation and Development Committee by decision of the Board:

Full name	Position held	Term of office	Other positions	Education
Sigitas Žutautas	Independent member, Chairperson*	From 29 November 2019	Independent member of the Board of Amber Grid Ab, the Chairperson of the Board of Būsto paskolų draudimas UAB.	Vilnius University, Bachelor of Economics and Banking, Master of Accounting and Auditing. Baltic Institute of Corporate Governance, studies of a professional board member.
Tomas Tumėnas	Independent member	From 29 November 2019	Independent member of the Board of EPSO-G; CFO and the member of the Board of Linas Agro Group AB	Vilnius University, Master of Science in Financial Management; Aalborg University, Economics of International Business; Manchester Business School, Master of Science in Financial Management.
Šarūnas Nedzinskas	Independent member	From 29 November 2019	Independent member of the Board of Litgrid AB.	ISM University of Management and Economics, Doctor of Social Sciences, Strategic Management. Vilnius University, Master of Economics.
Tomas Urmanavičius	Member	From 29 November 2019	Finance Control Director of EPSO-G UAB and the member of the Board of BALTPOOL UAB.	Vilnius University, Bachelor of Economics; Vrije University of Amsterdam, Master of Financial Management.

* The Chairman of Innovation and Development Committee as from 6 January 2020.

7.8. Director General

The Director General of EPSO-G is appointed by the Board of the company taking into account the recommendations of the Supervisory Board of the Remuneration and Appointment Committee. The Director General is accountable to the Board.

The current Director General of EPSO-G, Rolandas Zukas, holds the post since 17 February 2015. In accordance with the Article 37[1] of the Law of the Republic of Lithuania on Companies, the first five-year term of office of the Director General commenced on 1 January 2018.

The Director General of EPSO-G:

- Organizes and controls the implementation of the Group's activities strategy;
- Controls the activities of the subsidiaries, makes suggestions and conclusions to the EPSO-G Board regarding the organization of the Group's activities and development thereof;
- Organizes and ensures the monitoring of the implementation of the strategy, long-term (strategic), short-term (tactical) objectives of the subsidiaries, the activities assessment, makes suggestions to the EPSO-G Board regarding the activities improvement;

- Ensures that the Group's corporate governance documents are submitted to the Group's companies, and the reports of the implementation of the Group's corporate governance documents are submitted in a timely manner to the Board of EPSO-G.

7.9 Additional Information about the Chairman of the Board, the Director General and the Chief Financial Officer:

Gediminas Almantas (Chairman of the Board) – G. Almantas has been the Chairman of the EPSO-G Board since 30 March 2019. G. Almantas is a professional with an extensive experience in business strategy and corporate governance. He is an independent member of the Board of SE Oro Navigacija and the Chairman of the Lithuanian Red Cross society. In 2014-2018, he was the CEO of the Lithuanian Airports, and was engaged in the fields of aviation and law. G. Almantas has been on the EPSO-G Board since 2016.

G. Almantas holds a Master's degree in Law from Vilnius University and the University of Bern, and is a PhD candidate of Negotiation, Business Ethics at Copenhagen Business School.

Rolandas Zukas (Director General) – Rolandas Zukas has been holding the office of the Director General of EPSO-G since 17 February 2015. He worked before as the Department Director of the LNGT terminal of Klaipėdos nafta AB, the member of the Board and the Director General of Energijos tiekimas, UAB. R. Zukas is also the member of the Board of Lietuvos geležinkeliai AB and the president of the National Energy Association of Lithuania (Lith. NLEA).

R. Zukas holds a university degree in the fields of Transport Engineering Economics (Vilnius University, the Bachelor's degree) and Management (ISM, the Master's degree).

Žydrūnas Augutis (CFO) - with more than 20 years of experience in financial accounting and taxation, Ž. Augutis has been the Chief Financial Officer of EPSO-G since 29 April 2019. Prior to joining EPSO-G, he held the position of the Chief Financial Officer of the subsidiary Litgrid, managed the accounting department of Lietuvos Dujos AB (following the separation of the transmission activities from it, Amber Grid was established). In 2017-2019, Ž. Augutis was a member of the Board of EPSO-G's subsidiary TETAS.

Ž. Augutis holds a Master's degree in Accounting and Auditing from Vilnius University.

Rasa Juodelytė (Head of Internal Audit) has been the Head of EPSO-G Central Audit Unit since 2017. January 2 Prior to joining this position, she was responsible for the Internal Audit Department's activities at Litgrid, a subsidiary of the Internal Audit Unit, for four years, working in the international wholesale and retail trade of petroleum products. R. Juodelytė is a member of the Audit and Risk Committee of Ignalina Nuclear Power Plant.

R. Juodelytė is a Master of Accounting and Audit Sciences at Vilnius University.

The curriculum vitae of the members of the Supervisory Board of the Company and its committees as well as of the Board, also of the Director General are published on the website of EPSO-G www.epsog.lt.

7.10. Interest Management

On 13 December 2019, a new version of the policy of managing the interests of members of the collegial bodies and supervisory bodies, heads and employees of the EPSO-G group of companies was approved. Its aim is to create a uniform system of interest management that is consistent with good practice and to ensure that decisions within the group companies are made objectively and impartially, as well as to create an environment unfavourable to corruption and build trust in the activities of the group of companies.

This policy established the following in EPSO-G group of companies:

- Principles of interest management and solving potential conflicts of interest;
- Requirements for the system of declaration of interests;

- Independence criteria applied for members of collegial and supervisory bodies.

Please get acquainted with the policy of managing interests and applied independence criteria of EPSO-G at www.epsog.lt, in the column of Activity Policy.

At the end of the reporting period:

- Members of collegial management bodies and administration have not acquired shares in EPSO-G group of companies except for Nemunas Biknius, Strategy and Development Director of EPSO-G and Acting Director General of Amber Grid, who as of 31 December 2019 had 0.001055 percent of shares of the subsidiary Amber Grid.
- The declarations of interests of the members of the collegial management bodies and of the Director General are presented and published on the website www.vtek.lt of the Chief Official Ethics Commission and www.epsog.lt. All Director Generals of EPSO-G Group have submitted declarations of interests to the holding company EPSO-G in scope and order laid down in the policy of managing interests that are published on the following website www.epsog.lt in the column "Operating Policies".
- Members of collegial management bodies and the heads of the companies have no conflicts of interests between their duties within EPSO-G Group and private interests and/or other responsibilities.
- Members of collegial management bodies and administrative staff have no family ties.
- Members of the collegial management bodies and the heads of the companies have not been convicted of having committed a criminal offense, no regulatory body has filed charges or imposed sanctions on them during the last five years, the court has not prohibited them from holding the office of a member of the Company's administrative, management or supervisory bodies, or to act as a head or to manage any affairs of any issuer'.
  EPSO-G has not entered into any transactions with the above-mentioned persons, which are not typical of the Company's core business or which are not notified to EPSO-G collegial bodies in accordance with the relevant procedures with their authorizations to enter into such transactions.

7.11. Corporate Governance Policy

The unified corporate governance of EPSO-G Group is implemented on the basis of the Corporate Governance Policy unifying the group of companies.

On 25 October 2019, EPSO-G Board approved the new wording of the Corporate Governance Policy. The policy was updated with the introduction of a position of the Board lawyer with responsibilities assigned to it. The main objectives of this change are:

(i) *Ensuring compliance, good practice.* To implement good governance practices, the responsibilities of the Board have become very broad. This determines the need of the appointment of a lawyer constantly concerned with these issues and advising the Board. The duty of the Board's lawyer is to help ensure the proper execution of all documents and decisions approved by the Board;

(ii) *More efficient work of both the boards and administration.* Board lawyers are responsible for preparing the submission in line with good practice and board expectations; they assist chairmen of boards in organizing the activities of the boards;

(iii) *Smoother communication, more effective implementation of EPSO-G Board, committees decisions / recommendations*.

A functional corporate governance committee has also been set up, made up of the Group board lawyers, to contribute to implementation of the goal set in the corporate governance guidelines approved by EPSO-G shareholder and the Letter of Expectations - to ensure an efficient and best corporate governance in accordance with corporate governance practices.

EPSO-G, as the parent company, carries out the management, supervision and control functions in respect of the companies of the Group:

- By making decisions within the competence of the General Meeting of Shareholders in its subsidiaries;
- By nominating the employees of EPSO-G to the Boards of the companies of the Group;
- By forming the Audit Committee and the Remuneration and Appointment Committee operating on a Group level;
- By setting up a centralized Group-wide internal audit that is accountable to the Audit Committee and the Board of the Company;
- By adopting the Group's policies that regulate various areas of activity;
- By providing representative, standardised draft documents to the companies of the Group that equalize the activity of the companies;
- By providing consulting services to the companies of the Group;
- By implementing functional mentoring of activities in the Group.

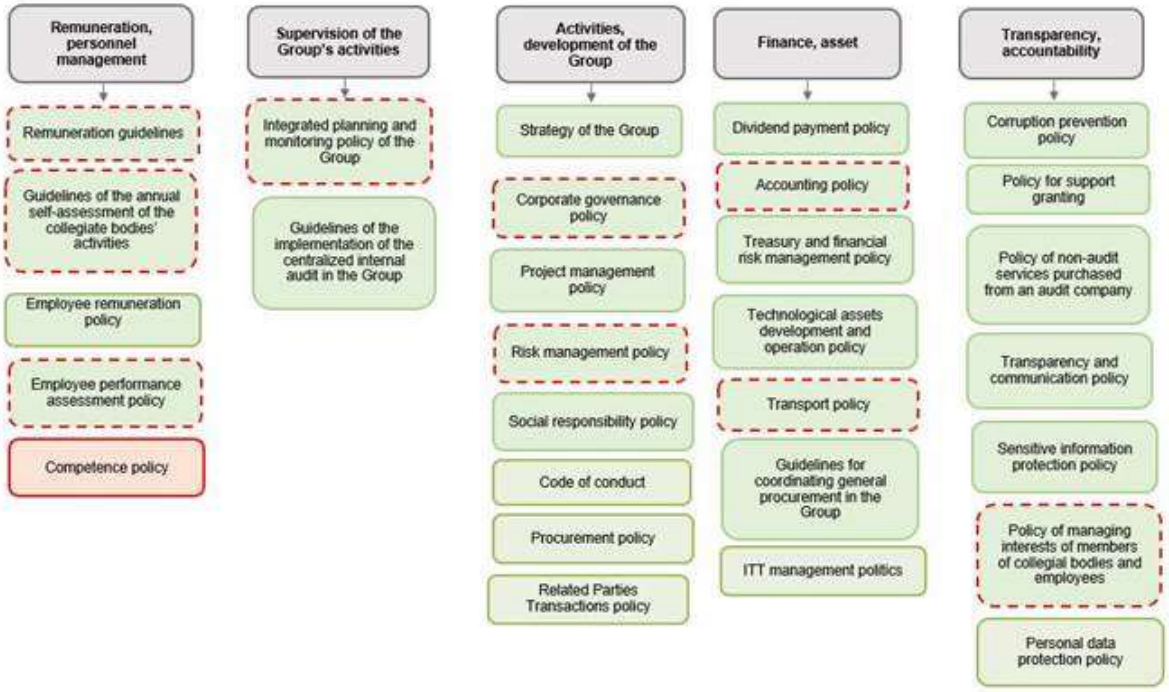
7.12. Operating Policies

Good governance practices in EPSO-G Group were implemented during the reporting period through the application and continuous targeted improvement of the operating policies approved by the Board, applicable to all the Group companies.

The operating policies of EPSO-G Group are intended to implement a consistent and effective organizational management system helping the employees in successful implementation of important strategic projects and transparent and effective benefit creation for both the people of the country and the business.

To ensure the efficiency of the operating policies, all companies of the Group annually reports on the progress of implementation of the operating policies to the Board of the holding company EPSO-G.

By implementing the goals set out in the Shareholder's Letter of Expectations, the holding company EPSO-G has established the main principles and, in some cases, the specific rules in these fields at the Group's level:



Explanatory notes:

– The policy changes made and a new version of Group policy adopted in 2019.

– The new Group policy approved in 2019.

During the reporting period, one new Group selection policy was added and six policies were updated:

- Conflict of interest management policy;
- Transport policy;
- Risk management policy;
- Integrated planning and monitoring policy;
- Corporate governance policy;
- Employee performance assessment policy;
- Accounting policy.

The sole shareholder of EPSO-G, on 11 November 2019, approved new guidelines for determining the remuneration for activities in EPSO-G UAB and the bodies of the companies of EPSO-G UAB. Under the decision of 9 December 2019, the Remuneration and Appointment Committee also reviewed and updated the annual self-assessment guidelines for the collegial bodies of the EPSO-G Group.

The cooperation session of the management bodies of the Group of companies that took place during the reporting period, great attention was paid to ensuring the implementation of policies in the Group of companies. A unified Group-wide assessment system for policy implementation has been put in place, and policy implementation coordinators were appointed.

All policies or their summaries are published on the EPSO-G website at www.epsog.lt in the column "Operating Policies".

Functional area management model

The holding company EPSO-G employs a functional leadership model that, based on international practice, creates the greatest value for the group of companies.

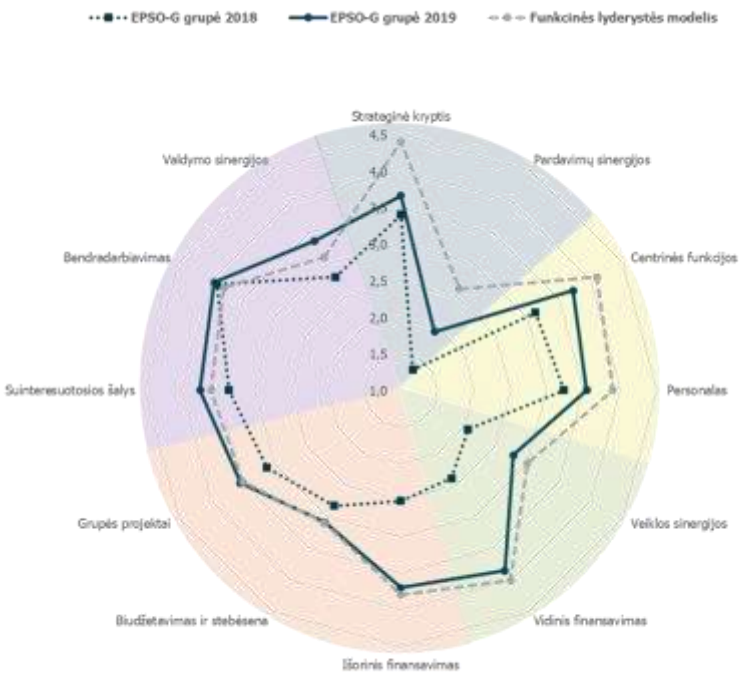
Using the functional leadership model, the holding company EPSO-G:

- Mostly focuses on operational efficiency, shared resources and centralized services;
- Allocates resources and enhances competence for key, long-term value creation activities - strategy development, investment management and innovation;
- Defines the policies of the group of companies, standardizes the core processes of the group;
- Promotes the sharing of good practices among the patronized companies and supports initiatives to improve performance.

Effectiveness of the governance model

The effectiveness of the governance model is measured by EPSO-G through an annual stakeholder survey.

Created value indicator is included in the annual objectives of the holding company and its Director General. The size of the variable part of the remuneration depends on the achievement of the goals.



7.15. Self-Assessment of own Activities by the Collegiate Supervisory and Management Bodies, and the Results of the Assessment

In light of the guidelines prepared by the Remuneration and Appointment Committee, at the beginning of 2020 EPSO-G and the collegiate supervision and management bodies of the Group's companies carried out the self-assessment of their own activities of 2018.

The summarized assessments of the members of each collegiate body were discussed during the meeting of each collegiate body. The fields of activity to be improved were identified and the directions for improvement of the operational processes were established by drawing up a coherent plan of actions and tasks for the year 2020.

The evaluation of its performance carried out by collegial bodies was coordinated and summarised by the Remuneration and Appointment Committee of EPSO-G.

The Remuneration and Appointment Committee identified the following key areas for improvement:

- the monitoring of the implementation of the decisions of the collegiate bodies and the received recommendations must be improved;
- more attention needs to be paid to risks and their management;
- the awareness of the specifics of the energy sector needs to be raised.

7.16. Information on Compliance with the Code of Conduct

The holding company EPSO-G complies with the provisions of the Corporate Governance Code of the Companies listed on NASDAQ OMX Vilnius (available at www.nasdaqbaltic.com). The Code applies to the extent that the Articles of Association of the Company do not provide otherwise. The Company discloses how it complies with the provisions of the Governance Code in Annex II to this annual report.

7.17. Information on Compliance with Transparency Guidelines

EPSO-G group of companies follows Resolution No 1052 of the Government dated 14 July 2010 on the Approval of the Description of the Guidelines for Ensuring Transparency of Activities of State-Owned Enterprises (hereinafter referred to as the "Transparency Guidelines").

The Transparency Guidelines are binding on the holding company EPSO-G, as it is a state-owned enterprise, classified as a large enterprise, in accordance with the Law on Corporate Financial Reporting of the Republic of Lithuania.

In order to comply with the Transparency Guidelines within the EPSO-G group of companies, the Group applies the Transparency and Communication Policy that addresses in detail the requirements of the Transparency Guidelines and determines their scope of application for companies of the Group.

The implementation of the Transparency Guidelines is essentially ensured through the information disclosed in the annual report and the disclosure of information on the websites in order to provide information to interested parties in accessible and understandable form.

Structured information on compliance with the Transparency Guidelines is provided in Annex I to this annual report.

8. REPORT OF THE IMPLEMENTATION OF THE REMUNERATION POLICY

The strength of EPSO-G Group lies in its employees: experienced and competent professionals who effectively manage the state asset, implement the projects of strategic significance for the state, ensuring safe and uninterrupted transmission of energy and transparent trade in biomass and timber. We create an open and advanced organisation by basing our activities on the values of EPSO-G such as professionalism, cooperation and progress, as well as leadership principles applicable to all the executives.

The Human Resource Management Policy of EPSO-G Group is focused on the development of the employees' professional skills and the formation of value-generating activity culture.

We are aiming for the EPSO-G employees to be proud that they work in an active, honest and ethical organization, we create conditions for our employees to develop in the professional field, to reconcile professional and family obligations, we foster tolerance of individual differences.

8.1. Formation and Monitoring of the Remuneration and Appointment Policy

The Board of the Company is responsible for the implementation and supervision of the Remuneration Policy of EPSO-G.
In order to ensure the proper formulation, monitoring and management of the remuneration fund, the EPSO-G group has a three-member Remuneration and Appointment Committee, the majority of which are independent members.

When performing this function the Remuneration and Appointment Committee of EPSO-G:

- Provides recommendations regarding the terms and conditions of the contracts entered into with the members of the Board and/or heads, including the maximum amount of the remuneration for these persons, the maximum annual operating budget for their remuneration;
- Prepares the main criteria of the assessment of the activities of the heads of the companies of the group of companies and the remuneration guidelines applicable when establishing the remuneration for the activities in the Supervisory Board, Board, the Remuneration and Appointment Committee, the Audit Committee, other specialized committees, if any are formed, of the subsidiaries of the Company and the Group. The committee reviews their implementation at least once a year;
- Makes suggestions to the management bodies regarding the individual salaries for the management personnel and the members of bodies in order they would meet the remuneration guidelines and the assessment of the activities of these persons;
- When performing this function the Remuneration and Appointment Committee is informed about the total remuneration received by the management personnel and the members of the bodies from the other related companies;
- Ensures that the individual salaries paid to the management personnel and/or to the members of the governing body would be in proportion with the salary of other management personnel of the Company

and/or of the group of companies or of the members of the bodies and of other employees of the subsidiaries of the Company and/or the group of companies;

- Provides recommendations regarding the policy established by the Board of payment for the work of the heads, deputy heads and other management personnel of the subsidiaries and sub-subsidiaries of the Company, also regarding the review of the policy and its implementation at least once a year;
- Monitors and provides conclusions on how the Company and the companies of the group of companies comply with the valid provisions concerning the publication of information related to salaries;
- Provides the management personnel of the companies and/or the members of the bodies the general recommendations regarding an amount and structure of the salaries of these employees and/or members of bodies, also the recommendations to monitor an amount and structure of their salaries based on the information provided by the Company and the subsidiaries of the group of companies;
- Collects and systematises all information collected and received in the spheres of its competence, and on the basis of such information provides recommendations to the relevant body of the group of companies and, when necessary, directly to the Supervisory Board;
- Once a year the Remuneration and Appointment Committee reports in writing to the Supervisory Board about its activities covering one calendar year;
- The Supervisory Board and other bodies of the Company and/or of the subsidiaries of the group of companies shall have the right to apply to the Remuneration and Appointment Committee and to provide conclusions on the specific issues raised by them if such the issues fall within the Competence of the Remuneration and Appointment Committee.

8.2. Remuneration Policy

The uniform remuneration policy based on the principles of responsibility and accountability has been introduced in the companies of EPSO-G group. The aim of the policy: effective management of the salary costs of the Group and creation of motivational incentives in order an amount of salary would depend directly on the implementation of the objectives pursued by the Company and each employee.

This means that the performance of the employee is taken into account when determining the remuneration. Therefore, the remuneration of the employees of EPSO-G consists of two constituents, i.e. fixed and variable. The constituent depends on the responsibility level related to the position held, which is determined according to the methodology applied in the international practice. The variable constituent of remuneration is paid when the individual objectives established during the annual assessment are achieved and the companies report to the shareholder and the Board for the achievement of the annual objectives of the company.

Based on international good governance practice, the Remuneration Policy of EPSO-G is approved or changed by the Board only after the Remuneration and Appointment Committee, which includes independent members, provides its recommendations.

All companies of the group are subject to the same principles of the Remuneration Policy:

- The identical principles of the Remuneration policy are applied for both the executives and employees.
- The remuneration fund is approved by the Boards of the companies. The Remuneration and Appointment Committee monitors whether there is a balanced control of salary costs with motivation of the employees who are properly performing their duties.
- The remuneration of the executives and employees of EPSO-G consists of two constituents – fixed and variable.
- The fixed constituent depends on the level of responsibility of the position. It is determined according to a methodology recognized and widely used in international practice.

- The variable constituent is paid when individual goals set during the annual performance assessment are attained, and the company reports to the Board for the achievement of annual goals.
- Annual goals for executives and employees are set in accordance with the Employee Performance Assessment Policy of EPSO-G group of companies.
- The variable constituent of remuneration is not paid if performance results do not meet the expectations according to the established evaluation criteria and the financial results are assessed as unsatisfactory.
- The variable constituent of remuneration is not a bonus. It cannot exceed 20-30 percent of the fixed constituent of remuneration.
- The amount of variable remuneration is estimated in the company's budget and recorded in the financial result, which is audited and made public.
- The variable constituent of remuneration of the company's Director General depends on the implementation of the goals set out in the company's strategy, which are announced publicly on the company's website.
- The variable constituent of the remuneration is not paid to members of the collegial bodies.
- Severance pay of executives and employees does not exceed an amount other than that established by the legal acts of the Republic of Lithuania.
- It is provided that performance of particular importance not foreseen for in the employee's annual targets may, in exceptional cases, be subject to an incentive payment not exceeding the amount specified in the policy. The relevant board of the Group company must be informed on the above at its next meeting.
- Prior agreements on severance payments, except for company directors whose terms of employment are determined by the Board, are not concluded.
- Severance payments are paid to employees in accordance with the procedure laid down in the Labour Code of the Republic of Lithuania and in employment contracts.
- The Remuneration policy does not provide for any remuneration by granting a Director General, a member of the collegial body or an employee the right to the shares, stock options or the right to receive remuneration based on changes in share prices other financial instruments.
- The companies of EPSO-G group reward their employees in emotional non-financial form in order to promote their engagement and loyalty. Indirect reward includes events for the employees, recognition and appreciation for very good performance.

In order to ensure the effectiveness of the Remuneration Policy, the fixed and variable constituents of remuneration are made public by groups of posts. This creates assumptions for the companies of EPSO-G group of companies to adequately remunerate the employees, who reach the objectives and exceed expectations, on the basis of the average market value.

The assessment of the competitiveness of companies and employees' remuneration is based on market research data. In the preparation of the Remuneration Policy of EPSO-G, the services of external consultants were not used.

8.2. Staff Performance Assessment

Staff performance assessment is one of the most important conditions of management and effective leadership that helps achieving the objectives of EPSO-G group of companies and creating a positive relationship between the leaders and their subordinates, allows planning the career of the employees, increasing their motivation and involvement.

An annual conversation is a performance assessment tool that ensures that the personal objectives of EPSO-G employees are tailored to the objectives of the company. The conversation is intended to discuss and set the measurable, time-defined and motivating objectives for the employees.

The annual and interim conversations are intended to assess the achievement of the objectives that have been set for the employee of EPSO-G and to set the new ones, forms a feedback culture between the leader and the subordinate. The need for the employee's competence development and further career prospects and career opportunities are also discussed during the conversation.

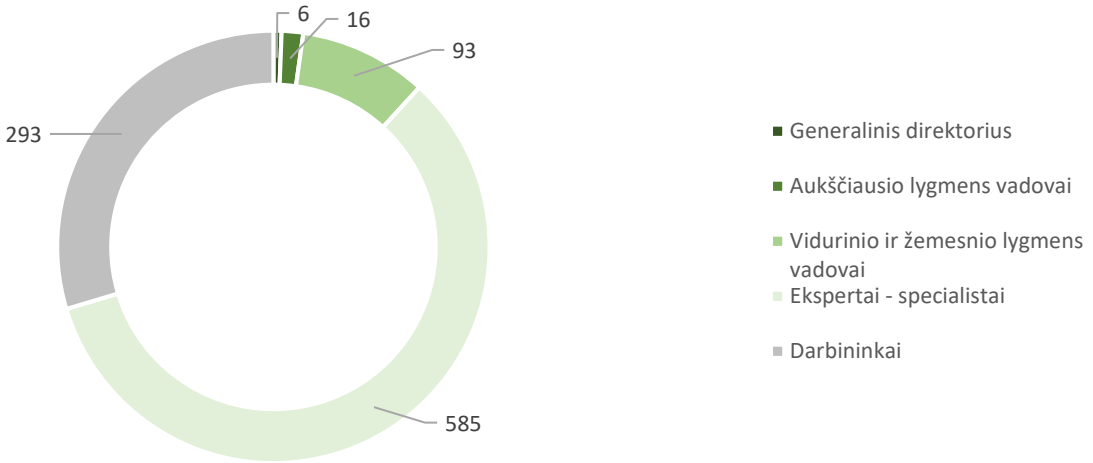
In the companies of EPSO-G group, individual goals are discussed with each employee and set annually. Their implementation has a direct impact on the variable constituent of remuneration, which also depends on the overall achievement of the company's objectives.

8.3. Employees

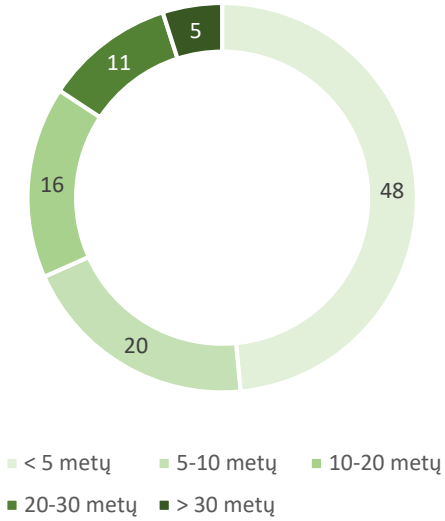
Number of the employees in the group of companies and in separate companies		
	As at 31 December 2019	As at 31 December 2018
Group of companies	993	1 005
EPSO-G	25	22
Amber Grid	316	329
Litgrid	290	267
Tetas	338	369
Baltpool	17	11
Litgrid Power Link Service	0	2
Get Baltic	7	5

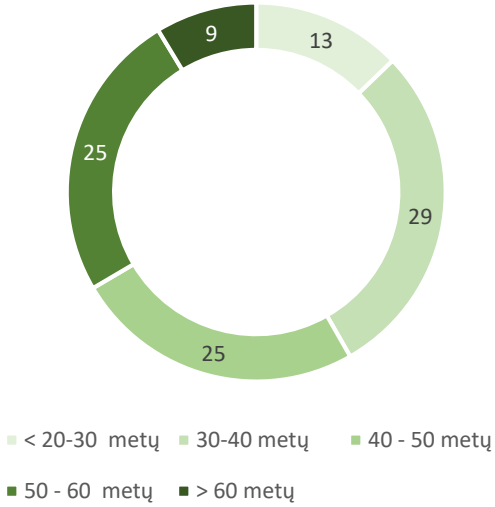
Note: Following the completion of the planned functions, on 19 December 2019, Litgrid Power Link Service UAB was liquidated and deregistered from the Register of Legal Entities.

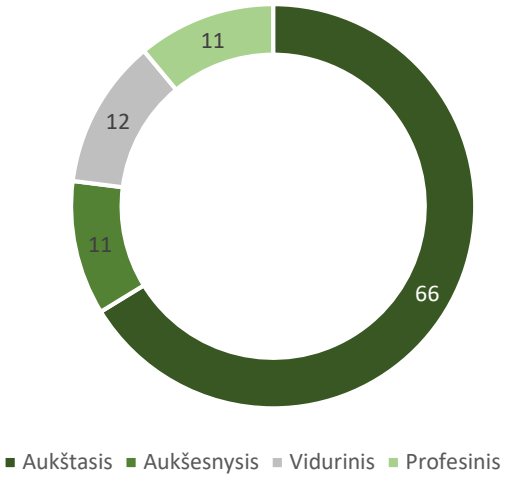
Distribution of Employees by Position Groups in 2019 (pcs)

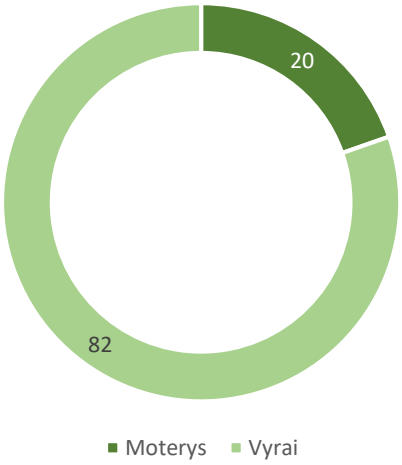


Distribution of Employees by Service Record, Age Groups, Education, Gender in 2019 (%)









8.5. Information on Wages

As at 31 December 2019, EPSO-G Group had 993 employees (as at 31 December 2018 – 1,005 employees).

The wage fund of EPSO-G Group for twelve months of 2019 was EUR 26,577 thousand (for twelve months of 2018 – EUR 25,080 thousand). To ensure the comparability of data, the information provided on 2018 calculated average salary is recalculated in accordance with the provision of the Law on State Social Insurance of the Republic of Lithuania, which entered into force on 1 January 2019, by which an employer's state social insurance contributions are transferred to an employee working under an employment contract, i.e. wages before taxes indexed 1,289 times.

Twelve-month payroll information of 2019

	Group		Company	
Wages by the groups of employees	Number of the employees (at the end of the period)	Average monthly salary	Number of the employees (at the end of the period)	Average monthly salary
Director General	6	9 328	1	10 040
Top level executives	16	7 279	4	7 556
Middle level executives	93	4 162	9	5 326
Specialists	585	2 212	11	3 536
Workers	293	1 175	-	-
Total average wages	993	2 184	25	5 266
The wage fund, thousand EUR		26 577		1 403

Information on fixed and variable remuneration of EPSO-G

Position group	Average conditional number of employees	Average monthly salary, EUR	Variable remuneration paid for 2017 results, EUR
Director General	1	7 956	2 084

Top level executives	4	6 111	1 445
Middle level executives	9	4 323	1 003
Specialists	8	2 972	564
Total	22	4 286	980

8.6. Information on Remuneration for the Members of the Collegiate Management Bodies

The members of EPSO-G supervisory and management bodies are appointed for the term of office of four years. The civil contracts have been entered into with them. The responsibilities, obligations, rights and functions of the members are discussed in detail in the contracts.

In 2019, the sole shareholder of the holding company, the Ministry of Energy, approved the updated EPSO-G remuneration guidelines. They came into force as of 1 December 2019.

The changes relate to the remuneration of the independent members of the boards and committees of the holding company EPSO-G and the group of companies – they provide for a fixed rather than an hourly remuneration. They reflect the recommendations of the Governance Coordination Center (SIPA) that the hourly remuneration system promotes excessive administrative burden and creates inefficient and surplus control over the members of the collegial body.

As from 1 December 2019, the following amounts of remuneration for independent members of the Board have been set (before taxes):

- EUR 2,150 (two thousand one hundred and fifty euros), taking into account the additional administrative functions of the chairman of the collegial body, to the chairman of the Board also holding the position of at least one member of the Board's committee formed in the Group; and the chairman of the committee also serving as an independent Board member in the Group;
- EUR 1,800 (one thousand eight hundred euros), taking into account the additional administrative functions of the chairman of the collegial body, to the chairman of the board, who does not hold any of the position of a member of the Board's committee formed in the Group;
- EUR 1,750 (one thousand seven hundred and fifty euros) for independent members of the Board also holding the position of at least one member of the Board's committee formed in the EPSO-G group of companies;
- EUR 1,400 (one thousand four hundred euros) for independent members of the Board, who do not hold any of the position of a member of the Board's committee formed in the Group;
- EUR 850 (eight hundred and fifty euros) for independent members of the Board's committee who are not independent members of the boards. These members acting as the chairman of the Board's committee are remunerated EUR 1,100 (one thousand one hundred euros);
- Given that the above amounts have been calculated in accordance with the applicable tax legislation, i.e. including taxes payable, in the event of a change in the tax regime, until new decisions on remuneration are made, the remuneration paid to members of collegial bodies after taxes shall not change compared to the calculated amount according to the above amounts.

It was established that in case an independent member of the Board is elected a member of the Board's committee formed in the Group and / or the chairman of the Board, or an independent member of the Board is revoked / resigns from the position of a member of the Board formed in the Group and / or the chairman of the Board, the remuneration of such independent member of the Board shall be changed taking into account the above-mentioned amounts of remuneration of the independent members of the Board of the Company. Accordingly, the Director General shall sign on behalf of the Company the amendments to the agreements with the independent members of the Board of the Company, establishing such changes in the remuneration of the respective independent members of the Board.

The variable constituent of remuneration is not paid to members of the collegial bodies.

The members of the Board of EPSO-G, appointed by the only shareholder – the Ministry of Energy – are not remunerated under a civil board member agreement.

The remuneration for the execution of the rights and obligations of the shareholder in the subsidiaries in accordance with the civil contract of the member of the Board is not paid to the members of the Board who are appointed by the holding company EPSO-G as the largest shareholder. This principle is valid for the subsidiaries delegating members to the companies controlled by them.

The contracts entered into with the members of supervisory and management bodies do not confer any rights to the shares of the companies of EPSO-G group, other forms of remuneration or additional benefits.

The contracts do not provide for any severance payments and notice periods.

Information on the work and pay-outs of the members of the supervisory and management bodies:

	31 December 2019	31 December 2018
Meetings of the collegiate supervisory and management bodies (pcs)	56	52
Number of the members of the collegiate bodies who are paid remuneration (persons) *	9	9
Pay-outs associated with the members of the management bodies (thousand EUR)	58	85

*As of 31 December 2019, the remuneration was paid to 5 members of collegiate bodies.

Information on pay-outs to the individual members of supervisory and management bodies:

Full name of the member	31 December 2019	31 December 2018
Gediminas Almantas	18 285	12 000
Robertas Vyšniauskas	12 400	-
Tomas Tumėnas	1 400	-
Dainius Bražiūnas	-	-
Gediminas Karalius	-	-
Gediminas Šiušas	9 430	5 525
Jolita Lauciuvienė	5 706	4 800
The members of the collegial supervisory and management bodies held office until the end of the term, 20 March 2019.		
Viktorija Trimbel	2 909	12 596
Rytis Ambrazevičius	4 330	15 600
Valdas Vitkauskas	2 915	11 900
Raimondas Rapkevičius	600	8 750

Rolandas Zukas	-	7 700
Algirdas Juozaponis	-	6 270

Note: After registering a new version of the statute in the Register of Legal Entities on 1 August 2018, the provisions of which stipulate that the members of the Company's administration are not elected to the board providing supervisory function, Rolandas Zukas, General Director of EPSO-G, and Algirdas Juozaponis, Finance Director of EPSO-G, resigned from the post of members of the Board.

8.7. Legal Disputes and Uncertainties

Information on legal disputes and uncertainties is disclosed in Section 32 of the financial statements of this annual report.

8.8. Information on Specific Obligations

The company Baltpool, which is part of EPSO-G Group, is the administrator of the funds of the public service obligations (hereinafter referred to as "PSO") performing the functions of collecting, pay-out and administration of PSO funds.

In performing this function, Baltpool, in accordance with the law:

- collects PSO funds from electricity consumers and pays them to PSO providers;
- accounts for PSO funds separately from other activities performed by it in accordance with each PSO provider and each recipient entity;
- publicly reports on accounted and paid PSO funds;
- ensures the balance of PSO funds.
- in accordance with the procedure established by legal acts, the costs of the PSO funds administration function are reimbursed not from the state, but from the PSO funds budget.

Detailed information and PSO reports are publicly available on Baltpool website:
https://www.baltpool.eu/lt/viap-gautos-ismoketos-likutis/

Important Events after the End of the Reporting Period

January

On 15 January 2020, the Government approved a target rate of 5.7% of return on equity for EPSO-G group of companies for the period 2019-2021. It is lower compared to the previous three-year period – 8.8% return. Such decisions were influenced by the regulatory principles applied by the NCECP, which aim to determine the costs, based on necessary costs, including the return on investment, to consumers and create conditions for the competitiveness of the national economy. The Government's financial obligation to EPSO-G to pay the debt to other state-owned enterprise "Lietuvos Energija" for its shares in the subsidiary Litgrid does not increase the rate.

On 23 January 2019, the European Commission has provided funding for the first phase of the Baltic energy system synchronization with Continental European networks. The total value of the projects is EUR 432.5 million. The EU funding will amount to EUR 323 million. The renewal and enhancement of the Lithuanian electricity system will require EUR 167 million, out of which the EU – EUR 125 million, allocates three quarters.

February

On 7 February 2020, the EPSO-G Board updated the Group's Dividend Policy. These changes are related to changes in the corporate governance structure, i.e. the liquidation of the supervisory board, as well as changes in the legislation governing the payment of dividends. Other key policy provisions remained unchanged.

On 28 February 2020, Vilnius Regional Court made a decision in the case based on the claim of MT Group UAB regarding the decisions of the Procurement Commission of Amber Grid AB gas pipeline connection between Poland and Lithuania (GIPL). The court left the results of the tender for the contract works unchanged.

March

On 10 March 2020, Litgrid announced that on 9 March 2020 it received the opinion from the Audit Committee of the parent company EPSO-G on the proposed sale and purchase of the IT system for Litgrid and Baltpool Capacity Mechanism auctions. After reviewing the transaction, the Audit Committee expressed the opinion that it was in line with market conditions that are fair and reasonable with regard to Litgrid shareholders that are not parties to the transaction. Litgrid has a legal obligation, for the implementation of which it is objectively necessary to acquire the IT system of the Capacity Mechanism auctions.

Following the declaration of a national emergency in Lithuania as of 16 March 2020 due to the threat of the spread of coronavirus (COVID-19), the EPSO-G companies applied business continuity and preventive measures: responsible personnel for monitoring the situation and providing information to the management has been appointed; units and personnel performing critical functions and administering the key systems have been identified; additional organizational measures at system control centers are being applied; technical and replacement measures in case of the virus spread have been planned. The companies are also in the process of reviewing emergency management plans, the preparation of additional documentation and implementing measures - lists of critical activities, lists of resources needed to keep those activities going, lists of resources and persons in charge, as well as other documents and measures. During the preparation of the report, the potential impact of COVID-19 on the Company's economic activities was assessed: customer credit risk, income, operating profit, plans for timely implementation of strategic projects.

On 17 April 2020, the EPSO-G Board adopted the Group-wide Compliance Management Policy aimed at protecting the Group companies from financial or reputational damage that may result from internal and external misconduct by managing non-compliance risks, reducing their impact or likelihood of occurrence, and encouraging the employees of the Group to comply with the set requirements and to put them in practice based on EPSO-G values.

9. EPSO-G PROGRESS REPORT ON SOCIAL RESPONSIBILITY

"Our goal is to raise the approach of sustainable development to the strategic level of choices and measurable goals," says Rolandas Zukas, Director General of EPSO-G.

9.1. About the Report

When preparing the Progress Report on Social Responsibility (hereinafter referred to as the "Progress Report" or "Report") EPSO-G is guided by the principles of the Global Compact initiated by the United Nations and the recommendations of the Global Reporting Initiative (GRI) that help assessing the performance as per economic, environmental protection, employees, human rights, market and public relations indicators.

In 2020, the Progress Report on Social Responsibility of the Company for the year 2019 was prepared as an integrated part of the annual financial statements that can also be published as a separate document.

Works and achievements of EPSO-G group of companies in the activity of social responsibility related to behaviour in the market, environmental protection, relations with employees and society done and achieved in 2019 are presented in this Progress Report. The social responsibility directions, actions and progress of the Company are described in the report.

Questions and comments as well as remarks regarding improvement of the Social Responsibility Report are invited to be submitted by e-mail andrius.vilkancas@epsog.lt.

This Progress Report is available publicly on the Company's website https://www.epsog.lt/lt/tikslai-ir-atskaitomybe/socialine-atsakomybe-1

9.2. General Provisions

The companies of EPSO-G group consider that the ways in which the results are achieved play an important role. Therefore, based on good experience gained by the domestic and international companies the companies seek to improve the business practice, to implement a modern management of human resources and to apply natural resource-saving technologies, substances and processes that are not harmful to human health.

When planning its activities EPSO-G group of companies takes into account the economic and social expectations of stakeholders, ensures transparent management, develops ethical relations in the market, introduces measures to prevent corruption and contributes to creating a good business climate in the country.

The Social Responsibility Policy is based on the vision, mission, values of EPSO-G group of companies and the activity directions and goals approved in the operational strategy, specifically the development of regional activities and ensuring the success of the strategic projects, efficient activities, creating and advances organisation.

In order to achieve the objectives established in the Shareholder's Letter of Expectations, the specific objectives have been formed for each direction of EPSO-G strategy, i.e. the objectives pursued during the period of the implementation of the strategy. The measuring indicators have been formed for the strategic objectives. The efficiency of own activities is assessed in the short and long term based on these indicators.

The vision, mission, values, strategy and the activity directions of EPSO-G company as well as information about the implementation of objectives are presented in detail in Sections 1 to 4 of this annual report.

9.3. Harmonious and Sustainable Development

The social responsibility of the companies of EPSO-G group is understood as an indivisible and integral part of a sustainable business.

The companies of EPSO-G group understand a sustainable development of harmonious business as a whole set of economic, social and environmental actions by increasing the general welfare of society in own professional activities and by reducing the permissible environmental exposure limits.

The principles of social responsibility are implemented on the basis of the related policies of EPSO-G group of companies and other valid internal documents.

The following policies apply in EPSO-G Group:

- Corporate Governance Policy. The policy is intended to ensure a good governance practice in EPSO-G group of companies by establishing in the group of companies the uniform principles of corporate governance and reciprocity of the parent company and the other companies of the group.
- Social Responsibility Policy. The policy is intended to improve, based on good experience gained by the domestic and international companies, the business practice, to implement a modern management of human resources, to apply natural resource-saving technologies, substances and processes that are not harmful to human health.
- Transparency and Communication Policy. The policy is intended to help communicate more effectively with each other and with the external stakeholders, i.e. society, shareholder, market regulators, etc.
- Corruption Prevention Policy. The policy is intended to establish in EPSO-G group of companies the basic principles and requirements of prevention of corruption and guidelines for ensuring compliance with them, the implementation of which creates preconditions and conditions for the implementation of the highest standards of transparent business conduct.
- Remuneration Policy. The policy is intended to properly manage wage costs and create motivational incentives in order the remuneration amount would directly depend on the implementation of the objectives that are set for the company and each employee.
- Accounting Policy. The policy is intended to ensure that the stakeholders are able to assess the activity and perspective of the companies of the Group and to make corresponding economic decisions.
- Dividend Policy. The policy is intended to establish clear guidelines for expected equity and return on investment for the existing and potential shareholders while at the same time ensuring sustainable long-term corporate value growth, timely implementation of strategic projects of national importance thereby gradually strengthening confidence in the entire energy transmission and exchange group of companies.
- Interest Management Policy. The policy is intended to create in EPSO-G group of companies the interest management system which is consistent with the common good practice and would allow ensuring that

decisions in the companies of the Group are made in an objective and impartial manner and would also form an environment that is unfavourable to corruption and would increase confidence in the activities of the companies of the Group.

- Policy for the Protection of Sensitive Information. The policy is intended to create a uniform system for the identification, use and protection of confidential information and information constituting trading (know-how) secret, and to help the members and employees of the management bodies of the companies of EPSO-G group protecting the confidential information they were entrusted with against inappropriate and harmful disclosure.
- Policy for the Development and Exploitation of Technology Assets. The policy is intended to consistently implement the principles of management and development of electricity and natural gas infrastructure based on the cost and benefit analysis, to deploy advanced technologies, to manage and develop the energy transmission infrastructure in a socially responsible manner taking into account the occupational safety and environmental requirements.
- Support Policy. The policy is intended to ensure that the support provided is public and does not cast doubt in the society regarding its expediency and transparency of the process of support granting.
- Code of Conduct. Its purpose is to set the same general guidelines of behaviour for communication and cooperation with internal and external stakeholders: employees, customers, contractors, business partners, shareholders, national and municipal authorities, society, etc. The Code's provisions are based not only on the employer's duty, but also on the personal understanding of each employee that his/her proper behaviour improves business reputation and value of the company and the entire group and reduces probability of risk to reputation. The Code's provisions are derived directly from the corporate values, leadership principles of the group EPSO-G and they supplement the associated performance policies.

Internal policies and procedures of the companies:

- Collective agreement;
- The procedure or policy of ethical employment and working conditions;
- The policy and procedure of environmental protection and occupational safety and health;
- Equal opportunities policy.

Policies implementation and objectives

During the reporting period of the cooperation session of the management bodies of the Group companies, it was focused on the ensuring the implementation of policies in the Group companies. A unified evaluation system for policies implementation has been put in place, policy implementation coordinators were appointed.

At the end of the reporting period, EPSO-G had virtually all good governance policies in place, with the exception of compliance, which is due to be adopted in 2020. It is important to us that the provisions of the adopted documents become part of the organizational culture of all Group companies. As a result, in 2019, in all companies of the Group, the progress of the implementation of the provisions provided for in the policies was assessed and the actions discussed by the boards to further increase the efficiency of their implementation in 2020 were discussed.

The aim of the EPSO-G group is to raise the approach to sustainable development to the strategic level of choices and measurable objectives. Ambitious sustainability goals, covering social, economic and environmental issues, can only be achieved through a coordinated effort by the entire group of companies, with the strongest impact in the medium and long term. Given this aspect of inertia, which is particularly acute in the field of climate change mitigation, we intend to take highly targeted and coordinated initiatives with ambitious targets and indicators to measure progress.

In 2020, it is planned to improve the applied sustainability practices, in particular to clearly identify the observable objectives and measurable indicators of the achievement of the set objectives. It is planned to incorporate the sustainable development goals into EPSO-G operational strategy before 2030, which is being planned in 2020.

The information on adoption and entry into force of the policies can be found in Section 7.12 of the Corporate Governance.

9.4. Stakeholders

When implementing the objectives provided for in the operating strategy the boards of the companies of EPSO-G group assess and seek to take into account the socials and economic interests and expectations of the stakeholders.

Each direction of strategic activities is related to one or several stakeholders. The official, partnership or consultative contacts are maintained with the groups or individuals who express their interest in the activities carried out by EPSO-G. The stakeholders are provided with a comprehensive information related to the activities carried out by the company, except for the cases that are dealt with in EPSO-G Policy of Sensitive Information.

The stakeholders having an influence on the success of EPSO-G activities:

Stakeholders	We undertake	Why this group is important	How we cooperate
Customers	• To create professional and trustful partnerships for mutual benefit.	• The companies of the group operate in B2B (business-to-business) field.	• Given the complexity of the services provided and economic expectations, the groups of the company initiate and organise timely information events for the customers.
Employees	• To act purposefully in order a uniform business culture of the companies of the group and the remuneration policy would encourage the employee engagement and motivation when implementing the objectives set in the strategy; • To ensure that the employees of the group have sufficient and timely information about the values, objectives, activity and changes of the group.	• Experienced, competent and value-driven professional employees represent an essential prerequisite for implementing objectives and vision.	• We improve the content and forms of the internal communication; • We conduct the employee engagement surveys and adjust our action plans accordingly; • We follow the uniform provisions of remuneration and social responsibility in respect of the employees; • We organise at least once a year the executives and staff meetings.
Shareholders	• To ensure a sustainable management of the group, its growth and a long-term benefit; • To provide relevant, accurate and timely information that allows the shareholders to assess the group's activities, their perspectives and to take appropriate decisions; • To ensure efficient feedback.	• The success of the strategic projects implemented directly depends on the trust of the shareholders and on fast and timely decisions.	• We organize regular meetings to discuss relevant issues; • We submit at least once in a quarter the reports of financial and non-financial activities regarding the implementation objectives stipulated in the "Shareholder's Letter of Expectations". • We ensure the communication of the most important news of

			the companies of the group on a group scale.
Companies of the group	• To create value through meaningful management solutions; • By responding to a rapidly changing environment to consolidate the strengths of the companies of the group in order to achieve the efficiency of the objectives implementation.	• The results of the Group's activities depend on the targeted and synchronized work of the companies of the group in pursuit of strategic objectives.	• We are the members of the management bodies of the companies of the group; • We apply a functional leadership business model. • We organise and implement at the group's level the uniform operating policies enabling coordination of actions when introducing a good governance practice.
Foreign partners – the operators of energy transmission and biomass exchange	• The ensure in the implementation of strategic objectives the harmonization of the mutually beneficial agreements and actions.	• Synchronization of the electricity transmission systems of the Baltic states with the European energy system, the creation of a regional gas market and the development of biomass trading market directly depend on the involvement of foreign partners.	• We strive to establish and maintain on a regular basis a constructive business relationship based on mutual trust; • We initiate and participate in professional meetings to achieve the objectives provided for in the strategy.
Government representatives	• To provide in an understandable and accessible form a relevant information that would form a reliable basis for assessing in accordance with competence the activities of the companies of the group, the results achieved and the benefits to the public.	• Cooperation with the government representatives is necessary in order to ensure the formation of a coherent and long-term vision of the energy sector and smooth implementation of the projects of national and regional significance.	• We initiate meetings according to the need to discuss relevant issues; • We comment in the area of our competence the relevant issues in the committees of the Seimas of the Republic of Lithuania, in the meetings of the Government of the Republic of Lithuania; • We participate in the activities of the inter-institutional working groups.
National Regulatory Authority	• To ensure consistent compliance with the requirements of the legal acts in the group; • To implement a culture of an open and transparent	• The main activities of the group are regulated. Therefore, it is necessary to ensure effective business	• We provide in a timely manner the information necessary to ensure the functions of the regulatory authority;

	dialogue with the regulator.	relationships based on transparency, openness and responsibility.	• We cooperate during the process of introducing new market mechanisms; • We initiate the meetings to discuss the relevant issues.
Contractors	• To work with professional contractors who adhere to the standards of professional ethics.	• The companies of the group implements extremely complex and complicated projects. Therefore, it is important to raise a high standard of quality, transparency and occupational safety for the contractors.	• We organize annual information events for potential contractors; • We publicly announce in advance the procurement plans and consultations in order to ensure an increased competition among the market players.
Service and product suppliers	• To acquire under competitive conditions high-quality services from reputable suppliers;	• The suppliers supplying high-quality value-generating goods and rendering high-quality value-generating services in a timely manner contribute to the continuity and effectiveness of the group's activities.	• We consult with the market players and carry out market research; • We publish plans of the planned procurements.
Non-governmental organizations (NGOs)	Communication and collaboration with environmental organizations and those promoting operational transparency help identify the needs of society and the ways of addressing them.	The companies of the group carry out a continuous environmental impact monitoring. The companies of the group introduce a good governance practice in the fields of accountability and prevention of corruption.	Together with Lithuanian Ornithological Society we implement the measures to reduce the environmental impact. We consult with Transparency International Lithuania regarding corrections of the actions in implementing the provisions and practice of prevention of corruption.
Trade unions	• To ensure a constructive and positive social dialogue between the employer and the representatives of the employees.	• The employees determine the success of the group of companies. It is important that the employment relationships and the solutions that govern them would ensure a fair and	• By creating conditions for the activities of trade unions and/or work councils. • By entering into collective contract with trade unions and/or work councils. • By discussing the implementation of collective contract during

		uniform treatment of all employees and would ensure their legitimate interests.	periodic meetings with the employees and/or their representatives. • By informing and consulting with the representatives of trade unions and/or work councils when making decisions on employment relationships.
General public and media	• To create added value for the society, business and the competitiveness of the country's economy; • To act in a socially responsible manner; • To provide information that is relevant and provided in an understandable form in accordance with the principles of importance, reliability, comparability and accessibility of information.	• The mission of EPSO-G group: to ensure the implementation of the strategic energy objectives of Lithuania assigned to the group, safe operation of energy transmission systems, to enable benefiting from the possibilities of the effectively operating infrastructure and energy exchanges, and to contribute to the welfare of the society.	• We operate in accordance with the policy of the transparency of the group's activity and communication; • We observe the provisions of the social responsibility policy; • We maintain an impersonal relationship with the media representatives who work in the field of energy when providing sufficient information to evaluate the group's financial and non-financial performance and the ongoing projects.
Local communities	• To increase through coordination of interests the trust of the local communities in the ongoing projects and approval thereof; • To contribute to the growth and the creation of the possibilities of a full-fledged life.	• Support from the local communities created by fostering mutual trust, understanding, cooperation, responsibility, is a very important element of the success of the project.	• The companies of the group share experience on spatial planning; • The information events for the local communities are organized. • In response to the reasonable remarks received during the meetings, the project implementation works are adjusted.

9.5. Social Responsibility Directions and Priorities

The social accountability of EPSO-G involves these directions: business ethics of companies in the market and prevention of corruption, environmental sustainability, awareness-raising of employees, human rights, equality and diversity, occupational safety and health and mutual trust building relationships with stakeholders.

Social responsibility in the market: it is an efficient and transparent business, open and fair cooperation with stakeholders, helping to implement socially responsible business regulations, safe and reliable transmission of

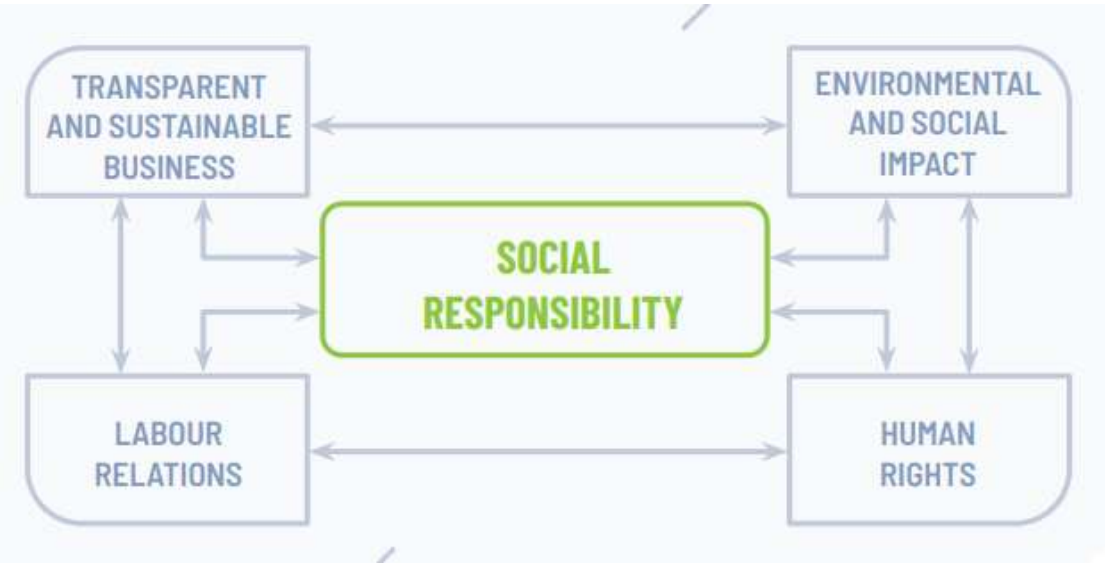
electricity and natural gas to system users, fight against corruption and bribery, ensuring competitiveness, fair tax paying;

Social responsibility in the environmental field: it is an efficient use of natural resources in activities, participation in ecologic preventive programs ensuring ecological landscape and biodiversity, promotion of environmentally friendly attitude among employees, contractors, suppliers and society;

Social responsibility in relations with employees: it is responsibility towards employees, caring for employees' health, safety and equal rights, applying advanced performance management and remuneration systems, creating conditions for the personal and professional development of employees, developing generic competences;

Social responsibility in public relations: development of various social initiatives, volunteering and other projects for local communities and nationally, cooperation with scientific institutions.

9.6. Social Responsibility in the Market: Effective and Transparent Business



Strategic objective of EPSO-G Group: to ensure through effective operation uninterrupted power supply and to enable the market players to freely exchange it. In order to achieve their objectives, the Companies promote open and honest cooperation with stakeholders who help implementing the provisions of socially responsible business.

Accountability

In 2019, the companies of the Group kept accounts in a correct way, and prepared and submitted on a regular basis the reports of non-financial activities that are sufficient for the stakeholders to assess the behaviour of the companies of the Group in the market, the relations with the employees and the society. The companies of the Group seek the standards of ethics, honesty and transparency that are higher than the minimum standards established by the legal acts.

In order to ensure that the stakeholders are able to assess the performance and perspective of the companies of the Group and to make appropriate economic decisions, the financial statements are drawn up in accordance with the Accounting Policy of EPSO-G that establishes the uniform principles, methods and requirements for keeping the accounts of the group forming companies and for drawing up of financial statements and submission thereof to the stakeholders.

In preparation of 2019 report, EPSO-G complied with the following accounting policies:

- Information must be objective, comparable and useful for the internal and external stakeholders;
- Information is reliable, meaningful, timely and understandable;
- Accounts are kept in accordance with the Law of the Republic of Lithuania on Accounting, Law of the Republic of Lithuania on Financial Reporting by Undertakings and Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, other regulatory acts regulating the accounting procedure;
- Accounts are kept and financial statements are prepared and submitted as per the valid International Financial Reporting Standards and clarifications approved by the International Financial Reporting Interpretations Committee that are accepted for use in the European Union.

In accordance with the provisions of EPSO-G Accounting Policy and Transparency and Communication Policy, in 2019, the companies of the Group prepared and regularly publicly published interim and annual activity reports and financial statements as well as information about the shareholder's expectations, operational objectives, declarations of interests and remuneration.

Detailed information on the accounting principles of EPSO-G group of companies is presented in the published financial statements.

Information on compliance with transparency guidelines

EPSO-G group of companies follows Resolution No 1052 of the Government dated 14 July 2010 on the Approval of the Description of the Guidelines for Ensuring Transparency of Activities of State-Owned Enterprises (hereinafter – Transparency Guidelines).

The Transparency Guidelines are binding on the holding company EPSO-G, as it is a state-owned enterprise, classified as a large enterprise, in accordance with the Law on Corporate Financial Reporting of the Republic of Lithuania.

In order to comply with the Transparency Guidelines within the EPSO-G group of companies, the Group applies the Transparency and Communication Policy that addresses in detail the requirements of the Transparency Guidelines and determines their scope of application for companies of the Group.

The implementation of the Transparency Guidelines is essentially ensured through the information disclosed in the annual report and the disclosure of information on the websites in order to provide information to interested parties in accessible and understandable form.

Structured information on compliance with the Transparency Guidelines is provided in Annex I to this annual report.

The holding company EPSO-G also complies with the provisions of the Corporate Governance Code of the Companies listed on NASDAQ Vilnius. The Code applies to the extent that the Articles of Association of the Company do not provide otherwise. The Company discloses how it complies with the provisions of the Governance Code in Annex II to this annual report.

9.5. Respect for social and economic interests

Plans of Development of Electricity Transmission Systems

In 2019, Litgrid updated and on 28 January 2020 coordinated with the NERC the ten-year development plan for the Lithuanian power system of 400 kV, 330 kV and 110 kV networks. It is based on current and projected supply and demand and requirements to ensure security and reliability of supply.

The purpose of the plan – following the assessment of the current state and resolutions of the electricity system, to anticipate possible changes in electricity and power needs, generating capacity and generation in the long run, to forecast the volumes of transmission network development and reconstruction, to assess investment needs, etc.

The plan assesses the challenges facing the country's transmission system for the next decade: to develop and adapt the energy system for synchronization with the networks of continental Europe and to implement the goal set by NEIS - to ensure that by integrating the renewable energy resources, the electricity produced in the country would satisfy 70% of the need by 2030.

The plan is published on external website (http://www.LITGRID .eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-/3850).

Natural Gas Transmission Grid Development Plan

In 2019, following the changes in the NERC procedure for the assessment and coordination of investments of energy companies, the ten-year gas transmission grid development and investment plan is being updated every two years. Therefore, 2018–2027 Amber Grid development plan will be updated in 2020.

The ten-year project provides for the gas transmission system development investments aimed at the achieving the objectives of the strategic natural gas sector of the European Union and Lithuania, i.e. to diversify sources of gas supply, to ensure the security and reliability of gas supply, to promote competitiveness, to integrate the gas markets of the Baltic states into the common European gas market and to develop the common regional gas market of the Baltic states.
2018–2027 plan estimates that the value of investments in gas transmission grid development projects in the next decade will amount to EUR 211.45 million.

It is forecasted that gas consumption in Lithuania will decrease in the next decade, but at the same time the increasing cross-border gas flows to other Baltic countries and the emerging possibility of transporting gas in new directions - a gas pipeline between Poland and Lithuania.

We invite you to get acquainted with the Amber Grid development plan:

https://www.ambergrid.lt/uploads/documents/Gamtini%C5%B3%20duj%C5%B3%20PSO%2010%20m_%20(2018-2027%20m)%20tinklo%20pl%C4%97tros%20planas.pdf

9.6. Public Procurements and Relations with the Contractors

The companies of EPSO-G group implement the projects of the regional and national significance. These are major investment projects. Their success depends on the awareness, trust and support of the shareholders, partners, controlling and regulating institutions and the people of Lithuania. Accordingly, much attention is paid by the companies of EPSO-G in their activities to the supervision of public procurement procedures and the prevention of corruption.

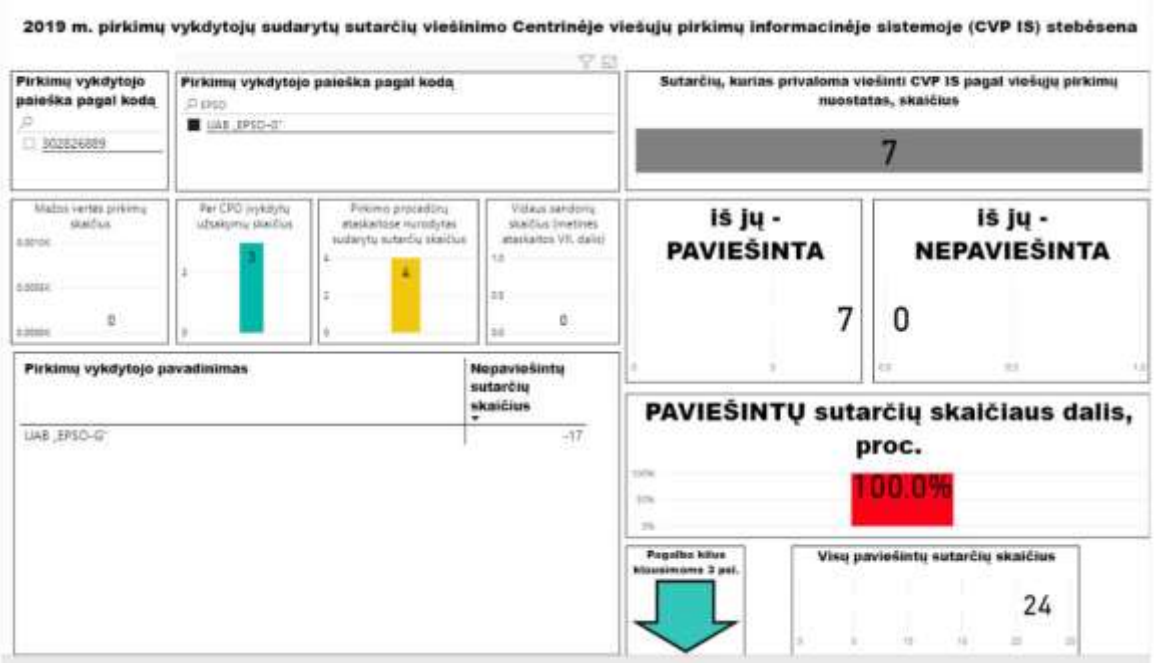
In order to ensure fair competition, in 2019 the executives of Litgrid presented to the contractors the planned projects and planned works for 2020 and subsequent years for which the tenders are planned to be announced.

The company organizes the Contractors' Day in order to induce the interest and participation of partners in open and transparent tenders by increasing the awareness of projects, while market participants learn about the forecasted works from a direct source. In addition, it is one of the ways of promoting fair and non-discriminatory market behaviour and effective dialogue with its participants.

The annual meetings encourage the participation of existing and potential partners in open and transparent tenders. It is a great opportunity for market participants to find out about planned works from the first lips, and for a company – an opportunity to increase the visibility and interest of the projects in progress by encouraging competition between contractors and suppliers. Such meetings will also be held in 2020.

Information on annual procurement plans, their implementation and responsible persons are made public on the websites of the companies of EPSO-G group.

In 2019, the Public Procurement Office (PPO) compared the data provided in the contract publication subsystem and in the annual / procurement procedures / CPO LT reports. According to the second report published by PPO, EPSO-G and all the companies in the Group duly complied with the 100% duty of publishing contracts of mandatory publicity.



In order to ensure transparency of activities, all employees of the holding company EPSO-G and its subsidiaries involved in public procurement declared their private interests publicly.

In September / October 2019, PPO performed an inspection of the procurement of construction works for the Polish-Lithuanian gas pipeline GIPL by Amber Grid and provided conclusions on the identified deficiencies. In response, EPSO-G took steps to remedy the deficiencies identified and to reduce the risk of delays in the ongoing strategic project by renewing Amber Grid GIPL Construction Procurement Commission by delegating additional EPSO-G representatives and inviting representatives of the Central Project Management Agency as observers. Amber Grid signed a construction contract with GIPL in December, after eliminating the violations of public procurement legislation identified by PPO.

Uniform Procurement Policy

EPSO-G group of companies apply effective measures to ensure that procurement is conducted transparently, in accordance with the principles of equality, non-discrimination, mutual recognition and proportionality, and does not recognize fraud, bribery or other unlawful anti-competitive practices.

This is regulated by the Procurement Policy, which aims to follow good procurement practices of international organizations, European Union institutions and other contracting authorities and contracting entities and ensure an efficient, dynamic and transparent procurement process, creating added value for the achievement of goals of EPSO-G group of companies.

The implementation of EPSO-G procurement is primarily based on transparency, ethical conduct, equality, the promotion and proportionality of competition, the enhancement of transparency in procurement processes and the strengthening of anti-corruption measures within the Group.

In 2019, EPSO-G's procurement organizers and members of the Public Procurement Commission submitted private declarations of interest to the Chief Official Ethics Commission. They are publicly available on the EPSO-G website.

Prevention of Corruption

During the reporting period, the companies of the Group purposefully adhered to the provision not to tolerate corruption, nepotism or protecting friends or any other forms of impact trade, to implement in a consistent and systemic manner prevention of corporate and private conflicts of interests.

The companies of the Group encourage the employees and other stakeholders to report directly or anonymously without fear for negative consequences about the possible infringements, unethical or unfair behaviour via trust line pranesk@epsog.lt or directly to the address of the Special Investigation Service of the Republic of Lithuania. Trust lines are also available in subsidiaries.

The Companies' corruption prevention activities are based on national legislation and on voluntary commitments going beyond what is legally required:

- All CEOs of the companies of the Group are directly responsible for the implementation of anti-corruption measures and they set an example for their employees;
- Proportional, risk-based anti-corruption procedures are applied;
- Regular assessment of corruption-related risks is carried out, as well as planning and adaptation of anti-corruption measures, monitoring of anti-corruption performance and, if necessary, implementation of more effective measures.
- Compliance with legal and business ethics standards is mandatory for the group of companies and their employees.
- An employee who is in breach of these obligations shall be subject to disciplinary sanctions, including dismissal, under the internal procedures and grounds of the Company.

In 2019, a study on tolerance of employee corruption was carried out in all EPSO-G group of companies. 335 employees of the group of companies were surveyed and answered the questions of the corruption tolerance study.

The results of the survey will be analysed and presented in the companies in 2020 ongoing anti-corruption training.

The survey is planned to be repeated every year. Based on the obtained results, anti-corruption training topics will be planned.

Information on monitoring of possible cases of corruption is provided in Section 5.3 of this annual report.

9.7. Social Responsibility in the Field of Environmental Protection

Given that the activities of the companies of the Group may have an impact on the environment where the activities are carried out, the decisions taken must have a minimum, reducing and/or reversible environmental impact, to conserve natural resources and contribute to energy efficiency.

Environmental Impact Assessment Standards

The companies of the Group whose activities may have an impact on the environment in 2019 introduced advanced technologies that help reduce the environmental impact of activities or for restoring good environmental condition, apply measures and processes in accordance with the generally accepted environmental standards. The contractors and sub-contractors participating in the procurements were required to behave according to a similar standard.

While undertaking the development, Litgrid carries out the procedures for the assessment of the environmental impact of the electricity transmission lines that are planned to be built and selection thereof, the conclusions of which are assessed during the preparation of technical projects. When preparing the design tasks, the environmental requirements are set for all newly built or reconstructed transformer substations and switchgears. In all cases, efforts

are being made to select less environmentally harmful devices. For example, during the reconstruction of electrical substations the oil equipment that was in service so far is replaced with modern gas installations. This helps reduce the risk of environmental pollution in the event of an accident. Furthermore, this helps reducing the operating costs of the equipment. The contractors are obliged to organize works in such a way as to avoid possible environmental impact or to minimize the environmental impact, to handle the waste generated during the construction and to submit the supporting documents.

In 2019, Litgrid performed model simulations of the noise emission in transformer substations of Vilnius, Šiauliai, Utena, Alytus, Kaunas, Jurbarkas, at the Lithuanian power switchyard and due to preparations for the expansion of LitPol Link.

During the reporting period, the preparation of the study "Determination of Permissible Parameters of Electromagnetic Fields in the Protection Zones of Lithuanian Transmission Network Overhead Lines" was also started. The end of the study is scheduled for July 2020.

In 2019, the first reconstructions of transformer substations were launched. It is planned to use renewable electricity sources for own needs - solar power stations. It is expected to install 13 substations in the solar power station.

At 330 kV transformer substations, Litgrid switches to remote control without permanent on-call staff. Therefore, potentially contaminated rainwater treatment systems with automatic shut-off of the oil-contaminated flow and transmission of information to the System Control Center are installed. Contractors are obliged to organize the work in such a way as to avoid or reduce the potential impact on the environment, to dispose of the waste generated during construction, to account for and declare the imported taxable packaging and to provide supporting documents.

When services are procured, Litgrid requires contractors to implement the environmental management systems in accordance with LST EN ISO 14001 standard. It shall be checked at the time of acceptance of the works performed whether the contractors have fulfilled the requirements, whether they have properly managed waste and do they have the supporting documents.

The Company has implemented environmental and safety and health at work management system that complies with the requirements of international standards ISO 14001 and OHSAS 18001. The system has been integrated into "Amber Grid's" planning, organisation and governance processes. Management of environmental protection and safety and health at work entrenched in the Standards helps ensure continuous reduction of impact on the environment, safety and health of professional risk employees and implementation of the requirements set to performance by international and the Republic of Lithuania legislation, regulations and other normative documents.

The management of Amber Grid, having regard to the social and economic situation, as well as to the financial and technical capacities of the company, is committed to ensuring a continuous improvement of the processes of Environmental Management and Occupational Safety and Health Management, increasing environmental efficiency and efficiency of occupational safety and health, and to lead the company according to the standards acceptable for the management process.

The Environmental Management system and the Occupational Safety and Health Management system introduced in the Company operate as a repetitive process "planning-implementation-verification-analysis". The process involves the employees of all levels in accordance with the clearly established responsibilities for the certain parts of coordination of the management process and the implementation thereof. Taking into account the conditions of the changing economic, social and natural environment, the changing internal and external factors influencing the activities of the Company, the processes of the system are continuously monitored, reviewed and periodically adjusted. The management of the influencing factors is directly associated with the objectives and tasks posed for the implementation of the principles of the Environmental Policy and the Policy of Occupational Safety and Health of the Company.

By improving the environment and working conditions, the Company constantly invests in new equipment, production process technologies, information management, and other measures. In view of the identified aspects of

environmental protection and occupational risk factors arising from the activities carried out by the Company, measures that are reliable and comply with quality standards, reduce environmental impact and ensure the safety and health of workers are applied.

The identification of occupational risk factors and their significance are assessed in accordance with the generally accepted risk management methodologies and the existing international, Republic of Lithuania and the Company's internal legislation, as well as taking into account changes in the continuously increasing performance indicators, the Company's commitments to stakeholders, the duration of exposure, frequency, hazard, consequences, etc.

Energy Saving

According to the principles of climate change, sustainable development and pollution prevention, the companies of the Group implement the activities that reduce energy consumption and greenhouse effect, pay attention to waste amount monitoring and sorting, hazardous waste management, promote the rational management and use of water, paper, energy and other resources.

On 9 October 2017, the Minister of Energy Žygimantas Vaičiūnas and the companies of EPSO-G group signed the agreement on the actions and measures that will help the consumers of the country to save 269 GWh (0.27 TWh). The electricity transmission company Litgrid has committed to save almost 146.6 GWh (0.146 TWh), whereas the gas transmission operator Amber Grid – 122.54 GWh (0.122 TWh) of energy at the end users. EPSO-G will cooperate and coordinate the achievement of saving objectives by Litgrid and Amber Grid.

On 10 July 2019, Amber Grid transferred a part of Amber Grid's amount of energy savings planned to be achieved by the end of 2020 (30,875.5 MWh) to Litgrid, the company belonging to EPSO-G group, free of charge. The opinion of the EPSO-G Group Audit Committee that the transaction is in line with market conditions is fair and reasonable for all its shareholders was obtained.

In 2018, it was estimated that the savings identified for companies of the Group were achieved and therefore the possible energy efficiency directions would be analysed from 2020.

Guarantees of Origin

On 1 June 2019, by promoting green gas production in Lithuania, Amber Grid started providing guarantees of origin for gas produced from renewable energy sources to business.

The system of guarantees of origin makes it possible to identify, register and monitor the origin of the raw gas produced, and consumers of this energy can be assured that the gas they consume is produced using renewable energy sources. This system is beneficial for companies willing to use fuel produced in Lithuania or another EU country to reduce environmental pollution.

Amber Grid, which administers the National Register of Guarantees of Origin for Green Gas, provides guarantees of origin for producers of gas from renewable energy sources and administers their transfer to suppliers or end-users using green gas in their operations.

In 2019, by creating conditions for the development of green gas in Lithuania, Amber Grid joined a European association developing the European cross – border system of exchange guarantees of origin for renewable gas - ERGaR European Renewable Gas Registry). The association, together with registers of guarantees of origin of other countries, transmission or distribution system operators and participants in the renewable gas market, foresees the creation of a single European system ensuring clear and common rules for the exchange of guarantees of origin for green gas among EU countries.

Waste Management and Sorting, Economical Use of Resources

In the context of rational use of energy and water resources, Amber Grid has carried out an audit of consumption of energy, energy resources and water. The audit in technological processes and equipment is intended for estimating

energy and water losses in technological processes and equipment and to foresee the technical, organizational measures for reducing energy and water losses.

There are special containers for sorting glass, plastic and paper in the companies of the Group.

The requirements for air, surface water, groundwater, soil contamination monitoring and protective measures referred to in the permits of Integrated Pollution Prevention and Control are also implemented in Amber Grid. Hazardous and non-hazardous waste generated in the companies is handed over to waste managing companies. Household, paper and cardboard, plastic and glass waste from the activities of the Company's divisions is sorted and handed over to utilities companies.

In 2019, Litgrid decided to give up water in plastic bottles and use tap water and reusable bottles or carafes.

Environmental Impact Monitoring

The companies of the Group whose activities may have an impact on the environment assesses on a continuous basis the potential environmental impact during the project planning and implementation, also carry out environmental impact monitoring after the project has been implemented.

In cooperation with the Lithuanian Ornithological Society, Litgrid implemented the project Implementation of Bird Protection Measures in the Lithuanian High-Voltage Electricity Transmission Grid, which was co-financed by the European Commission and the Ministry of Environment.

The objectives of this project are to reduce the number of deaths of migrating birds, improve breeding conditions of kestrels in Lithuania, monitor bird death cases in the high-voltage electricity transmission network, and provide recommendations for the bird protection.

In 2019, the prudence and wariness of Litgrid colleagues saved the family of a rare bird - a fish hawk – together with its baby birds. Currently, no more than 40 pairs of this species breed in Lithuania.

Although this bird usually settles near wetlands, mature stands near water bodies, on 17 June 2019, Litgrid employees informed ornithologists about the fish hawk's nest in the section of the power transmission line being dismantled in Visaginas municipality.

The ornithologists expressed much appreciation for Litgrid employees contacting them before proceeding with their work. The dismantling of the line was suspended. According to ornithologists, this is an example of how businesses view the protection of natural values in an extremely responsible way.

To ensure the reliability of the electricity transmission network, Litgrid regularly cleans up the protection zones of overhead lines when cutting or pruning trees. Restoring its impact during overhead line maintenance, the company organizes forest planting on the day of the energy professionals for the sixth year in a row.

According to Litgrid, due to this initiative of employees, Lithuanian forests were enriched by more than 11 thousand spruce, pine and birch. In 2019, in Jagelonys forest district, Litgrid employees planted 5 thousand of four-year-old spruces.

Tree seedlings are grown by the tree nurseries of the State Forestry Enterprise from the seeds collected by the foresters themselves. They are collected only from the objects of the seed forest base - seed plantations, genetic reserves, seed stands, selected trees and sets of clones.

9.9. Social Responsibility in Relations with Employees

Human Rights

The companies of the Group create a value-based organizational culture and are in favour of equal rights and equal opportunities of the employees in the workplace regardless of their gender, ethnic origin, race, nationality, social status, age, disability, membership in a political party or association, religious beliefs or sexual orientation.

Any form of harassment, psychological violence, bullying or taking advantage of the position held is intolerable too.

The employees who may have been the subject of unlawful acts can submit a complaint to the responsible person appointed by the company. If the employee is dissatisfied with the result of the complaint examine, such the employee can defend his/her right infringed in accordance with the legal acts.

The employee who witnessed and/or has any suspicion about and/or who is a witness of the case of discrimination, harassment or sexual harassment shall notify thereof his/her direct manager or the responsible person appointed by the Company. The Company ensures confidentiality when examining complaints. Accordingly, all employees and the Company shall treat any information obtained during the investigation of an infringement as confidential. Breach of this provision is considered to be a gross violation of work discipline.

No reports of discrimination or other incidents related to human rights violations at work were received in EPSO-G Group in 2019.

Equal Rights

The companies of the Group ensure that the working conditions are in line with the legislation, international standards and recommendations applicable in the Republic of Lithuania, and seek to create working conditions that respect dignity related to working hours, weekly rest, holidays, occupational safety and health, protection of maternity and adequate work-family relations balance.

For this reason, the companies of EPSO-G systematically analyse the working environment and constantly improve it. To achieve the objectives pursued that are set for the company and improvement, the employee opinion assessments are carried out during the employee satisfaction surveys that are held at least once every two years. The results of the surveys are used for adjusting the activity plans.

Decisions related to recruitment, competence development, remuneration or other pay-outs, promotions are taken in the companies of the Group taking into account objective criteria and factors without discrimination.

No reports of breaches of equal rights at work were received in EPSO-G Group in 2019.

Workforce of the Group is composed mainly of men. This is strongly influenced by the specifics of the activity: women are less likely to choose works of technical engineering profile and those performed outdoors, and specialties directly related to them. In this regard, the Social Responsibility Policy introduces the provision that a proportional gender representation will be sought in the companies of the Group by identifying the measures and actions that help implement this provision.

No reports of gender discrimination were received in EPSO-G group of companies in 2019.

The employees of the companies of the Group are paid equal salary for the same or equivalent work. The amount of salary for a potential or actual employee is determined according to the objective criteria related to the abilities, competence, qualification, experience and knowledge of the employee. According to the Employees' Remuneration Policy of the Group, the companies are encouraged to adequately reward their employees having achieved objectives and exceeding expectations.

Information about the employees, Remuneration Policy and the staff evaluation system is provided in Section 8 of this annual report in the Report of the implementation of Remuneration Policy.

Collective Agreement and Trade Unions

The companies of the Group recognize the right of employees to join trade unions or associations on a voluntary basis and to negotiate with the employer, and maintain a constructive social dialogue.

Trade Union

As of 31 December 2019, Amber Grid trade union united 213 members, with 8 members representing the employees on the renewed Board. The purpose of the trade union is to represent and defend the professional, labour, economic and social rights and legitimate interests of its members. Meetings of trade union representatives and the management of the Company are periodically organized to discuss issues relevant to the trade union.

Litgrid employees are united and their interests are represented by the Trade Union of Electricity Network Employees. In order to achieve closer cooperation and partnership, in 2019, it was agreed on periodic meetings between the trade union representatives and the Company management to discuss issues of mutual interest. At the end of 2019, there were 98 members in the Trade Union of Electricity Network Employees (2018 - 96 members), which is more than one third of the Company's employees.

EPSO-G, Baltpool, and Get Baltic do not have a trade union or employee representatives, respectively, a collective agreement. In order to ensure an equal treatment of employees in the company and the provision of social benefits, as with most of the company's employees, the key benefits, the basics and the scope foreseen in the Labour Code were

Collective Agreement

The collective agreement is intended for representing the rights and legitimate interests of all employees of the Company. The agreement establishes the conditions of labour, wages, social, also economic and professional conditions and guarantees that are not regulated by laws, other normative legal acts.

The employees are subject to additional financial guarantees (accident benefit, sickness benefit, benefit in case of death of a family member, childbirth benefit, benefit for an employee having three or more children or disabled children), additional leave days (after childbirth, death of a family member and other cases) and other guarantees.

With reference to the amendments to the Laws on Personal Income Tax of the Republic of Lithuania, State Social Insurance of the Republic of Lithuania, Sickness and Maternity Social Insurance of the Republic of Lithuania, which entered into force in 1 January 1 2019, in 2019 an agreement was signed regarding the amendment of the collective agreement, which increased the material assistance benefits under the collective agreement, on which an employee pays personal income tax, following the tax reform by a statutory coefficient of 1.289, so that the actual amount of agreed benefits received by employees would not change.

The Company supports the cultural, sporting and tourist activities of the employees, various festive events and other social activities in which all employees of the Company are entitled to participate without discrimination and restrictions.

9.8. Social Responsibility in the Relations with the Society

The companies of EPSO-G group create and maintain open and business relationship with the stakeholders and are accountable to the shareholders and the society for the activities carried out by them. At least once a year, the companies of the Group publicly present financial and non-financial activity reports to their shareholders and/or social partners.

In order to ensure an open dialogue with stakeholders on 7 May 2019, the company Litgrid prepared an activity report entitled "Creating a Value for Society", which presented its activities, the most important results and the nearest plans and challenges. The event, which took place at the Mo Museum, also reviewed the development trends of the country's economy (presenter Tadas Povilauskas, the economist of SEB Bank) and energy security challenges (presenter Dr. Artūras Petkus, Director of the NATO Energy Security Centre of Excellence).

In order to introduce the public to the activities of the company, in 2019 Litgrid organized tours for groups of 8 to 20 people. They take place at the System Management Center (dispatch center) in Vilnius, at the converter stations LitPol Link in Alytus and at NordBalt in Klaipėda.

The guided tours are led by Litgrid's specially trained staff, who tell you in detail and in a comprehensible manner what electricity is like, how dispatchers work in the system control center, how to safely handle electricity.

In 2019, Amber Grid contributed to annual career days for senior schoolchildren organised by Vilnius Gediminas Technical University Lyceum of Engineering. The staff who visited the Lyceum presented the activities of Amber Grid and introduced the students to the profession of a gasman - what knowledge and education is needed in carrying out gas transmission activities.

Amber Grid staff also organized an educational tour of Spindulys Progymnasium for pre-school children. They got acquainted with the safety rules to be observed when using gas, and got to know why a specific smell is given to the gas. The children really enjoyed trying on the clothing worn by the company's employees during the pipeline repairs. A visit to the company's control room, from where Lithuanian gas flows are managed, left a great impression.

Culture of Dialogue with Communities

The group companies inform local communities in advance about ongoing projects in their neighbourhood. During the implementation of the projects, the working time is agreed with residents. The aim is to minimize the inconveniences for the residents arising from he works being done during the period of implementation if the entire project.

As Lithuania is implementing the EU gas interconnection project (GIPL) which will connect Lithuania with Western Europe through Poland, Amber Grid in 2019 has prepared for the launch of the construction of the pipeline in advance. The total length of the gas pipeline that will run from Širvintos district to Lazdijai in the Lithuanian territory will be 165 km. The project work will be directly relevant to more land owners in Lithuania, and indirectly – to residents of nine municipalities.

Therefore, in 2019, Amber Grid proceeded with the long-term project Dialogue Culture and Cooperation for the presentation of a gas pipeline connection between Lithuania and Poland (GIPL) to local communities. 50 meetings took place in 2019, where the GIPL project was presented, emphasizing its importance, goals and benefits.

Dialogue Culture and Cooperation project aims to build long-term relationships with the communities, where the company operates. Such meetings are important for the company, as they allow to hear the opinion of the residents and, if necessary, adjust the project work or its progress accordingly.

Amber Grid representatives plan to continue meetings with the communities, in the territories of which the pipeline construction works will take place in 2020.

In 2019, Litgrid, a company implementing important projects for synchronization with CEN, has also launched a cycle of meetings with local communities. Litgrid employees, together with publicly well-known people - journalist Giedrius Drukteinis, actress and writer Nijolė Narmontaitė, historian Alfredas Bumblauskas - met with the residents of the community in the cities and towns, near which by 2025 synchronization projects will be implemented.

Litgrid strives to minimize the inconvenience caused to the residents during the implementation of infrastructure projects, and new routes are planned very carefully to reduce the impact on the living environment and nature.

In 2019, the planning of the route of the new overhead power line Vilnius - Neris started, during which the representatives of the company met and consulted with township managers, examined all the route alternatives in order to select the most optimal route for all interested parties.

Safe conduct

The current running through Litgrid's maintained power lines have a voltage approximately 500 times higher than the one at home. Electrical discharge can occur if a safe distance is breached, when one is too close - high voltage electricity can also hit at a distance as well.

For this reason, Litgrid is constantly reminding the contractors performing the works in the electricity network of the need to comply with the safety requirements of the workers; the control is also carried out – the company's

representatives visit the locations where the contractors perform the work and inspect the compliance with the work safety requirements and in case of identification of shortcomings, the works are discontinued.

The company has conducted information campaigns in regional media and social networks - information about safe conduct is presented by infographics and feature video films. In 2019, this topic was covered in the regional and local press - over 40 newspapers - articles on safe conduct near high-voltage overhead power lines were initiated by Litgrid.

This was done in the yearly 2019, at the time when agricultural work and tree-logging are at their peak and as a result, lead to an increase in various events caused by unsafe human conduct. To prevent accidents and keep the operation of the network reliable, people need to know what works can be done and at what distance from the high-voltage line, and what to do in case they come up a damaged line.

Safety at work

In celebration of the 100th anniversary of the State Labor Inspectorate (hereinafter - SLI), a project *I will work safely*! was organized, the aim of which, together with representatives of different companies, was to give lessons to 5-6 grade students at 100 Lithuanian schools on the dangers and risks of doing a variety of jobs and tell them about safety measures protecting employees from these hazards.

Litgrid and Amber Grid employees were active participants in this initiative. They, together with VDI representatives, gave lessons for the students of Panevėžys District Miežiškiai Primary school, Pasvalys Svalia Progymnasium and Pasvalys District Pumpėnai Gymnasium. During the safety lesson, students were introduced to gas and electricity, the dangers of working with gas and electricity, and personal protective equipment was demonstrated that students eagerly tried on.

Support policy

The Support Policy is confirmed in the EPSO-G group of companies, which is based on the objectives and values of the operational strategy and the attitude thereof that the support granted must be public and must not create doubts for the society regarding its expediency and transparency of the granting process.

EPSO-G is a state-owned company. Therefore, one of the most important obligations of the company is to pay dividends to the shareholder who allocates them through the country's budget to meet the essential needs of the society. For this reason, in order to implement the objectives provided for in the strategy of EPSO-G the companies of the Group will grant support for the predefined areas.

No support was granted by the companies of EPSO-G group in 2017-2019.

Strands of Support

There are plans to develop cooperation with the communities in the immediate vicinity of which the companies of the Group carry out their activities or implement projects. Education is another strand of support, i.e. support for the individuals studying under the programmes of universities and other higher education institutions that are closely linked to the professional activities of the companies.

The policy which is common for all companies of the group provides that support may be granted for education, culture, sport, social services or other community welfare areas based on four principles, i.e. compliance with the operational objectives, transparency and impartiality, equality and alignment of confidentiality and publicity.

The companies of EPSO-G group will grant support neither for political parties or political campaigns nor for the activities that promote or are associated with gambling or similar activities, alcoholic beverages, tobacco products or other intoxicants nor for other activities that have or may have a negative impact on the society.

A profit share allocated for support in the companies of EPSO-G group of companies is determined annually at the Ordinary General Meeting of Shareholders by forming a reserve for this amount taking into account the profit achieved

of the reporting year and the ongoing projects. A profit share allocated for support shall not be more than 1% of the net profit of the reporting financial year, not exceeding in any case EUR 50 thousand.

In 2020, EPSO-G group of companies has not budgeted for support.

Volunteering

By contributing to the implementation of the objectives of public interest or those that are important for the local community, the companies of EPSO-G group encourage a voluntary unremunerated engagement of their employees in charitable activities.

Environment cleaning campaign

In 2019, for the sixth time, employees of Amber Grid together with their family members participated in the voluntary environment cleaning campaign. In 2019, 99 employees with their family participated in the campaign *We are Doing* (2018 – 90 participants). The employees of Amber Grid employees received thanking from the organizers of the campaign.

Blood donation

In 2019, a civil campaign *Blood Donor Day* was continued in the company Amber Grid. 50 employees of the Company (in 2017, it involved 42 employees) participated in this campaign by donating their blood and thus contributing to saving the health and lives of patients. 25 litre of blood was donated. The National Blood Centre expressed its appreciation to Amber Grid for active participation and for the dissemination of the ideas of gratuitous blood donation.

Charity auction

During the summer fest of EPSO-G employees - dedicated to the implementation of the EPSO-G Group's common values of professionalism, cooperation and progress - the staff charity auction was held. The personal funds raised voluntarily by the employees were donated to the charity and support fund *Ruguté*, assisting children with oncological diseases and the children of Pivašiūnai children's day center *Family Support* by organizing a trip to Vilnius for them.

By contributing to the support of charity and support fund of children with oncological diseases *Ruguté*, 10 Amber Grid employees also participated in a volunteer campaign, during which they decorated *Pinwheels of Favourable Wind*. All the money from the sale of pinwheels donated to the charity and support fund *Ruguté*.

Christmas charity fair

The staff of Amber Grid traditionally invited the youth of the Lithuanian Special Society of Creative Works *Guboja* to their office. Creative disabled artists organised a handicraft exhibition for the employees of the Company before the holidays and offered to acquire them. The charity fair took place in the lobby of the main office of the Company, so the employees of Amber Grid showed a good example for colleagues from other companies – they were also glad to buy souvenirs by contributing personally to the Society's goals.

The Company's employees joined the project *Children's Dreams* and fulfilled the greatest wishes of children growing up in difficult conditions. Toys, clothes, shoes, etc. were donated to make children's Christmas dreams come true.

Volunteering at Food Bank

Several times a year, employees of Amber Grid spend a full day for volunteering at Food Bank warehouse in Vilnius. Colleagues sort out vegetables, bread products, assist in the refrigerator warehouse, by sorting dairy products, meat, fish and other perishable food products. Colleagues sorted out 2-3 tons of food a day that was provided by social organisations to 800 beneficiaries on the same day.

INDICATOR INDEX ACCORDING TO GRI

Indicator code according to GRI Standard	Description	Page
Strategy and analysis		
GRI 102-14	Speech of the Chief Executive of the Company	page 59-62
Description of the company		
GRI 102-1	Company name	page 64
GRI 102-2	Company activity, main brands and services	pages 66-75
GRI 102-3	Address of the company's head office	page 64
GRI 102-5	Property type and legal form	page 64
GRI 102-6	Markets in which the Company operates	pages 66-75; 83
GRI 102-7	Company size	pages 99-105
GRI 102-8	Number of employees	pages 136-137
G4-11	Percentage of all employees who are subject to the arrangements under the collective agreement	pages 157
GRI 102-11	Observance of precautionary principle	pages 109-113
GRI 102-12	External economic, environmental and social initiatives	pages 143-160
GRI 102-13	Membership in national and international organizations	pages 108-109
Ethics and integrity		
GRI 102-16	The values, principles, standards and norms of the organization related to behavioural and ethical codes	Pages 76-77; 129-133 ; 143- 144
Company management		
GRI 102-18	Company management structure	pages 117
GRI 102-19	Delegated powers	pages 140-141
GRI 102-20	Attribution of the leading representatives of the Company and representation in the field of finances, environmental protection and social responsibility	pages 142-144
GRI 102-21	Responsibility in providing information/advice to the shareholders on the issues of finance, environmental protection and social responsibility	pages 142-144

Stakeholders		
G4-24	Stakeholder list	pages 145-148
Report parameters		
G4-28	Report period	page 64
G4-29	Date of the previous report	page 64
G4-30	Reporting frequency	page 64
G4-31	Contact person to answer the questions related to social responsibility	page 142
G4-33	Policy and practices of the organization regarding the external audit of report	pages 113
Management		
G4-34	The management structure of the company, including the top-level committees	pages 115 – 128

List of impacts and specific indicators of the company			
Impact	Description, disclosed mode of management and indicator	External check	Page/Source
Economy			
Economic efficiency	Direct economic benefits received and distributed	Accomplished	Annual report, pages 114-115
Market	Comparison of a standard salary of employees with a minimum wage	Not accomplished	-
Indirect economic impacts	Development and impact of investment in infrastructure and services	Accomplished	The Progress Report on Social Responsibility, pages 150
Environmental protection			
Products and services	Environmental impact mitigation measures for products and services of the Company (G4-EN27)	Partially	The Progress Report on Social Responsibility, pages 153-155
Social area			
Education and training	Programs for improving employee skills and lifelong learning, ensuring continuity of worker	Partially	-

	capacity and helping to manage their careers (G4-LA10)		
Non-discrimination	The number of discrimination incidents and the actions taken to deal with the incidents related to human rights violations (G4-HR3)	Accomplished	The Progress Report on Social Responsibility, pages 156
Local communities	Subdivisions involving the local communities by assessing the impact or development programs (G4-SO1)	Accomplished	The Progress Report on Social Responsibility, pages 158-161

INFORMATION ON COMPLIANCE WITH TRANSPARENCY GUIDELINES

EPSO-G, UAB (hereinafter – EPSO-G or Company) and its subsidiaries comply with the Resolution No 1052 "On the Approval of the Description of the Guidelines for Ensuring the Transparency of State-Owned Enterprises" of the Government of the Republic of Lithuania of 14 July 2010 (hereinafter referred to as Transparency Guidelines)[1].

The Transparency Guidelines are subject to mandatory application by EPSO-G holding company as it is a state-owned enterprise (hereinafter – SOE). In order to fully comply with the Transparency Guidelines in EPSO-G group, the policy of Transparency and Communications was adopted at the Group's level with detailed requirements set out. The document also includes application requirements for the companies of EPSO-G group.

The implementation of the Transparency Guidelines by EPSO-G is largely ensured through information disclosed in the annual report and publication of the information on websites of EPSO-G holding company and corporate websites of the group, in this way disclosing and submitting the information to stakeholders in an accessible and understandable format.

In Article 3 of the Transparency Guidelines, it is indicated that SOE is following the provisions of the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius[2] regarding the public disclosure of information. Information on how EPSO-G complies with the provisions of this code is provided in Annex III of the EPSO-G Annual Report *EPSO-G, UAB Report on Complying with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius*.

Hereinafter the structured information on the implementation of the Transparency Guidelines is presented:

On the EPSO-G website (www.epsog.lt), the following information shall be published/other requirements shall be implemented:	
Company's name, code and register, in which the data on the Company is collected and stored, head office (address)	Implemented
Legal status if EPSO-G is restructured, reorganised (manner of reorganisation is indicated), in liquidation, in bankruptcy or bankrupt	Not applicable
Information on the authority representing the State, i.e., Ministry of Energy, and link to its website	Implemented
Goals, vision and mission of the activities	Implemented
Structure	Implemented
Data on the Chief Executive Officer*	Implemented
Data on the chairman and members of the Board*	Implemented
Data on the chairman and members of the Audit committee*	Not applicable
Names of the committees, data on their chairmen and members*	Implemented
**The following data is provided: name, surname, date of occupying the position, other executive positions in other legal entities, education, qualification, and professional experience; it is indicated if the member of the collegial body is elected or appointed as an independent member.*	
Nominal amount (in euros and cents) and part (in percentage) of shares in the EPSO-G authorised capital owned by the State.	Implemented
Specific obligations established by the recommendations approved by the Minister of the Economy and Innovations are met: goals of the specific obligations, budget appropriations allocated in the current calendar year for the performance of these goals and legislation based on which SOE is assigned to execute the specific obligation are indicated, execution provisions for the specific obligation are established and/or the pricing is regulated.	Implemented

[1] *In accordance with Article 17.11 of the Transparency Guidelines, if transparency guidelines are not complied with, reasoning for it is provided.*

[2] *Corporate Governance Code for the Companies Listed on Nasdaq Vilnius approved by Protocol No 19-63 at the Nasdaq Vilnius, AB Board Meeting on 15 January 2019.*

Information on initiatives and tools of social responsibility, significant investment projects that are being implemented or planned	Implemented
If EPSO-G is a member of other legal entities (not applicable to subsidiaries and second-tier subsidiaries), names, codes, and registers, in which such data on the Company is collected and stored, head office (address), and websites of such legal entities are indicated	Not applicable
Set of EPSO-G annual financial reports, EPSO-G annual report, and the conclusion of the auditor of EPSO-G annual financial reports shall be published on the EPSO-G website within 10 working days of the confirmation of the set of annual financial reports	Implemented
Set of EPSO-G intermediate financial reports and EPSO-G intermediate reports shall be published on the website not later than within 2 months of the end of the reporting period	Implemented
Taking into consideration that EPSO-G is a parent company, the following information shall be additionally provided on the EPSO-G website (www.epsog.lt):	
Structure of EPSO-G corporate group	Implemented
Of EPSO-G subsidiaries and second-tier subsidiaries:	
Name, code and register of the company in which the data on the Company is collected and stored, head office (address)	Implemented
Website addresses	Implemented
EPSO-G shareholding (in percentage) in the authorised capital of the companies	Implemented
Annual consolidated financial reports and consolidated annual reports	Implemented
On the EPSO-G website (www.epsog.lt), the following documents shall be published/other requirements shall be implemented:	
Articles of Association of EPSO-G	Implemented
Letter of the Ministry of Energy on determining the government's goals and expectations of EPSO-G	Implemented
Strategy of activities or its summary in cases when confidential information or information that is viewed as a commercial (industrial) secret is present in the strategy of activities	Implemented
Remuneration policy including the establishment of the wage of the EPSO-G Chief Executive Officer and wages of members of EPSO-G collegial bodies and committees	Implemented
EPSO-G annual and intermediate reports	Implemented
Sets of annual and intermediate financial reports as well as conclusions of the annual financial report auditor covering a period of at least 5 years	Implemented
Aforementioned documents are published in PDF format and technical possibilities to print them are created	Implemented
In the sets of financial reports and reports, the following information shall be provided/other requirements shall be implemented	
EPSO-G keeps accounts in order to ensure the composition of the financial reports in accordance with International Accounting Standards	Implemented
EPSO-G provides a set of intermediate financial reports covering the period of 6 months	Implemented
Notwithstanding its annual report, EPSO-G additionally prepares an intermediate report covering the period of 6 months	Implemented
In the annual EPSO-G report, notwithstanding the content requirements established in the Law on Financial Reporting by Undertakings, the following information shall be provided additionally[3]:	

[3] *If information is considered as a commercial (industrial) secret of the SOE or as confidential information, SOE can maintain this information undisclosed; however, in its annual report, SOE shall indicate that this information is undisclosed and provide a reason for not revealing it.*

Brief description of EPSO-G business model	Implemented
Information on substantial events that happened during the financial year and after it (until the preparation of the annual report) and were considered significant to the EPSO-G activities	Implemented
Implementation results of goals established in the strategy of activities	Implemented
Indicators of profitability, liquidity, asset turnover, and debts	Implemented
Implementation of specific obligations	Implemented
Implementation of the investment policy, as well as investment projects and investments implemented and planned during the reporting year	Implemented
Implementation of the risk management policy applied in EPSO-G	Implemented
Implementation of the dividend policy	Implemented
Implementation of the remuneration policy	Implemented
The general annual wage fund as well as the average monthly wage according to a position and/or divisions	Implemented
In its annual report or annual activity report, SOE is recommended to provide information regarding the assurance of environmental, social, staff, and human rights, as well as information on its fight against corruption and bribery if the preparation of social responsibility report is optional	Implemented
In the consolidated annual statement, the structure of the corporate group is presented as well as the name, code and register, in which data on the Company is collected and stored, head office (address) of each Company, shareholding (in per cents) in the authorised capital of the subsidiary, results of the financial year of financial and non-financial activities.	Implemented
In the intermediate report of EPSO-G, a brief description of EPSO-G business model, analysis of financial activity results of the reference period, information on significant events that have happened during the reference period as well as indicators of profitability, liquidity, asset turnover, and debts as well as their changes are provided in comparison with a corresponding period of the previous year	Implemented

UAB EPSO-G Notice of Compliance with the Corporate Governance Code for the Companies Listed on AB NASDAQ Vilnius

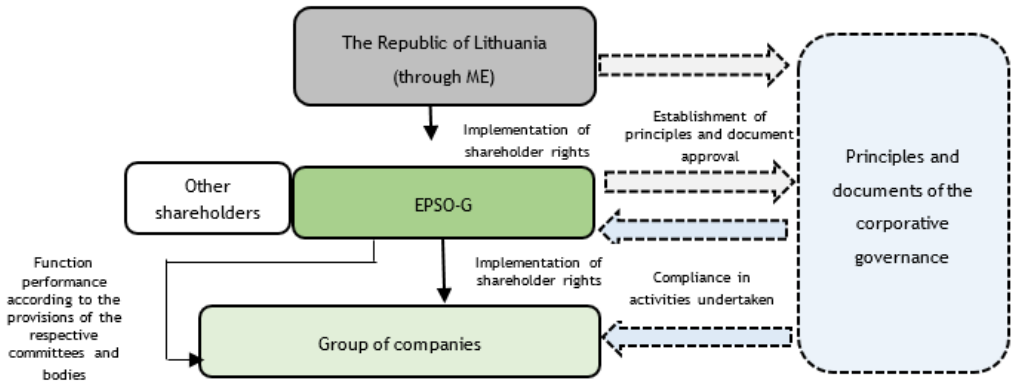
UAB EPSO-G (hereinafter referred to as the "Company" or EPSO-G), acting in accordance with the Description of the guidelines ensuring the transparency of activities of state-owned enterprises approved by the Resolution No 1052 of the Government of the Republic of Lithuania dated 14 July 2010 and the Transparency and communication policy of EPSO-G group of companies, hereby discloses its compliance with the provisions of the Corporate Governance Code for the Companies listed on AB Nasdaq Vilnius. In the event of non-compliance with the Code or with certain provisions thereof, certain non-complied provisions and the reasons of non-compliance must be specified.

The implementation of the recommendations of the Corporate Governance Code for the Companies listed on AB Nasdaq Vilnius is materially ensured through information disclosable in the annual report and the extensive information disclosure on the EPSO-G website to provide the information to stakeholders in an accessible and comprehensible format.

1. Free-form summary of the corporate governance statement

The fully state owned EPSO-G holding is the parent company of EPSO-G group of companies (hereinafter referred to as the "Group"). The shareholder rights and obligations of EPSO-G holding are implemented by the Ministry of Energy of the Republic of Lithuania. It's corporate governance structure and the governance model is set in the Articles of Association of the Company, the corporate governance guidelines of UAB EPSO-G group of companies approved on 24 April 2018 by the Ministry of Energy, the sole shareholder of the holding company EPSO-G as well as the corporate governance policies set by the holding company across the group. All the above documents are made publicly available on the website of EPSO-G and corporate websites of the group's companies

Principal scheme of the implementation of corporate governance of EPSO-G.



Corporate governance structure:

- General Meeting of Shareholders;
- The Board (five members, three of whom are independent members, two members are nominated by the sole shareholder the Ministry of Energy);
- Committees operating at the Group level:
    - Remuneration and Appointment Committee (majority of the independent members);

- Audit Committee (majority of the independent members);
- Innovation and Development (majority of the independent members).

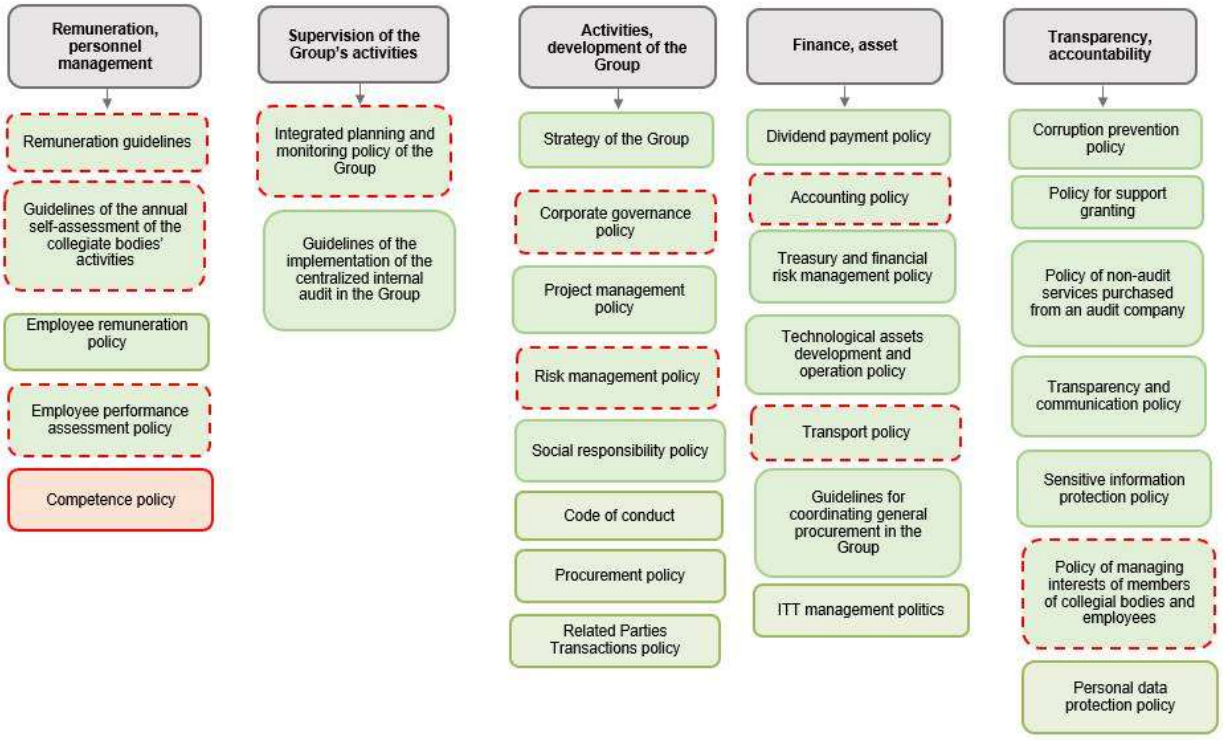
- Chief Executive Officer.

The Group has a centralised internal audit. In order to ensure the independence of the internal audit, it is established that the Head of the internal audit is being appointed and dismissed by the Board of UAB EPSO-G, which consists of independent members majority. The internal audit shall also be accountable to the Audit Committee, which also consists of independent members majority. The internal audit recommendations are analysed by the Board of the Company, which also approves the plan of measures for the implementation of recommendations.

On the basis of the policy of risk management of UAB EPSO-G group of companies, the Company implements a unified Group's risk management system according to the COSO ERM standards applicable in the international practice, setting out risk identification, assessment and management principles and responsibilities. Risk management coordination is performed at the Group level.

The operating policies of the Group are intended to implement a consistent and effective organizational management system helping the employees in successful implementation of important strategic projects and transparent and effective benefit creation for both the people of the country and the business. To ensure the efficiency of the operating policies, the Company annually reports on the progress of implementation of the operating policies.

Operating policies currently applicable in the Company:



Explanatory notes:

– The policy changes made and a new version of Group policy adopted in 2019.

– The new Group policy approved in 2019.

The report on the governance of state-owned enterprises states that EPSO-G Group is implementing and adhering to the principles of good governance. The group has been assigned the title as the leaders among the state-owned enterprises in terms of transparency and accountability A+ with overall rating set at A.

This was set by the "Good Governance Index for Public Institutions" assigned by the state run Monitoring and Forecasting Agency (SIPA). 2018/19 ". The SIPA Good Governance Index is the most widely used tool for assessing the quality of governance of all Lithuania's SOEs. According to the 240 criteria, the index comprises three main dimensions for evaluation: transparency, collegial bodies and strategic planning and implementation.

In the transparency dimension, EPSO-G has been assigned the highest A + rating with areas for improvement in future sustainability practices identified.

The highest possible rating, "A +", was also assigned for the work of collegial bodies, their selection process, their competence and their involvement.

EPSO-G's strategic planning, implementation and oversight were rated A+ with overall valuation of this criteria "A-" influenced by regulatory asset write-downs and high level of financial liabilities of EPSO-G due to outstanding financial obligation to pay "Ignitis" for the shares of "Litgrid" AB subsidiary.

In preparation for 2020, as part of its action plan, EPSO-G holding company shall focus on improving its governance standards in line with SIPA recommendations.

2. Structured table:

PRINCIPLES/RECOMMENDATIONS	YES/NO/ NOT APPLICABLE	COMMENTS
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights. The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.		
1.1. All shareholders should be equally provided with access to the information and/or documents established in the legal acts on equal terms to participate in the decision-making process where significant corporate matters are discussed.	YES	The Company is state-owned by the sole shareholder.
1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to their holders.	YES	All shares of the Company are ordinary registered shares of EUR 0.29 par value.
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	NOT APPLICABLE	The Company has the sole shareholder and its shares are not listed on the stock exchange.

1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	YES	Article 43 of the Articles of Association of the Company specifies the cases when the approvals of the sole shareholder are required - these cases are established with regard to the fact that the underlying assets of the Company are the shares of the subsidiaries.
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	NOT APPLICABLE	The Company has the sole shareholder and its shares are not listed on the stock exchange.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	NOT APPLICABLE	The Company has the sole shareholder and its shares are not listed on the stock exchange.
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and *in absentia*. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	YES	The sole shareholder has an option of voting in writing.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	NOT APPLICABLE	The Company has the sole shareholder and its shares are not listed on the stock exchange.

1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	NOT APPLICABLE	The Company has the sole shareholder and its shares are not listed on the stock exchange.
1.10. Members of the company's collegial management body, heads of the administration[1] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	NOT APPLICABLE	The Company has the sole shareholder and its shares are not listed on the stock exchange.
Principle 2: Supervisory board 2.1. Functions and liability of the supervisory board The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company. The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	NOT APPLICABLE	Supervisory Board is not formed in the Company.

[1] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[2] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2. Formation of the supervisory board 2.2. The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	NOT APPLICABLE	Supervisory Board is not formed in the Company.

[2] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and operational procedures.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
Principle 3: Management board 3.1. Functions and liability of the management board The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.		
3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	YES	Article 39 of the Articles of Association of the Company defines that the Board approves the Company's strategy which also comprises a formulated joint mission and vision of the group of companies. In addition, the Board regularly reviews reports on the implementation of the strategy carrying out its supervisory function.

3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs *inter alia* the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	YES	Article 44 of the Articles of Association of the Company provides that the Board of the Company performs supervisory functions.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	YES	Articles 39 and 41 of the Articles of Association of the Company defines that the Board approves the documents for companies of the group (e.g. guidelines, policies, procedures, etc.), forms the joint corporate governance policy of the group of companies and sets the basic principles of such corporate governance, guidelines, codes of conduct and other regulations of indicative nature applied for the companies of the group. In addition, by separate decisions, the Board appoints the CEO to provide regular reports on the indicators followed by the Board (e.g. the Company's strategy, activity plan, budget etc.).
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	YES	The Company has a variety of documents to ensure the highest level of internal control, ethics and compliance management tools, such as: internal audit is accountable to the Board which is formed from external members (3 members are independent); the Audit Committee is composed of the majority of independent members, to whom internal audit is also accountable; - the Company applies the Code of Conduct and the

		Corruption Prevention Policy of UAB EPSO-G group of companies, the Sponsorship and Charity Policy of UAB EPSO-G group of companies, the Interest Management Policy of UAB EPSO-G group of companies, the Risk Management Policy of UAB EPSO-G group of companies, the Transparency and Communication Policy of UAB EPSO-G group of companies, etc.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	YES	The Articles of Association of the Company defines that the Company's CEO is appointed by the Board taking into account the recommendations of the Remuneration and Appointment Committee. Article 81 of the Articles of Association of the Company defines that, in assessment of suitability of the candidate for the position of the CEO, the Board shall consider his/her compliance with requirements specified by these Articles of Association and regulations, and therefore may request that the candidate submits documents supporting this compliance and/or contact competent authorities for obtaining necessary information about the candidate.
3.2. Formation of the management board		

3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	YES	The election of the members of the Board of the Company is carried out in compliance with the procedures set by the Government of the Republic of Lithuania. In the process of election it is ensured that the Board consists of at least 3 (three) independent members, the independence whereof shall be defined following the criteria laid down in the Description of the Candidates approved by the resolution No. 631 of the Government of the Republic of Lithuania dated 2015 June 17 and the Policy of Management of Interests of Members of Collegial Bodies, Executives and Employees of the Company Group as well as the requirements set forth by other applicable legal acts; also seeking for the Board members to have competences taking into account the areas of responsibility and functions of the Board; when possible, the employees of the Company shall not be appointed to the Board. The Board members have a yearly assessment of their performance. In addition, the Remuneration and Appointment Committee evaluates the performance of the Board on an annual basis with recommendations on performance improvement.

3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	YES	Article 33 of the Articles of Association of the Company provides that the meeting, when assessing the suitability of a candidate for membership of the Management Board, to assess the compliance of the candidate with the requirements set out in the articles of association and applicable legislation. According to Art. each candidate for membership of the Board must submit a declaration of interest of the candidate to the General Meeting of Shareholders. Information about the appointed members of the Board is be published and updated on the Company's website. The annual report does not repeat this information, but the annual report contains information about the chairman of the board, the CEO, the chief Financial officer and Chief Internal Auditor.
3.2.3. All new members of the management board should be familiarised with their duties and the structure and operations of the company.	YES	The Board members are introduced to the Company's structure and operations by sharing key corporate documents of the Company.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	YES	The General Meeting of Shareholders to which the Board is accountable shall elect Board members for 4-year term of office. A member of the Board may continuously serve maximum 2 subsequent full terms of office, i.e. no longer than 8 years in a row.

3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	YES	The Articles of Association of the Company provides the criteria for which a person cannot be elected as a member of the Board. The Board must be chaired by an independent member, according to the Article 52.
3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	YES	The Company's taken minutes record the attendance of the Board members and voting in decision-making process. The attendance report is disclosed in the Company's annual report. The Board members perform an assessment of his/her activities on annual basis, the results of which are submitted to the shareholders and the Remuneration and Appointment Committee. The Board meeting attendance report is publicly provided in the Annual Report.
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent, it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company related circumstances.	YES	The Company's website and Annual Report contain information about the members of the Board of the Company, specifying the independent members.
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	YES	The Articles of Association of the Company defines that the General Meeting of Shareholders by its decision, defines the remuneration guidelines for work on the Board of the Group and its subsidiaries.

3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to non-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	YES	Taking into account the objective to monitor the absence of conflicts of interest of the members of the Board of the Company, each year the members of the Board update their declarations of interests. The Company has a policy of management of the interests of the members of the collegial bodies, managers and employees of the EPSO-G UAB Group. In addition, the Articles of Association of the Company stipulates that the members of the Board may have another job or occupy another position compatible with their activities in the Board, including without limitation the managing positions occupied in other legal entities, a job in a state or statutory service, position in the Company and in other legal entities (in observance of the restrictions laid down in Article 32 of these Articles of Association) only with prior notice to the Board. The Board members have signed commitments to protect confidential information. There are no non-compete agreements concluded with the members of the Board – the need for such agreements was not established.

3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	YES	The Board carries out an assessment of its activities every year and prepares a performance improvement plan on its basis. The results of the assessment of the Board's performance are presented in the Company's Annual Report.
Principle 4: Rules of procedure of the supervisory board and the management board of the company The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	NOT APPLICABLE	Supervisory Board is not formed in the Company.
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	YES	The Articles of Association of the Company stipulate that the Board takes its decisions in the Board meetings that are usually convened as necessary for the Board to be able to properly perform its functions and take decisions attributed to its competence. At the end or at the beginning of each year, the Board of the Company approves the schedule and activity plan of the current year (preliminary questions for the respective Board meeting).

4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	YES	According to the rules of procedures of the Board, the material shall be submitted to the Board 5 working days prior to the pre-scheduled date of the regular meeting.
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	NOT APPICABLE	Supervisory Board is not formed in the Company.
Principle 5: Appointment, remuneration and audit committees 5.1. Purpose and formation of committees The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest. Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.		
5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the appointment, remuneration and audit committees[3].	YES	The Company operates the Remuneration and Nomination Committee and the Innovation and Development Committee formed by the Board of EPSO-G (its first meeting held on 06/01/2020, more

[3] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited-to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	YES	details are contained in the Annual Report) and operate in accordance with the rules adopted by its constituent body. EPSO-G's sole shareholder appoints a group - wide Audit committee which operates in accordance with the statutes approved by its constituent body. Given the close relationship between remuneration and nomination issues, experts with the same qualifications are required to address these issues, therefore it was decided to form a single Remuneration and Nomination Committee.
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	NOT APPLICABLE	Please refer to Comment under Item 5.1.1.
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	YES	Sections 7.8 and 7.9 of the Articles of Association of the Company regulate the formation and competence of the committees of the Group. The said Articles of Association state that the Remuneration and Nomination and Audit Committees shall consist of at least 3 members. The Remuneration and Nomination Committee shall ensure that at least one of the 3 members is independent and the Audit Committee shall at least 2 independent members. The Chairmen of the Remuneration and Nomination and Audit

		Committees shall be independent members of the Committees and neither shall serve as Chair of the Board. Not all members of the Remuneration and Nomination and Audit Committees are appointed by the EPSO-G Management Board. One member shall be appointed to each of the Committees on the basis of merit by external selection to the seat of the independent committee.
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	YES/NO	Committees are mandated in the EPSO-G Articles of Association and by the decision of its constituent body - the Remuneration and Nomination Committee is approved by the EPSO-G Board and the Audit Committee is approved by the sole shareholder as authorized by the Bank of Lithuania Article 5). The rules of procedure of the Committees shall be made public on the EPSO-G website. Committee composition, activities, etc. information is provided in the Group's annual report.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	YES	The Rules of Procedures of the Committees provide for the right of the members of the Committees to invite, at their discretion, to their meetings the members of the bodies, employees, representatives, candidates for certain positions of UAB EPSO-G group of companies, or other persons, and to obtain from them the necessary explanations

		within their competence as well as require for that purpose that necessary actions would be carried out needed for the performance of the functions of the Committees.
5.2. Appointment committee		
5.2.1. The key functions of the appointment committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The appointment committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.	YES	The Remuneration and Appointment Committee of UAB EPSO-G serves as the advisory body to the Board, the main functions of which are the following: - assists in the selection of candidates for members of the collegial bodies in all undertakings of the group of companies; - provides recommendations for the undertakings of the group of companies on the appointment of members of the collegial bodies, conclusion of contracts with them and determination of remuneration for them; - provides recommendations on the policies of the group of companies that govern the remuneration policy and employee performance assessment;

		- provides recommendations on the planning system of shifts of critical positions.
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Appointment Committee.	YES	It is defined in the Rules of Procedures that that the right of initiative to convene the Remuneration and Appointment Committee is exercised by the Boards or managers of the group of companies, as well as to propose the agenda of the meeting by submitting issue-related material and draft resolutions. This provision is not applied, as no employees of the Company are appointed to the Board.
5.3. Remuneration committee		
The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	YES	Please refer to Comment under Item 5.2.1.
5.4. Audit committee		

5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[4].	YES	The Audit Committee of UAB EPSO-G serves as an advisory body to the Board of UAB EPSO-G on matters within the scope of the Committee, the main functions of which are the following: - supervises the process of audit and financial reporting of the group of companies; - takes responsibility for ensuring compliance with the principles of independence and objectivity of the auditors of the Group's companies and audit firms; - takes responsibility for monitoring the internal control, risk management and internal audit systems, effectiveness of operational processes of the Group's companies; - takes responsibility for monitoring the provision of non-audit services by the auditor of the Group's companies and/or audit firm; - ensures the functioning of complaints system
5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.		

[4] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

		and complaints handling; - evaluates transactions with related parties.
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	YES	The Rules of Procedures of the Audit Committee stipulate that the members of the Committee, at their own discretion, may invite to their meetings the members of the bodies, employees, representatives, candidates for certain positions of the group of companies, or other persons, and obtain from them the necessary explanations within their competence, as well as require for that purpose that necessary actions would be taken for the performance of the functions of the Committee.

5.4.4. The audit committee should be informed about the internal auditor's work programme and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work programme of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	YES	The Audit Committee is informed periodically, at least quarterly, of the Internal Audit Reports and, at least once every six months, of the Internal Audit Plan and may make recommendations to the Boards of the Group. The Audit Committee organizes meetings with external auditors to discuss the auditor's work program and any uncertainties that may arise during the audit, and the external auditors discuss their findings and recommendations. The audit firm shall make an annual statement of independence to the Audit Committee and to the companies at the beginning of the annual audit.
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	YES	The terms of reference of the Audit Committee provide that the Audit Committee shall ensure the effective functioning of the complaints system and the proportionate and independent investigation of complaints submitted. In exercising this function, the Chairman of the Audit Committee is immediately informed of significant complaints received, as well as periodically reports to the Audit Committee on all complaints received by the Group companies, their investigation and decisions taken on the basis of the findings of investigations.

5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	YES	The Rules of Procedures of the Audit Committee stipulate that the Audit Committee shall submit quarterly activity report to the Board of EPSO-G. In addition, the Committee submits annual report for the General Meeting of Shareholders and the Board of EPSO-G.
Principle 6: Prevention and disclosure of conflicts of interest The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies. The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept *"stakeholders"* includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.		
Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	YES	Such an obligation is set out in the rules of procedures of the Board, an agreement signed with a Board member and the policy of managing the interests of members of the collegial bodies, managers and employees of UAB EPSO-G group of companies. 34 Article of the Articles of Association of the Company provides that every candidate for member of the Board must immediately inform the Board of any new circumstances that may give rise to a conflict of interest.
Principle 7: Remuneration policy of the company		

The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	YES	The Company applies the Guidelines on the establishment of remuneration for the activity at UAB EPSO-G and corporate bodies of UAB EPSO-G group of companies approved by the sole shareholder of UAB EPSO-G, which are publicly available. The Company applies the Remuneration Policy of UAB EPSO-G group of companies and Employee Performance Assessment Policy of UAB EPSO-G group of companies in full. Both documents are publicly available.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	YES	All the possible forms of remuneration of the collegial bodies and the personnel are established in the Guidelines on the establishment of remuneration for the activity at UAB EPSO-G and corporate bodies of UAB EPSO-G group of companies and the Remuneration Policy of UAB EPSO-G group of companies, which are both publicly available.
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	YES	The Company applies the Guidelines on the establishment of remuneration for the activity at UAB EPSO-G and corporate bodies of UAB EPSO-G group of companies, which regulate the fixed remuneration for members of collegial bodies. The members of the Board are not paid remuneration

		linked to the results of the Company.
7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	YES/NO	The Remuneration Policy of UAB EPSO-G group of companies stipulates that the Group's companies do not conclude advance agreements on termination benefits (except for the CEOs whose terms of employment are determined by the Board). The amounts of benefits related to the termination of employment relationships are determined by taking into account the mandatory minimum amounts of such benefits under labour law, excluding exceptional cases where there are objective reasons for the agreement on higher benefits. The relevant Board of the Group's company shall be informed of the disbursement of such benefits and the grounds for their payment at its forthcoming meeting.
7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	NOT APPLICABLE	The financial incentive scheme is not applied in the Company.

7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	YES	Information on the implementation of the Company's Remuneration Policy and average salary levels of individual employee groups is publicly disclosed in the Company's Annual Report, on the Company's website. Public information on the remuneration of employees is provided on a quarterly basis on the Company's website.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	YES	The remuneration of the members of the Board of the Company is determines by the General Meeting of Shareholders of the Company. Remuneration, is subject to the Guidelines on the establishment of remuneration for the activity at UAB EPSO-G and corporate bodies of UAB EPSO-G group of companies, which are approved by the sole shareholder of UAB EPSO-G. Such schemes are not applied in the Company.
Principle 8: Role of stakeholders in corporate governance The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept *"stakeholders"* includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	YES	The Company applies the Transparency and Communication Policy of UAB EPSO-G group of companies, which establishes goals to increase awareness and understanding of stakeholders about the activities of UAB EPSO-G

		group of companies and individual group companies; to ensure employee engagement; to create and maintain sustainable relationship with stakeholders based on the mutual respect.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorised capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	YES	The Company, together with the representatives of the Company's employees, conducts consultations, negotiations and briefings on the optimisation processes implemented in the Company. Stakeholders can take part in the corporate governance to the extent permitted by law.
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	YES	Please refer to Comment under Items 8.1. and 8.2.
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	NO	The Corruption Prevention section of the Company's website contains the Trust Line contacts. In the prepared notification form, you are invited to report on the breaches of legislation and conduct, violations of ongoing economic transactions and accounting; bribery, bribery, corrupt practices, affectation of trade, abuse; conflicts of interest, nepotism and cronyism; breaches of transparency, equality, non-discrimination, proportionality and impartiality in procurement conducted by the executives and the employees of UAB EPSO-G and directly or indirectly controlled companies (LITGRID AB, Amber Grid AB, BALTPOOL

		UAB, TETAS UAB, Power Link Service UAB, GET Baltic UAB). The information is sent to this address only to an EPSO-G corruption prevention officer, who ensures the confidentiality of its sender. The Audit Committee acting UAB EPSO-G group of companies-wide ensures the functioning of the system of lodging complaints and their handling. It is expected that a system will be established in the near future to provide information to a group-wide Audit Committee.
Principle 9: Disclosure of information The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.		
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:	YES	The Transparency and Communication Policy is established at UAB EPSO-G. This information is disclosed in the Company's Annual Report and on the Company's website.
9.1.1. operating and financial results of the company;	YES	-
9.1.2. objectives and non-financial information of the company;	YES	-
9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	YES	-
9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	YES	-
9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	YES	-
9.1.6. potential key risk factors, the company's risk management and supervision policy;	YES	-
9.1.7. the company's transactions with related parties;	YES	-

9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	YES	-
9.1.9. structure and strategy of corporate governance;	YES	-
9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	YES	-
9.2. When disclosing the information specified in Item 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	YES	UAB EPSO-G, as a parent company, discloses information on the financial results of the Group and the operations of the companies of the Group.
9.3. When disclosing the information specified in Item 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	YES	This information is disclosed in the Company's Annual Report and on the Company's website.
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	NOT APPLICABLE	The Company has the sole shareholder and its shares are not listed on the stock exchange.
Principle 10: Selection of the company's audit firm The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	YES	An independent audit firm is appointed by the General Meeting of Shareholders.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	YES	The Audit Committee operating at the Group level is actively involved in the selection process of an auditor. The Audit

		Committee provides a recommendation to the Board on the auditor's nomination. The final decision shall be made by the General Meeting of Shareholders, convened by the Board, which also proposes draft decisions.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	YES	The audit firm shall provide non-audit services in accordance with the policy approved by EPSO-G UAB Audit Committee for the procurement of non-audit services of the EPSO-G group of companies by the audit firm or any network to which the audit firm belongs. The fee received by the audit company during the reporting period for non-audit services rendered to the Group companies is disclosed in the annual report. The provision of non-audit services is overseen by a group-wide audit committee, which, as mentioned in paragraph 10.2, actively participates in the auditor selection procedure. Thus, the Audit Committee has all the necessary information about the auditors when making the auditor's recommendation to the Board.