EPSOG
ENERGY EVOLUTION

THE 2018
CONSOLIDATED ANNUAL REPORT OF EPSO-G AND THE GROUP OF COMPANIES

CONTENT

Rolandas Zukas
General Manager

Ilona Vaitkuvienė
Chief Financier

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear colleagues,

2018 was the year of breakthrough for EPSO-G group of companies when implementing the projects of synchronization and gas market integration. A sustainably formed and stable governance policy of the Group has enabled the successful implementation and goal exceedance, as well as anticipated financial results.

In 2018, we completed creating uniform foundations of advanced governance of EPSO-G: six substantial policies and the Code of Conduct were formed and approved – as a result, they help employees to successfully implement critical strategic projects and to bring benefits both for the people of the country and business in a transparent and efficient way.

As EPSO-G is the energy transmission and exchange group of companies, the operations and executed projects of which are extremely dependant on the successfully implemented goods, services and work procurement, the Board has approved the advanced Procurement Policy, which consolidates the principle of compliance with the good practice of international organizations, institutions of the European Union and other contracting authorities within the Group.

The Policy of Transactions with Associated Parties establishes the supervision and disclosure procedures of the transactions concluded by the group of companies with related parties that enable to minimize potential adverse consequences resulting from such transactions.

The objective of guidelines for conducting research and experimental development performance is to ensure the continuity of activities, operational efficiency, competitive ability of the group of companies and creation of added value for society through research, innovation and new solutions.

For a successful implementation of the Group's strategy, the Competence Policy defines proper competence groups and indicators determining them, which help promoting employees to aim at specific skills having a major influence on successful performance both of their own and the company itself.

ITT Management Policy is an effective ITT management and a definite integration with operational objectives intended for unification and raising the Group's ITT management to a higher level of maturity as well as a more effective use of ITT resources.

The Personal Data Protection Policy designed for assurance of an appropriate personal data protection will help to maintain and sustain the reputation of EPSO-G as a reliable employer and business partner.

In addition, in 2018, we adopted the Code of Conduct defining uniform general guidelines of conduct when communicating and cooperating with all internal and external interest stakeholders, as a proper conduct of every employee enhances a business-like reputation and value of the Company and the whole Group. The provisions of the Code are directly originating from EPSO-G Group's values, leadership principles and complements the related operational policies.

It is extremely important to highlight that apart from creating the guidelines, their implementation assessment system was designed as well. This system enables to assess the ways they are being implemented in every company of the Group and added value they create. The review and development of each policy is also foreseen.

All these documents regulating uniform financial and non-financial accountability, risk management, ethical practices and other elements of the Group's governance are made public on the websites of the Group and the companies. This contributes to the creation of transparent and open relations with employees, shareholders, contractors, clients and all other stakeholders not only in Lithuania, but abroad as well.

By a consistent building of confidence in strategic projects executed by EPSO-G and paying much attention to the operational transparency and accountability, in 2018, the quality of the Group's governance received the highest A+ rating in the good governance index of state-owned enterprises (SOEs) published by the Governance Coordination Centre. This index is a tool most comprehensively measuring the management quality of all SOEs.

All the above has been achieved following the Group's vision and mission and the general values of the Group – professionalism, cooperation and progress.

Looking ahead, I would call the start of 2019 as the year of the operational integration of the Group. In 2018, we created solid foundations for an affective governance, while the present year will bear an essential importance already working in compliance with uniform principles and guidelines. This will require every employee's attention and best efforts to work in an efficient, progressive, responsible and transparent way.

I am confident that with the year 2019 approaching to an end we will be able to enjoy the performance results of the Group again - strategic projects successfully implemented up to this day, new activities and growing governance with a rising trust in the eyes of the public, business and all other stakeholders.

Yours faithfully,
Rytis Ambrazevičius,
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 companies of 2018. They show that the projects of the strategic synchronization and gas market integration from planning have turned into targeted actions. We work reliably and steadily; we have provided more and cheaper services. We have earned the highest governance rating among the state-owned enterprises.

The demand for electricity, as well as the transmission services, exceeded the overall pace of economic development in the country. Higher volumes of transported gas to neighbouring countries have dampened the demand for natural gas transportation services in the fertilizer and energy sectors. Due to the increased need for balancing and systemic services, the revenue that we earned was higher by one tenth, despite the fact that we have provided cheaper services to residents and businesses since the beginning of the year. Naturally, this has affected the magnitude of regulated operating profit. In addition, the financial result was significantly influenced by revaluation of assets taking into account the decisions adopted by the regulator at the end of October.

In 2018, working with partners from Poland, Latvia and Estonia, we were invited to become a part of the Continental European Power System. The most important thing on this road was a political agreement signed on June 28 by the European Commission, the three Baltic states and Poland. Every next step was consistent with the content of this agreement - we have an approved synchronization scenario and a specific action plan for what we need to do to make the Lithuanian energy system work with a continental Europe in one frequency.

In 2018, the connection agreement on the Gas Interconnection Poland-Lithuania (GIPL) project was also signed. Construction works and pipeline procurement tenders are running at full speed in order to start the construction of the pipeline according to the scheduled plan in 2019. We have started implementing intelligent pipeline diagnostic solutions that allow us to save operating costs and time.

GET Baltic that belongs to the Group has become a regional gas exchange de facto. This year, the major regulated heat producers will buy at least half of the annual natural gas quantity on the stock market resulting from the gained confidence in our ability to form a transparent and competitive energy exchange market. Therefore, the value created by GET Baltic will keep growing. Already today, we see that in January alone, the turnover on the stock exchange was higher than last year in half a year.

The unique biofuel trade platform developed by Baltpool colleagues has already fundamentally changed the situation of the biofuel market participants and prices in different municipalities, increasing market transparency and liquidity. With the experience gained and the adaptation of the biofuel trading system, the trade is taking place in Denmark, Latvia, Estonia and in the nearest future - in Finland.

The heat auctions that were and roundwood trade that have been launched last year are demonstrating clear benefits. The created and announced index of prices of wood chips has become a reliable point of reference to all biofuel market participants throughout the region. We are moving in this direction in the wood market. Last year, when biofuel prices went up, we introduced new products to the market and worked actively with the Latvian customers, thus increasing competition. As a result, prices started decreasing during the heating season, which helped to slow the rise in heating prices.

Of particular importance is the fact, that in 2018, after the completion of the repair of "NordBalt" link's couplings ahead of time, a high level of reliability of energy supply from the Nordic countries was ensured. As has been the case up to now, the link with Poland operated almost without disturbances.

A breakthrough has also been achieved in the activities of the holding company - the report on governance of state-owned enterprises (SOEs) states that the principles of good governance are being implemented and maintained within EPSO-G Group. We have received the highest A+ rating. Transparency standards are applied, collegial bodies are formed and the strategy applied is evaluated with the highest scores. The annual report has been evaluated as one of the best, the application of international financial reporting standards has been positively assessed, the Sustainability Policy has been implemented, and the activities of collegial bodies have been carried out.

The results achieved show our increasing maturity - not only the desire, but also the ability to combine interests and manage processes.

All this allows us to look at the ambitious goals of 2019 with great confidence: we will continue working on integrating electricity and gas infrastructure with Europe, focusing on operational efficiency, innovation and a value-creating functional leadership model within the group.

I thank every employee of the group, shareholder, the Board and members of Committees for their cooperation in order to take pride in our work - we are able to implement the strategic goals set for us in the Shareholder's Letter of Expectations and work in a fair and efficient organization creating the Lithuanian 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".

11 TWh

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

22 TWh

This the amount of natural gas transmitted to the residents of Lithuania and business entities thereof.

430 thousand toe

This is the amount of biofuel sold in Baltpool Energy Exchange.

7,2 %

The price for the services of electricity transmission to be paid by Lithuania's consumers in 2018 is 7.2 percent lower compared to the previous year.

37 %

The price for the services of natural gas transmission to be paid by Lithuania's consumers in 2018 is 37 percent lower compared to the previous year.

97 %

This is the total amount of biofuel acquired in Baltpool energy exchange and consumed for the country-wide generation of heat in the system of district heating.

98 %

The availability of "Litpol Link" interconnection to Lithuania's consumers expressed as a percentage.

97 %

The availability of "NordBalt" interconnection to Lithuania's consumers expressed as a percentage.

100 %

The total time (duration) of supply of natural gas to users of the system expressed as a percentage.

KEY PERFORMANCE INDICATORS OF EPSO-G GROUP:

	2018	2017	Change	
			+/-	%
Income, thousand EUR	245 833	225 246	20 587	9,1%
EBITDA, thousand EUR	55 306	77 213	-21 907	-28,4%
Normalized earnings[1], thousand EUR	14 365	26 888	-12 523	-46,6%
Normalized Return on Equity (ROE)[2], %	6,8%	11.3%		
Number of employees	1 005	1 014	-9	-0.9%
Total electricity transmitted, GWh	10 491	9 992	499	5.0%
Total gas transported, GWh	52 460	52 552	-92	-0.2%
Turnover of the natural gas exchange, GWh	1 084	442	642	145.3%
Amount of biofuel sold in the Energy Exchange, toe	430 122	413 232	16 890	4.1%

1) Normalized net earnings = Net profit – "Amber Grid's" asset revaluation result – Change of deferred income tax due to "Amber Grid's" asset revaluation

2) Normalized Return on Equity = Normalized net earnings/(Equity at the beginning of the period + Equity at the end of the period)/2

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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 of EPSO-G UAB and its subsidiaries (the Group), which comprise the statements of financial position of the Company and the Group as at 31 December 2018, 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 separate and consolidated financial statements present fairly, in all material respects, of the financial position of the Company and the Group as at 31 December 2018, 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 Consolidated Financial Statements section of our report. We are independent of 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 Notes 2.27.1 and 2.27.2 of the notes to the financial statements The Group accounts for property, plant and equipment ('PPE') at revalued amounts. During the year ended 31 December 2018, the Group performed a valuation of its PPE and decreased its carrying value by EUR 56.3 million of the electricity transmission system operation (the 'Electricity TSO') component of the Group, recognizing additional revaluation expenses of EUR 51.0 million resulting from the exercise. The	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, - determination of key inputs in the valuation model, and

Group also recognized a decrease of carrying value of EUR 37.7 million for the natural gas TSO component of the Group because of the same exercise. The Group's management determines value of PPE of each cash generating unit ('CGU') using the income approach, which forecasts future cash flows from CGU's activities and discounts them using the appropriate discount rate. CGU is determined at the subsidiary level. The income approach requires management to apply significant level of judgement in evaluating the following critical areas: - required levels of capital expenditure 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 Commission for Energy Control and Prices, 'NCECP'), - determination of the discount rate, which is the Company'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, with limited support received 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.	- 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 then: - 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 expenditures, discount rate, terminal value, - reviewed mathematical accuracy of the model, and - discussed with management and NCECP and obtained written clarifications from NCECP regarding 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 expenditure 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 15 (Group's consolidated financial statements)	
Refer to Notes 2.20, 2.27.5, 2.21 and part a) of Note 2.1 of the notes to the financial statements The Group is generating revenues as well as is receiving cash inflows from several types of activities. We assessed how the newly adopted IFRS 15 standard "Revenue from contracts with customers" impacted existing revenue recognition practices. In electricity and gas segments, the Group operates in highly regulated market. Accordingly, there is little judgment with	We performed the following audit procedures in assessing the application of IFRS 15 on identified two revenue streams with judgment involved: connection to electricity network and network congestion management activities: - assessed accuracy and level of detail management applied in their analysis of IFRS 15 requirements,

regard to revenue recognition. We identified two sources of revenue which involve significant judgment and complexity: connection of energy producers to the network and cash inflows from network congestion management. Both of them relate to the Electricity TSO of the Group. We consider revenue recognition to be a key audit matter due to the significant judgement applied by the management throughout the determination of recognition process. Connection to the electricity network services is subject to the following significant judgement exercised regarding the amounts and timing of revenue recognition: - determine if connection to the network meets certain criteria to conclude that a separate performance obligation and distinct service exists (from other services). The Group has concluded that distinct service exists and the application of the new accounting standard did not have impact on existing recognition policy. - the timing of revenue recognition of amounts subsidized by the state under public service obligation ('PSO') program as such amounts are reviewed and approved by NCECP. The Group concluded that the subsidized portion has to be accounted for as grants related to revenue in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and recognized as income when the amounts are approved by NCECP and not when the connection is completed. The Electricity TSO is involved in managing electricity network congestion and receives cash inflows for such activities. Part of inflow is recognized to revenue to cover operating costs of congestion management activity and the remaining part is deferred and is used to fund network congestion improvements. Significant judgment is exercised regarding the determination of the amount and timing of revenue recognition: - to determine if all cash flows received from congestion activity should be recognized to revenue when earned or portion of inflows exceeding the current operating costs should be deferred and used as funding for network congestion improvement. The Group has concluded that the inflows from congestion management activity does not fall under	- analyzed relevant underlying documents to understand the substance and laws and regulations impacting such activities, such as signed agreements, EU and local laws and regulations, - reviewed Electricity TSO's correspondence with NCECP regarding those topics, - performed tests of detail for selected revenue and cash inflow transactions as well as related account balances, - reviewed accounting policies and other explanations disclosed in the financial statements, including impact of initial application of IFRS 15. - we also involved our internal IFRS accounting and financial reporting specialists to support us in forming an independent view on the management's analysis and conclusions. The financial statement disclosures were enhanced to reflect the judgment and complexity regarding the accounting policies of such identified activities.

the scope of IFRS 15 and the Group decided to continue using its existing accounting policy for such inflows which is also recommended by NCECP. We have also evaluated revenue streams of the natural gas TSO of the Group and have not identified significant judgements that management applied throughout the revenue determination process.	

Determination of contingent consideration for the acquisition of Electricity TSO shares (Company's separate financial statements)	
Refer to Note 2.27.4 of the notes to the financial statements In 2012 the Company acquired 97.5% shares in Electricity TSO. The share purchase agreement included a clause on contingent consideration, which is determined based on estimated versus actual return that Electricity TSO earned in the 5-year period of 2014-2018. Although the last period covered by the contingent consideration has ended, the Company has not agreed with the seller the purchase price adjustment. Specifically, the parties are disputing the following: 1) if value of the regulated asset should be calculated using historical cost or LRAIC values, 2) reductions of 2014-2017 of operating profit following regulatory audits of NCECP for abnormal profits earned during the pre-acquisition periods, and 3) how to treat additional capital expenditure on strategic projects incurred by the Electricity TSO, should it be included in regulatory asset value or not. The Company considers that all arguments above are very persuasive, however, due to conservative margin has included only 1) and 2) in the purchase price adjustment calculations. The Company has also obtained clarifications from NCECP related to questions No 2. Following above, the Company decided to account for additional share purchase price decrease of EUR 13.3 million in the statement of comprehensive income for the year ended 31 December 2018. Given that the Company had accounted for EUR 4.7 million price reduction as of 31 December 2017, total price reduction as of 31 December 2018 amounted to EUR 18.0 million. We consider determination of contingent consideration to be a key audit matter due to the significant judgement applied by the	We performed the following audit procedures in assessing the determination of the share purchase price adjustment: - evaluated the share purchase agreement and its appendixes (the share valuation report), - evaluated the Company's calculations, agreed underlying data to supporting documents (such as NCECP's resolutions applicable to determination of RAB and discount rates), - evaluated the Company's correspondence with the seller of the shares, assessed grounding of the Company's argumentation, - evaluated persuasiveness of the 3 disputed areas (listed on the left), - evaluated correspondence with NCECP and how NCECP's explanations were addressed in the calculations, - reviewed related disclosures in the financial statements.

management in respect of determination and interpretation of components of return.	

Other Information

The other information comprises the information included in the Company's and 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 Company's and 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 Company's and 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 Company's 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 Shareholders on 29 October 2018 we have been chosen to carry out the audit of the Company's and the Group's separate and consolidated financial statements for first year. Our appointment to carry out the audit of the Company's and the Group's separate and consolidated financial statements in accordance with the decision made by Shareholders could be extended for another two years.

We confirm that our opinion in the section 'Opinion' is consistent with the additional report which we have submitted to the Company and Audit Committee.

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.

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

Other matter

The financial statements of the Company and the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 9 April 2018.

Deloitte Lietuva UAB
Audit Company License No 001275

Saulius Bakas
Lithuanian Certified Auditor
License No 000604

Vilnius, Republic of Lithuania
17 April 2019

GENERAL INFORMATION ABOUT EPSO-G GROUP OF COMPANIES

1. GENERAL INFORMATION ABOUT EPSO-G 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 2018.

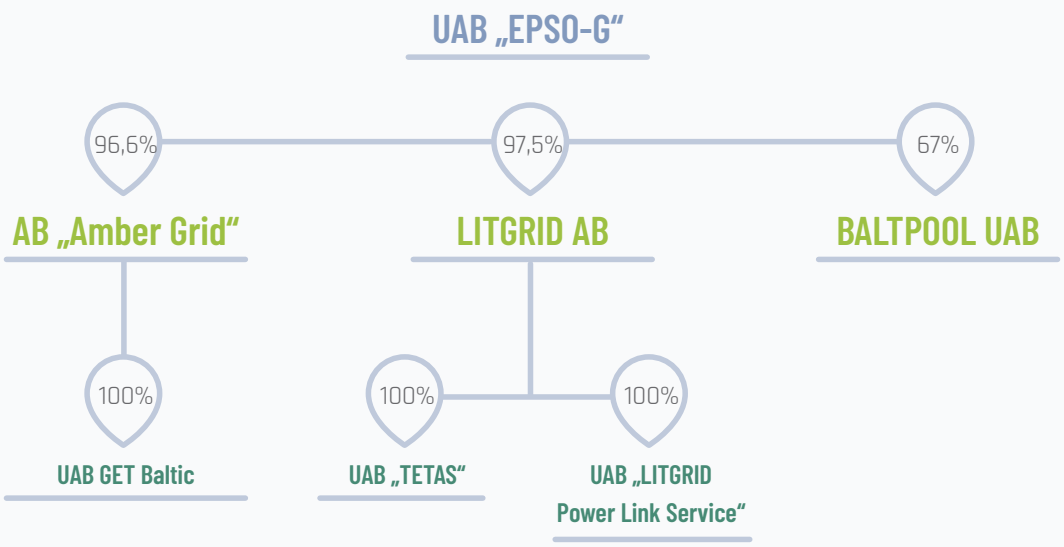
Company name	UAB "EPSO-G"
Legal form	Private limited company
Date and place of incorporation	25 July 2012, the Register of Legal Entities of the Republic of Lithuania
Company code	302826889
Registered office address	A. Juozapavičiaus Str. 13, LT-09311 Vilnius
Mail address	Gedimino Ave. 20, LT-01103 Vilnius
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 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 1,005 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 biofuels, 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.

On 31 December 2017 "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"), three directly controlled companies of the group (LITGRID AB (hereinafter referred to as "Litgrid"), "Amber Grid", AB (hereinafter referred to as "Amber Grid") and BALTPOOL UAB (hereinafter referred to as "Baltpool") and two indirectly controlled companies ("TETAS" UAB (hereinafter referred to as "Tetas") and GET Baltic, UAB (hereinafter referred to as "GET Baltic")). By the decision of the Board of "Litgrid", starting from 1 August 2018 operations of Litgrid Power Link Service UAB have been suspended, all employees were hired by "Litgrid" and maintenance works of the power interconnections "Litpol Link" and "NordBalt" have been carried out by "Litgrid".



The structure of EPSO-G group of companies as at 31 December 2018:

Name	LITGRID AB	AB "Amber Grid"	BALTPOOL UAB	UAB "TETAS"	UAB GET Baltic
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	A. Juozapavičiaus Str. 13, LT-09311 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%	97.5%	96.6%

1.1. History of EPSO-G

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.

After the implementation of these decisions there are two full-fledged holding companies in Lithuania's energy sector that manage the separated activities and are proportional to the size of their group of companies: EPSO-G, the parent company that controls the activities of energy transmission and exchanges, and "Lietuvos energija", the company that controls distribution and production activities. After the implementation of the requirements posed the European Union in such the way, this restructuring of the energy sector is recognized as one of the best examples of separation of activities in the energy sector in the European Union.

1.2. EPSO-G Group

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, biofuels and wood exchanges, as well as the companies providing the infrastructure maintenance services.

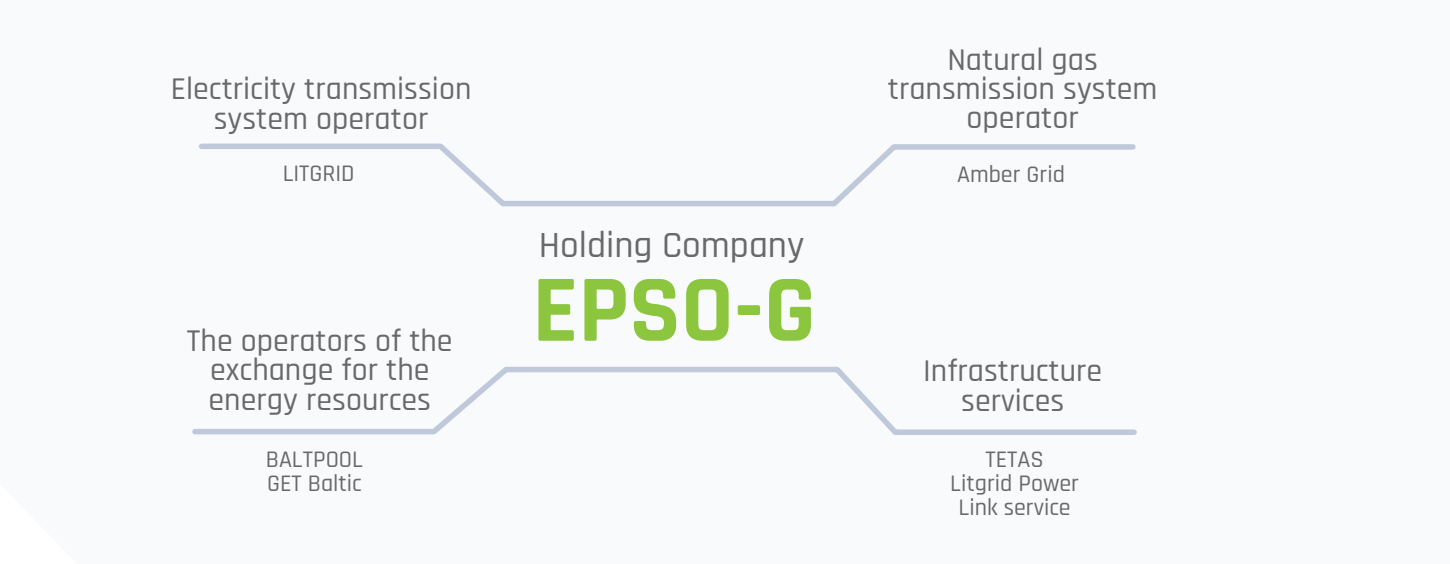
1.3. Holding Company EPSO-G

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 stock 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.

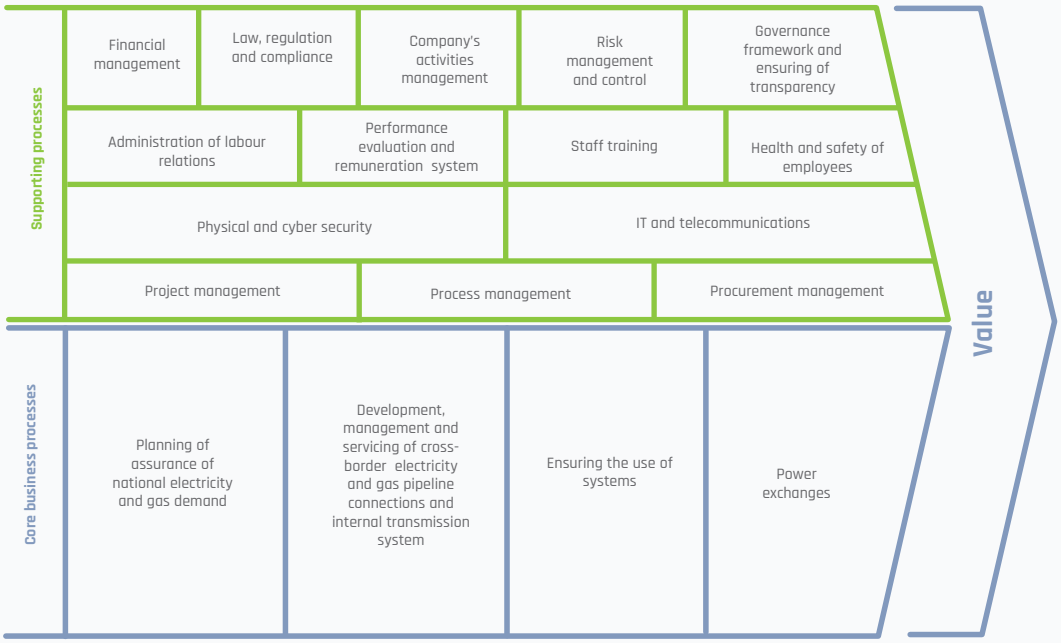
The holding company EPSO-G, through a professional management of the group of companies, ensures their operational efficiency, transparent and accountable communication and cooperation with stakeholders, employees and the public.

By implementing the activities outlined in the National Energy Independence Strategy 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.



Value created by EPSO-G group of companies:



Prepared according to the value chain analysis developed by Michael Porter

Functional area management model

The management model of EPSO-G Group is based on best global practice. A study conducted by "Boston Consulting Group" on the value created by different types of holding companies identifies six key models of corporate group management. Depending on the level of involvement of the holding company, each of them creates a different value for the group of companies.

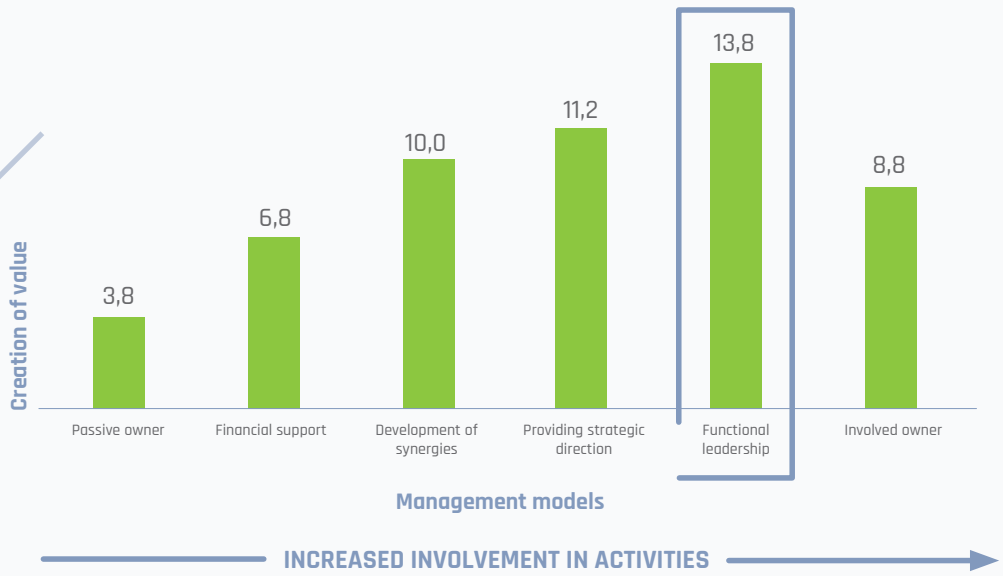
• The holding company EPSO-G employs a model of strategic direction and functional leadership that creates the greatest value for the group of companies:

• 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.



Governance values

Proportionality

The Group's governance is guided by the principle of proportionality by EPSO-G – it is aimed to ensure a balance between ongoing supervision and the responsibility of subsidiaries – only as many corporate documents as are needed to ensure transparent, efficient, coordinated and high-quality operations are approved.

• An exceptional attention of the holding company to the activities of a subsidiary company may be granted in case of its complicated financial situation, when managing operational risks or in case of adverse event affecting its reputation. Such a focus on the subsidiary company must create value and be proportionate with regard to the resources.

Trust and responsibility

In order to avoid overlapping of the works carried out and to follow the strategic direction, the holding company EPSO-G promotes and develops mutual trust and cooperation among the members of the Group's management bodies, executives and professionals. By gaining confidence, we also take responsibility for the quality of the work performed to achieve the best possible result. By giving authority to act and responsibility, we strive to avoid petty governance and open up the opportunity to achieve better results in a more efficient way.

Strategy and its implementation

EPSO-G Group's strategy is based on the corporate governance guidelines approved by the shareholder and the letter of expectations of the Government addressed to the Group. It is provided to the Group by the Ministry of Energy of the Republic of Lithuania, as a direct shareholder and a state representative body. The Group's strategy, approved by the Board of EPSO-G, is the core of the Group's business, which is the basis for collaboration among the group of companies at the level of management and professionals. With regard to the joint strategy, the Group is an organization that pursues common goals.

Links between the Group and subsidiary strategies

• The strategies of the Group and the subsidiaries are developed in accordance with EPSO-G's Integrated Planning and Monitoring Policy. In order to ensure integration, strategies and action plans are developed based on the following principles:

• **Links between directions, goals, objectives and tools.** This is ensured by combining the strategies of the group of companies with the main directions of the Group's strategy. Their relevance is ensured through top-down and bottom-up communication, as well as through joint strategic sessions of the Group's top management.

• **Direct contribution.** When integrating the strategies, the contribution of each of the group of companies to the objectives of the strategy is also anticipated. All measures to implement the strategy are linked to the strategic directions and objectives; those responsible for implementing these measures are appointed.

• **Measurability.** The strategic objectives are subject to measurable indicators of their implementation. Measures for achieving the objectives have a direct impact on the achievement of indicators.

Activity plans

Under the Integrated Planning and Monitoring Policy of EPSO-G, three-year operational plans are updated annually, which include the measures for the strategy implementation and management of priority risks. The measures of the operational plan are managed in accordance with the procedures of project and program management applicable in the companies or the way of their management is left for the managers to choose. The budgets of the group of companies are formed according to the operational plan.

Measures of similar nature (e.g. reconstruction, investment projects) are grouped into programs and managed as programs. Project of operational plans and programs form a portfolio of projects. To promote possessiveness and responsibility of the Group employees, any employee of the Company expressing a will may be entrusted to manage individual Group's projects or measures.

Supervision and monitoring of the major projects for the implementation of the Group's strategy is ensured by the Monitoring Committee for Strategic Projects (MCSP).

Priorities

• According to the strategic directions approved by EPSO-G's strategy and operational plans, the cooperation among the Group companies is formed. The cooperation among the employees of the group of companies (or functional curators) is more active in those areas that:

• Are directly responsible for the implementation of the projects and measures oriented to strategic objectives;

• Have a high risk level;

Have a significant impact on the reputation of the Company and the Group.

In its activities, EPSO-G distinguishes three levels of priority; the holding company devotes relatively most of its attention to the first level, whereas the direct involvement of the holding company in the second and third levels is either relatively lower or non-existent.

The holding company's EPSO-G first level priorities for 2018-2019

• Integrated strategy and planning of activities;

• Management of strategic projects;

• Risk management;

• Finance management;

• Informational technologies and telecommunications;

• Ensuring information security;

• Efficient management of the assets of electricity and natural gas transmission systems;

Development of energy and raw material exchange business.

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.

• The holding company manages the companies belonging to the group:

• By exercising its existing shareholder rights with regard to its subsidiaries;

• By a direct execution of the functions assigned with regard to the group of companies by EPSO-G management bodies and structural units;

By establishing corporate governance principles and corporate governance documents for the entire 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

In 2018, according to the assessment of the Management Coordination Centre, EPSO-G complied with the principles of good governance and was awarded the highest rating of A+. Detailed information is provided in Section 7 (Governance Report) of this report.

Litgrid

1.4 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 connections "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 7 029 kilometers of high voltage (330 kV and 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:

	2018	2017	Change	
			+/-	%
Income, thousand EUR	190 641	160 188	30 453	19,0%
EBITDA, thousand EUR	32 335	40 525	-8 190	-20,2%
Normalized net profit, thousand[1] EUR	3 973	9 585	-5 612	-58,5%
Asset, thousand EUR	366 257	439 210	-72 953	-16,6%
Number of employees	638	633	5	0.8%

1) Normalized net profit = Net profit – "Litgrid" asset revaluation result – Change of deferred income tax due to "Litgrid" asset revaluation

Amber Grid

1.5. 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 favorable 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.

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.

The company operates 65 (in 2017 – 65) 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.

M Dujų apskaitos stotys
C Dujų kompresorių stotys
SGDT Suskystintų gamtinių dujų terminalas (SGDT)
Magistraliniai dujotekiai
Dujofikuoti didieji miestai
Dujofikuoti miestai
Dujų skirstymo stotys
Nedujofikuoti miestai
Planuojami dujotekiai

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.

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. 106 system users used the services of "Amber Grid" as at 31 December 2018 (in 2017 – 100 system users).

"Amber Grid" controls 100% of the authorized capital of GET Baltic. GET Baltic is a company that has a natural gas market operator's license, organises and conducts trading on a natural gas exchange.

Baltic natural gas transmission system operators "Amber Grid", "Connexus Baltic Grid" AS (Latvia), "Elering" AS (Estonia) are using an implicit capacity allocation model to more efficiently distribute short-term natural gas transmission capacities at interconnection points among the Baltic countries. Capacity allocation is linked to the gas trade de facto launched on 1 July 2017 at the regional Natural Gas Exchange GET Baltic of the three Baltic countries.

Once the integrated trading model has been launched, day-ahead orders to buy or to sell natural gas submitted by market makers and other participants of the stock market in one country are automatically displayed in market areas of other Baltic states, along with the price of transportation between Baltic countries.

GET Baltic activities in 2018:

77
Participants of the Exchange

27
Active participants of the Exchange

4
Market makers

1.084 GWh
Trade turnover

3.122
Conducted transactions

	NUMBER OF PARTICIPANTS OF THE EXCHANGE	NUMBER OF MARKET MAKERS	PURCHASE TURNOVER, GWh	SALES TURNOVER, GWh
Estonia	9	1	32	17
Latvia	12	2	109	96
Lithuania	72	2	943	971

The most important financial indicators of "Amber Grid":

	2018	2017	Change	
			+/-	%
Income, thousand EUR	54 290	64 322	-10 032	-15.6%
EBITDA, thousand EUR	24 552	38 252	-13 700	-35.8%
Normalized net earnings[1], thousand EUR	10 441	20 320	-9 879	-48.6%
Asset, thousand EUR	235 416	280 198	-44 782	-16.0%
Number of employees	329	345	-16	-4.6%

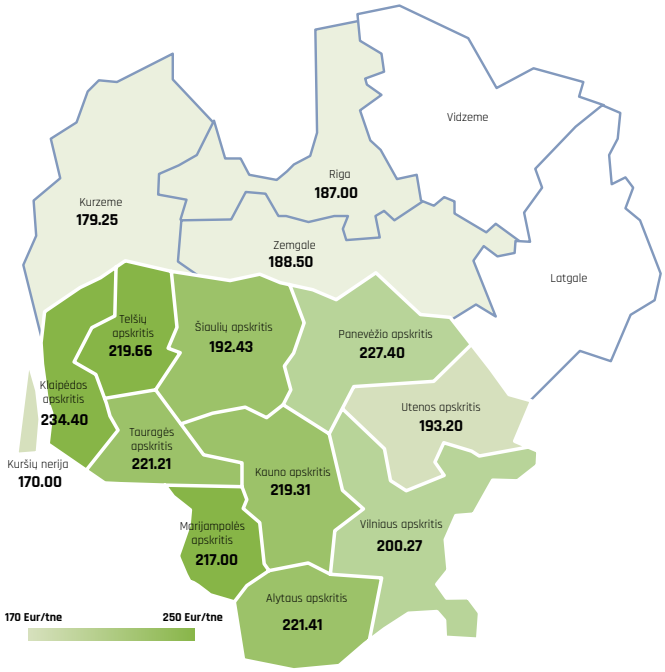
1) Normalized net earnings = Net profit – "Amber Grid" asset revaluation result – Change of deferred income tax due to "Amber Grid" asset revaluation

1.6. BALTPOOL

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

The company is the administrator of the funds of the services of public interest (hereinafter referred to as "SPI") performing the functions of collecting, pay-out and administration of SPI funds (appointed to act as the administrator of SPI funds by Resolution No 1338 of the Government of 7 November 2012).

By Resolution No 1092 of the Government of the Republic of Lithuania of 20 December 2017 Baltpool UAB was appointed to perform from 1 January 2018 the functions of the administrator of the electronic wood sale system (hereinafter referred to as „the operator of wood auctions"). The aim of Baltpool is to create a level playing field for market participants to acquire wood under competitive conditions, thereby enabling the formation of prices reflecting the supply-demand ratio.



When implementing this task, Baltpool created and from 19 March 2018 announced the index of prices of wood chips BALTPOOL WOOD CHIPS SPOT LITHUANIA (BWCS Lithuania). It is intended for market participants to objectively assess the current situation in the market and to track price fluctuations and trends of biofuel. The meaning of the index has already become a handy tool for the pricing of bilateral contracts and intra-group transactions, market research, etc.

A unique biofuel trading platform designed by the employees of the energy resources exchange operator BALTPOOL in the period of the first three years of operation has radically altered the situation of the biofuel market participants and prices in different municipalities and augmented market transparency and liquidity. The created value, accumulated experience after adapting the functionality of the trading platform for specific market needs may be adapted in other EU countries.

After using the experience gained by BALTPOOL and adapting the system of trade in biofuel for the market demand in Denmark, BALTPOOL in association with the partner has opened the biofuel exchange BiomassPool ApS in the Kingdom of Denmark. The first transaction was concluded in July 2018.

On 17 May 2018, the Parliament of the Republic of Lithuania adopted amendments of the Law on Heat Sector and the Law on Energy Resources establishing that the amount of heat bought from independent heat producers or generated by heat generating equipment owned by a heat supplier determined at heat auction, organized by the energy resources exchange operator Baltpool, is required for the meeting of the forecasted need of heat consumers. The Company was set the objective within the timeframe prescribed to make preparations for executing the assigned new function and to administer heat auction in a transparent way.

The first auction held by Baltpool took place on 21 May 2018. The suppliers purchased 3.2 TWh of heat at monthly auctions within the reporting period.

As at 31 December 2018, Baltpool traded in biofuel Lithuania, Latvia, Estonia, Denmark.

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

- The key customers **in the activity of the biofuel exchange** are the biofuel buyers (district heating companies, independent heat generating entities and other companies using in their activity the biofuel products traded in the exchange) and biofuel suppliers (manufacturers and suppliers of wood pellets and chips);
- The customers **in the activity of administration of the SPI funds** are the electricity consumers which as per the valid legal regulation must pay the SPI funds for the electricity consumed by them. The SPI 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 SPI 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.

• Wood sellers, specifically the Directorate of State Forests 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 biofuel 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.

In 2018, on the Baltpool Exchange (compared to 2017):

• Trade turnover increased by 37% to EUR 86.11 million;

• The number of transactions increased by 14% to 5.7 thousand;

• 4% more biofuel was purchased (431 thousand toe);

• Transactions were carried out by 71 buyers and 117 sellers from Lithuania and Latvia.

The most important indicators of Baltpool performance:

	2018	2017	Change	
			+/-	%
Income, thousand EUR	903	736	167	22.7%
EBITDA, thousand EUR	232	200	32	16.0%
Net profit, thousand EUR	180	157	23	14.7%
Asset, thousand EUR	65 174	51 577	13 597	26.4%
Number of employees	11	11	0	0.0%

MISSION, VISION, VALUES

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 2018, 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.

PERSPECTIVE	PURPOSE	VALUES
VISION – future energy group efficiently operating in international environment	**MISSION** – to ensure and create a secure, sustainable and open energy market enhancing the competitiveness of the country's economy and the welfare of society	PROFESSIONALISM COOPERATION PROGRESS

VALUES	BEHAVIOUR
PROFESSIONALISM	✓ I do my job better than it is expected from me ✓ I say what I do, and I do what I say ✓ I deliver my promises
COOPERATION	✓ I communicate clearly and understandably ✓ I show my position and respect others ✓ I help others to achieve the result
PROGRESS	✓ I take the initiative and learn from mistakes ✓ I am looking for new ideas and implementing them ✓ I am constantly strengthening my skills and sharing them

2.1. Operating and Regulatory Environment

The activity of EPSO-G group of companies is significantly influenced by the general trends of the country's economy. As the Lithuanian economy grows, demand for electricity and gas transmission services is increasing. This makes it possible to exploit the energy transmission infrastructure more efficiently and to provide services at a more favorable price to the country's inhabitants and business, thus contributing to the competitiveness of the economy.

According to the preliminary estimate, Lithuania's gross domestic product (GDP) increased by 3.6% last year after the elimination of impact of seasonal and working days and grew at a slower pace than in 2017, when 3.8% of GDP growth was recorded. With the exception of agriculture, the added value of all sectors grew and, as a result of natural conditions and lower agricultural harvest, production of the agricultural sector decreased. This also affected the slowdown in GDP growth, which remained faster than the EU average.

In the context of the growing economy of the country the peaking electricity consumption, i.e. the highest since 1992, in Lithuania was observed in 2018. Compared to 2017, final electricity consumption grew by 3.9% (to 11.176 TWh) last year.

Growth was observed in all sectors of the economy, with the exception of agriculture, which consumed 0.8% of electricity, less compared to the same period in 2017. Industrial enterprises consumed 1.9% more than in 2017. More electricity was used by inhabitants (5.2%) and the service sector (5.4%), while the demand for the transport sector grew by 8.0% last year.

It is forecasted that the annual electricity consumption in Lithuania will grow by 1%, and in 2026 can amount from 12.7 to 13.3 TWh. The market conditions ensure that we are importing the missing portion of 500 megawatts of power. However, based on the assessment of "Litgrid", since 2025 there can emerge the deficit of powers of generated by the local power plants for the system services. Therefore, investment in new power plants is necessary in order for the electricity supply system to be ready for increasing electricity consumption.

Although the general scope of the rendered gas transportation services in 2018 decreased because of a lesser consumption in fertiliser sector, it has been slightly amortised by a grown need for balancing services and the amount of transported natural gas to neighbouring countries.

The tightened EU environmental protection requirements, the promotion and development of the use of renewable energy resources in energy sector and more efficient use of energy and energy resources results in the reduction of natural gas consumption in Lithuania. From 2012, the amount of gas transmitted for the needs of the Lithuanian market decreased by 28%. According to forecasts of "Amber Grid", a downward trend is predicted to persist in upcoming several years – the biggest impact on this should be made by the emergence of new electricity and heat generating equipment incinerating biofuel and waste (mostly at Vilnius Cogeneration Plant), and later starting from 2021, the demand for gas in the country is expected to stabilise. The prognosis is that the Lithuanian network of transmission system operators and business opportunities of the liquefied natural gas terminal along with its use will increase when the gas link with Poland and Lithuania starts operating in 2022 and after Lithuania becomes the centre of gas import and transmission for the whole region in the northern-southern direction.

The Ministry of Finance forecasts that the growth of the Lithuanian economy in 2018-2021 will moderately decelerate (up to 2.5%). It is expected that it will influence the dynamics of the use of electricity and natural gas and the scope of services of transmission system operators as well as the level of revenue. It is expected that the energy efficiency means implemented will also influence the natural gas use as well.

Projected economic development of Lithuanian economy in 2019 – 2022:

Indicator	2018	2019	2020	2021	2022
1. Change in gross domestic product (hereinafter - GDP) at constant prices, in percentage	3,4	2,6	2,4	2,3	2,3
2. GDP at constant prices, EUR million	37199,0	38182,4	39110,4	40018,8	40932,2
3. GDP change at current prices, in percentage	7,0	5,0	4,7	4,5	4,4
4. Price of GDP at that time, million EUR	45133,6	47369,1	49609,0	51843,4	54113,3
5. Change in labor productivity (GDP at constant prices per employed person), in percentage	2,4	2,1	2,3	2,4	2,5

Forecast of the Ministry of Finance

On 21 June 2018, the Parliament of the Republic of Lithuania approved the updated National Energy Independence Strategy (hereinafter referred to as "NEIS").

The document establishing the state's energy strategic orientations lays down four priorities – energy security, breakthrough of renewable energy resources and sparing energy consumption, competitiveness and creation of and export of innovative energy technologies. Over the upcoming decade, EPSO-G group of companies in its operations will refer to the above priorities.

NEIS highlights the importance of electricity market integration and balanced electricity system operation, power adequacy ensuring costs reduction of network maintenance and a more efficient use of a current infrastructure. These focuses are reflected in the strategic direction of EPSO-G Group.

To boost competitiveness of Lithuania, NEIS established that the state's energy infrastructure must be used efficiently and contribute to the objective stating the that the tariff structure for residents would ensure the shrinking share of expenditures for energy, while the final electricity and natural gas prices applied for the industry would be the lowest in the region.

This energy politics document includes the objective – to increase the share of the renewable energy resources (RER) (including biomethan and other gas produced of RER) in the general final energy consumption of Lithuania: in 2020 - up to 30%, in 2030 – up to 45%, while from 2050 – up to 80%, and to stop using natural gas in electricity heat and cooling sectors.

It is estimated that in Lithuania, as well as in EU, the natural gas in the energy sector will remain critical during the transitional period of energy resources towards the low-carbon technology economy. In 2020-2030, the demand for natural gas in the country will reach 20.4–20.9 TWh, out of which approximately 51% will be comprised of a demand for gas as a raw material in fertiliser production industry.

The forecast is that in 2019 "Amber Grid's" natural gas transmission system for the consumers of the Lithuanian system to the internal release point will transport approximately 22.7 TWh of natural gas, to the Republic of Latvia – 0.5 TWh of natural gas and to the Kaliningrad region of the Russian Federation – approximately 27.5 TWh of natural gas. Around 44% of the amount of natural gas intended for the consumers of Lithuania and other Baltic states is planned to obtain from the Klaipėda LNG terminal.

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.

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.

The results of the regulated EPSO-G group of companies, the funds allocated for required operating costs, for investments to ensure reliability of electricity and gas transmission systems, as well as possibilities to finance the strategic projects by internal or external funds are directly dependant on the decisions adopted by the regulatory institution.

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.

It is important to note, that at the end of 2018 when adjusting the ceilings of the energy transmission system operator LITGRID AB for the year 2019, the Commission, by assessing the amount of return on investments of the company that exceeded the amount set in 2016-2017, the factual costs were evaluated by historical value and the model of long run average incremental costs — LRAIC — approved by the Commission, which foresees that the costs of optimized property capital are assessed by reconstructive value and precisely with regard to this model, the permitted cost of capital during this period was established. The following decision of the Commission affected the changes in presumptions, in compliance with which future cash flows of the company are calculated; correspondingly, the result of asset assessment recorded the impairment of assets.

A fundamental change affecting the income level of natural gas transmission – under the decision of the National Commission for Energy Control and Prices, the rate of return on investment set for the property attributed to the regulated activities, which went down from 7.09% to 3.3%, was significantly lowered. According to the Methodology of Establishment of the Rate of Return on Investment approved by the National Commission for Energy Control and Prices, it shall be revised annually with regard to the factual borrowing costs of the Company. Due to these reasons, the effect on the value of assets of the energy transmission system operator "Amber Grid" was assessed as well.

It should be noted that the physical property's amount or its characteristics did not change, whereas the reduction of the value reflects only the assessment of income earning potential according to conservative presumptions.

More information on the changes in asset values of "Litgrid" and "Amber Grid" are reported in Section 4.3 (Financial Indicators) of this report.

After several consecutive years of decreasing prices of regulated transmission services provided by EPSO-G group of companies, from 1 January 2019 onwards, electricity and natural gas transmission prices were set higher.

The average price of regulated electricity transmission increased by 6.3% up to 0.658 ct/kWh. This was due to the objective reasons — servitude compensations, auto-transformer transfer costs and because of the increased energy costs, grown 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 increased by 3.5% to EUR 1.17/MWh. Due to the increased operational efficiency, the application of modern network maintenance technologies and the allocation of early level of a share of permissible revenue for short-term services, the average cost of long-term transmission services is below the threshold set by the Commission. It is important to note that in 2018 the price of transmission services applied to Lithuanian consumers was additionally reduced after the Commission's assessment of the additional income earned by the company over the past few years and the return on investment. Disregarding this one-time regulatory adjustment. applied in 2018, natural gas transmission prices for Lithuanian consumers have been decreased for the third consecutive year.

STRATEGIC OBJECTIVES

3. STRATEGIC OBJECTIVES

3.1. Strands of Strategy

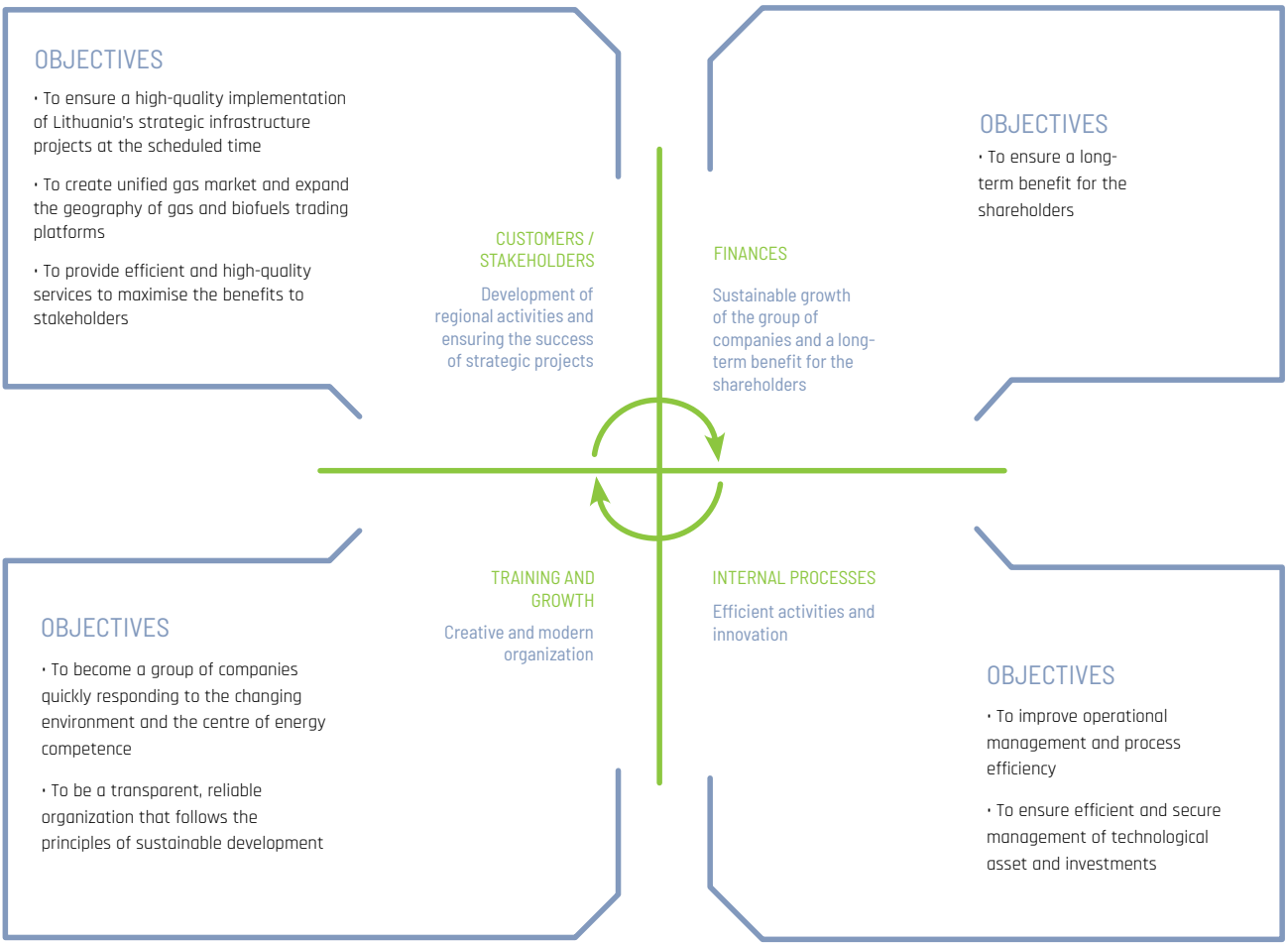
In 2018, EPSO-G Group, which manages energy transmission and exchange infrastructure, continued the implementation of the operational strategy approved in 2017. The strategy identifies key areas of activity, financial goals and objectives. The individual elements of the strategy are interconnected by the topic of energy evolution – transformation of a qualitative sector that is based on operational efficiency, security of energy supply, the functioning internal energy market, solidarity between the EU states, sustainability and competitiveness.

In the middle of 2018, in connection to one of the Group's major strategic projects – the implementation of synchronization with the mainland European electricity networks – the Board extended the strategy implementation perspective until 2025, taking into account the scenario of energy independence from the Russian-controlled BRELL network approved by the political consensus of the European Commission, the Baltic countries and Poland. The top-level agreement confirmed that the electricity systems of Lithuania, Latvia and Estonia will be connected with the continental European energy system via Poland by 2025.

The strategy identifies four key strands of action into which EPSO-G Group is mobilising its forces: 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 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 energy projects are being implemented in the electricity and natural gas sector on the success of which the perspective of the energy of Lithuania and the Baltic region and business competitiveness depends.

Integration into the European electricity systems – synchronization of the Baltic states with the continental European networks – is an important priority, as the historic belonging to the IPS/UPS system (work in synchronous mode) and technological features of the system management mean the remaining possible political, social and economic influence of the third country on the Lithuanian electricity system.

In the course of achieving this strategic objective, i.e. the objective of ensuring synchronous operating of the electricity system with the grids of continental Europe until the end of 2025, the important agreements between Lithuania, Latvia, Estonia, Polish PSO and ENTSO-E were signed in 2017 for the preparation of the dynamic Baltic frequency stability study, and the Synchronization project (as the General project) was included in the list of the General interest projects approved by the European Commission.

In June 2018, Lithuania, together with Latvia, Estonia, Poland and the European Commission, signed a political agreement on synchronization of the three Baltic countries' electricity grids with the continental European networks via Poland by 2025. This top-level political agreement paved the way for a targeted continuation of the works necessary for synchronization in order to consolidate the energy independence of the Baltic countries from the Russian-controlled BRELL network.

By integrating into the single European gas market, by the end of 2021, it is preparing, together with the Polish transmission system operator GAZ-SYSTEM S.A., to build the gas transmission systems of Lithuania and Poland and the gas pipeline linking the markets. In order to successfully implement this project, a lot of attention was paid to the preparation and coordination of necessary contracts in 2017.

In May of 2018, the Polish, Lithuanian, Latvian and Estonian transmission system operators concluded an agreement on the implementation of the ACER decision on the cross-border distribution of costs of the GIPL project, also the Lithuanian and Polish transmission system operators "Amber Grid" and GAZ-SYSTEM S.A. concluded a network interconnection agreement, by which the final decision to invest in the GIPL project was approved.

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. Therefore, in cooperation with the regional gas transmission system operators and state institutions, at the end of 2016, the political declaration of the Baltic states on the market development of the Eastern Baltic states region was signed and agreed on the plan of actions according to which the regional gas transmission system operators and state institutions will implement actions mandatory for the creation of the unified gas market before the end of 2019.

In 2018, in cooperation with the natural gas transmission system operators and regulatory institutions of Lithuania, Latvia, Estonia and Finland the prospected plan actions of the creation of the regional market were continued – it was agreed with a consulting company on drafting the Balancing regulations for the common zone, requisite amendments of the legislation of the Republic of Lithuania were identified, the preliminary draft on transportation regulations for the common zone was agreed upon, the purchase and implementation of IT platform for the common zone is also underway.

During the annual reporting, it was further worked on the agreement with Latvia and Estonia on inter-TSO compensation mechanism (ITC) meeting the interests of the consumers of Lithuania. At the end of 2018, the Regional Working Group on Gas Market Development decided that the common zone in 2020 will be formed by Latvia and Estonia, while Lithuania will harmonize as much as possible the regulations of the use of the transmission system with the common regulations of Estonia, Latvia and Finland and join the common market – as well as Finland – at the later stage after agreeing on conditions acceptable for all states.

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. Favourable conditions for price convergence and the development of a liquid and competitive regional natural gas market in the Baltic states were created. After assessing the results of the integrated trading model and aiming to further integrate the national natural gas markets of Lithuania, Latvia and Estonia and to promote cross-border trade, starting from the second half of 2018, exchange trading options were expanded and a new product enabling to acquire natural gas of a current deliver time with gas transportation within the Baltic states was developed.

Baltpool, that has become the Lithuanian biofuel trading centre ensuring the stability of the biofuel supply at a competitive price, incorporating small biofuel suppliers to the supply chain as well, thus promoting a stable development of the biofuel market, adapting the market platform to specific national, already in 2017 started consolidating its position in the regional market when it started its operations in Latvia. At the beginning of 2018, the biofuel trading platform of Baltpool launched its operations in Denmark and in the first half of 2018, first biofuel purchase-sale transactions were concluded in Latvia and Denmark. In 2018, the trading platform started operating in Estonia as well, while the agreement signed with the Finnish partners stipulates that the trading in this country will start from 1 April 2019.

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 biofuel 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.

The development of integration of the electricity market is linked with a general creation of the balancing market of the Baltic states. This objective is foreseen in the Baltic Energy Market Interconnection Plan (BEMIP) by continuing the integration of the Baltic electricity markets. In 2017, after the approval of the agreements of the transmission system operators (TSOs) of the Baltic states regarding the common coordinated/centralized balancing of the Baltic non-balance, after coordinating the pricing regulations and other documents with regard to the application of harmonized Baltic non-balance model, the medium for the coordinated management of non-balance of the Baltic electricity transmission system operators from the start of 2018 was prepared. In 2018, the balancing market of the Baltic states was further developed and IT platform enabling a more effective use of the balancing market possibilities was implemented.

The operation of the effective and competitive electricity market is possible in case of non-discrimination conditions of electricity trading inside of the EU, therefore an important aspect is the elimination of the effect of electricity generated by unsafe nuclear plants of the third parties enabling to ensure a full-scale operation of the single EU internal market. In 2018, the technical measures within the competence of the group's company "Litgrid" were implemented; they were established on 13 September 2017 by the Decree No 739 of the Government of the Republic of Lithuania, which approved the action plan of necessary measures for the prevention of unsafe nuclear power plant, which is being built in the Republic of Belarus and which threatens the national security, environment and public health of the Republic of Lithuania.

In addition, in October 2018, the Order of the Minister of Energy has amended the legal acts regulating the supply of electricity – Description of the Procedure for Import and Export of Electricity and Rules for Trading in Electricity, which stipulate that from the beginning of the production of electricity in a nuclear power plant, permeabilities of Lithuanian and Belarus interconnections of the next day and current day electricity trading will be equal to 0 MW.

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 % and to shorten the time terms for connecting consumers to the electricity transmission grid.

In order to increase the availability of "NordBalt" connection to the market, the scheduled replacement repair work on this link's coupling was successfully and faster accomplished ahead of time in 2018. The warranty repair was performed by the Danish company NKT that took over the warranty obligations from the Swedish company ABB, which produced and laid the cable. A stably operating link affects lower price fluctuations and reduces the risk of electricity supply.

The Order as of October 2018 of the Minister of Energy approved amendments to the Description of the Procedure for Connection of Electricity Producers and Consumers' Electrical Equipment to the Electricity Networks, which provide that large electricity consumers with a capacity of not less than 10 megawatts (MW) and that will undertake not to reduce power and pay the power charge for the period of 10 years, are allowed to connect directly to the power grid. In the past, this option was not provided, consumers were obliged to obtain the refusal of the distribution networks system operator to connect the customer's electrical equipment to the distribution networks.

To improve the efficiency of the process of connecting new consumers to the electricity transmission network, "Litgrid" has introduced an innovation and when applying for connection the consumers can fill in their requests and submit documents electronically.

The new procedure will allow more efficient balancing of the use of distribution and transmission networks and will increase the reliability of energy supply for industrial enterprises. These adjustments will also help to ensure more transparent service of connection to the electricity distribution networks for both existing and future consumers. It is estimated that all these innovations will help companies reduce their operating costs and increase their competitiveness.

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 2016-2018, i.e. 8.8%, which was the highest for state-owned enterprises. Average normalized return on capital of EPSO-G group of companies in the period 2016-2018 amounted to 11.4%, i.e. higher by 2.6% than the target set by the Government of the Republic of Lithuania for this period.

At the end of the reporting period, the Government of the Republic of Lithuania approved the targeted return on equity of 5.7% for EPSO-G Group for the period 2019-2021. 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 National Control Commission for Prices and Energy (NCCPE), 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.

In implementing the requirements of legal acts, in 2018, the Group's personal data protection policy was prepared and the organizational and technical changes necessary for the implementation of this policy have been implemented in the group of companies.

In addition, in 2018, it was agreed on common ITT development priorities for the Group, specified in the approved Group's ITT Management Policy. This policy sets out uniform criteria for assessing the classification and criticality of ITT systems, and describes the principles for decision making on ITT.

At the end of 2018, a number of other relevant documents regulating the governance and conduct of the Group were approved – the Policy of Selection of Members of Collegial Bodies, the Policy of Transactions with Associated Parties and the Code of Conduct, and improvements were made in the documents already approved.

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 2018, a survey of the heads of the group and members of the collegial bodies on the value created by the holding company was conducted. Almost 40 respondents think that the holding company raises the value of the group by almost 9 percent. At the same time, the survey identified areas of activity lacking the involvement of the holding company, and those where the engagement has no obvious value and its contribution is worth reducing. In order to further increase the value created by the holding company for the group of companies and the shareholder, in the second half of the year, a functional mentoring model was launched within the Group, priority functional areas were identified, and curators of the functional areas of the Group and companies were appointed. It is planned to continue the implementation of the functional mentoring model in 2019.

In order to be effective in financial management, in 2018, the Group has developed and started operating a cash pool system of the group of companies, which ensures efficient borrowing for working capital financing.

It is important to note that in 2018 the focus was on the Group's innovation activities. At the end of the year, the Group approved the guidelines for research and experimental development and innovation activities, and developed and coordinated the process of evaluating innovation ideas within the Group. In 2019, it is planned to launch the process of collecting, evaluating and implementing the ideas of innovation.

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 analyzed.

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. The policy also sets out the principles of investment valuation and provides that all investment projects must be supported by cost-benefit analysis.

It is important to note that for the sake of efficiency and its benefits to consumers, the year 2018 brought close co-operation and search for possible synergies with a distribution network operator in planning the development, reconstruction and reconstruction of the internal network. As a result, "Litgrid" and the electricity and gas distribution company Energijos Skirstymo Operatorius (ESO) signed an agreement of the joint project implementation, which will provide reliable electricity supply to the residents and businesses of eastern Lithuania. This solution will save over EUR 19 million.

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 2018, attention was focused on the implementation of common values of the Group. By the end of the year, all Group's companies made decisions on the equalization of values and harmonization of the understanding of their reflective behaviour.

Also in 2018, it was prepared for the application of the EPSO-G competence assessment model, and a competence assessment tool was developed.

All companies of the Group agreed on the principles for the establishment of shift plans. Based on these, the lists of critical positions were approved and the shift plans were prepared in almost all companies of the Group.

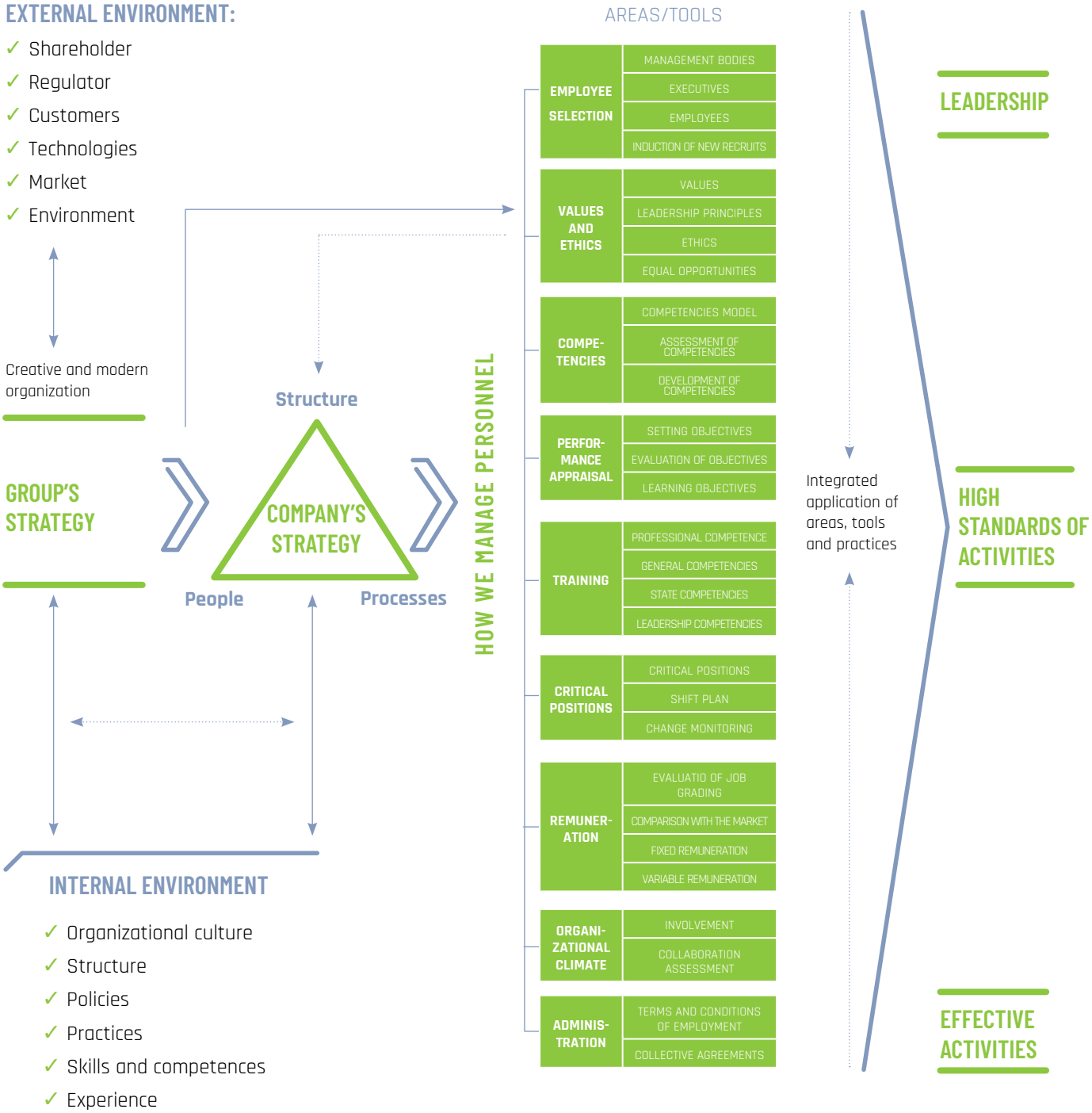
A transparent, reliable organisation that follows up the principles of sustainable development

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. 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.

ORGANIZATION DEVELOPMENT

Management of human capital in the framework of functional leadership model



Confirmed Scheduled to approve or uniform application in 2019

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 2018.

Financial and non-financial objectives set for the Company are identical to the objectives of the Director General. The Director General is accountable to the Board for the implementation of the objectives set. Each year, the Board carries out an evaluation of the achieved objectives. Its result determines the variable remuneration amount, which does not exceed the proportions laid down in the Remuneration Policy.

At the end of the reporting period, i.e. 25 January 2019, the Board of EPSO-G stated that the implementation of the operational objectives of the year 2018 of the holding company and its Director General had met the expectations at 96%. The final decision on the assessment of the achievement of objectives shall be taken in the context of the audited financial results.

Director General's objectives for 2018

No.	Strategic objective	Tasks	2018 indicators
(I) Development of regional activities and ensuring the success of strategic projects			
(I).1	To ensure a high-quality implementation of strategic infrastructure projects at the scheduled time	Preparation of the electricity system for synchronous operation with the continental European grids (CEG) by implementing the integrated project plan for the connection of the electricity system of the Republic of Lithuania with the continental European electricity grids for operation in synchronous mode	Ensured project implementation. In view of the implementation guidelines set out in the integrated project plan, actions are taken to ensure that the project can be implemented in a timely manner by 2025.
		Implementation of the gas pipeline interconnection construction project between Poland and Lithuania in the territory of Lithuania	Ensured project implementation in accordance with the plan. In the event of changes in material circumstances affecting project implementation outside the scope of the Group's competence, alternative actions to achieve the final result were initiated in a timely manner – implementation of the project within the set time frame until 31 December 2021.
(I).2	To create unified gas market, expand the geography of gas and biofuels trading platforms and develop the integration of electricity market	Development of BALTPOOL services	3 new trading platforms were created in foreign markets. Auction system of trading in wood was developed according to the Rules of Trading in Wood and market needs: - Active participation in the development of Rules; - Changing the rules has changed/created the trading system.
(II) Sustainable growth of the group of companies and a long-term benefit for the shareholders			
(II).1	To ensure a long-term benefit for the shareholders	The established balanced level of OPEX shall not be exceeded Return to shareholder	The actual OPEX ≤ 100% of set balanced OPEX in the budget ROE (average during the strategy period) ≥ 5.5%;
(III) Efficient operation			
(III).1	Improvement of operational management and process efficiency	Implementation of measures to increase and promote operational efficiency	1) Established Group's ITT management guidelines and developed Group's ITT policy 2)An assessment of the maturity of project management of the group of companies was carried out, the maturity level of project management was determined and measures provided for its increase
(III).2	To ensure efficient and secure management of technological asset and investments	Implementation of measures to increase and promote operational efficiency	Developed general customer requirements
(III).3	To ensure effective borrowing of funds for the working capital financing	Create a cash pool for EPSO-G group of companies	Functioning (where at least 3 companies participate) consolidation of accounts and peer-to-peer lending platform system
(III).4	Implementation of the risk management process of EPSO-G group of companies in accordance with the Risk Management Policy of the Group	According to the prepared and approved risk management policy and methodology of the Group, to implement unified risk identification and management system in Group companies.	Unified risk identification and management system is established in the group of companies
(IV) Creative and modern organization			
(IV).1	To become a group of companies quickly responding to the changing environment and the centre of energy competence	Creation of competence model	A 360° tool for evaluating competencies was developed: a) identified and approved the required competencies for managerial positions; b) their evaluation tool was prepared; c) prepared for the use of the model from the beginning of 2019
(IV).2	To become a group of companies quickly responding to the changing environment and the centre of energy competence	Establishment of shift plans of the group of companies	Established shift plans' formation principles and prepared key positions' shift plans: a) in a parent company b) in subsidiaries c) in subsequent subsidiaries
(IV).3	To become a group of companies quickly responding to the changing environment and the centre of energy competence	Establishment of a methodology for calculating value. Calculation of the value. Identification of management improvement actions by increasing value.	Development of a methodology for calculating the value generated by efficient management in accordance with global practice. Determination of the direct and indirect value of the Group.
(IV).4	To be a transparent, reliable organization that follows the principles of sustainable development	Analysis of confirmed EPSO-G Group's policies, identification of missing policies and their preparation, description of the process in the implementation of policies within the Group	EPSO-G Group's confirmed policies analysis was carried out, their interconnectivity map was prepared, missing policies were identified and established for the implementation of strategic objectives, policies implementation process was described.

3.4 Summary of Significant Infrastructure Projects

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

Historically, the Lithuanian electricity system operates synchronously with the IPS/UPS system, which connects the systems of Belarus, Russia, Estonia, Latvia, Lithuania (BRELL). The frequency of the Baltic electricity system is centrally managed and coordinated by a dispatcher in Moscow.

As a result, by being members of the European Union, Lithuania, Latvia and Estonia seek to connect the countries' electricity systems and work at one frequency with the continental European networks, to become an autonomous part of the decentralized European electricity system and to move towards transparent and predictable standards for the electricity transmission system management.

The strategic goal set by the Parliament of Lithuania in 2012 – to reorient the country's electricity system towards synchronous operation with the continental European electricity networks.

Full integration of Lithuania's power system into the European electricity infrastructure and common market for electricity, with the independent system control, is one of strategic objectives of "Litgrid". Its attainment requires an understanding, harmonisation, and coordination of national and international interests.

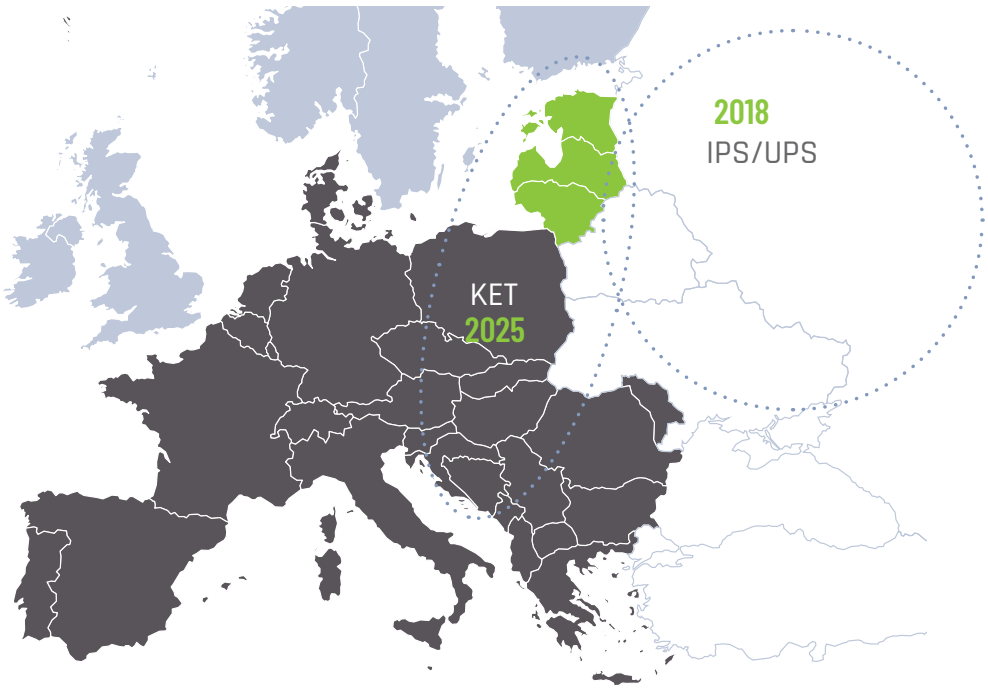
On 28 June 2018, top leaders of the European Commission, Poland, Lithuania, Latvia and Estonia signed a political agreement on synchronizing the three Baltic countries with European networks via Poland.

This agreement allowed the Baltic and Polish transmission system operators in September 2018 to apply to the European Network of Transmission System Operators for Electricity (ENTSO-E) for the issue of technical access conditions. After their implementation, the Baltic countries will be able to synchronize their network work with Western Europe by 2025. On this basis, the formal procedure for extending the continental European synchronous area was launched. The Baltic transmission system operators submitted an application for EU funding of the first phase of works under the Connecting Europe Facility program.

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.

The value of the project, depending on the scenario chosen, may reach up to EUR 1,500 million for the three Baltic countries. This project is included in the European Commission's third list of projects of common interest. It is planned that the project will be implemented in three phases. The total value of the first phase investment of the three Baltic countries will amount to EUR 432.55 million, of which EUR 167 million – for renovation and reinforcement of the Lithuanian electricity system. EUR 125 million was allocated for this by the EU.



On 21 December 2018, Lithuanian and Polish electricity transmission system operators agreed on the implementation of the new maritime interconnection project. The management of "Litgrid" and "PSE" signed an agreement committing to launching the preparatory phase of the project of construction of new Polish-Lithuanian submarine high-voltage DC (HVDC) cable. Lithuanian and Polish representatives decided to name the new maritime interconnection as "Harmony Link". During the preparatory phase of the project, actions will be taken on the basis of which investment decisions will be made, the procurement procedure will be announced to purchase the cable laying works and other preparatory works will be carried out. The investment decision should be made in 2020.

During the preparation of Lithuanian energy networks for synchronization, the reconstruction of important power transmission nodes in Vilnius and North East Lithuania was continued in 2018:

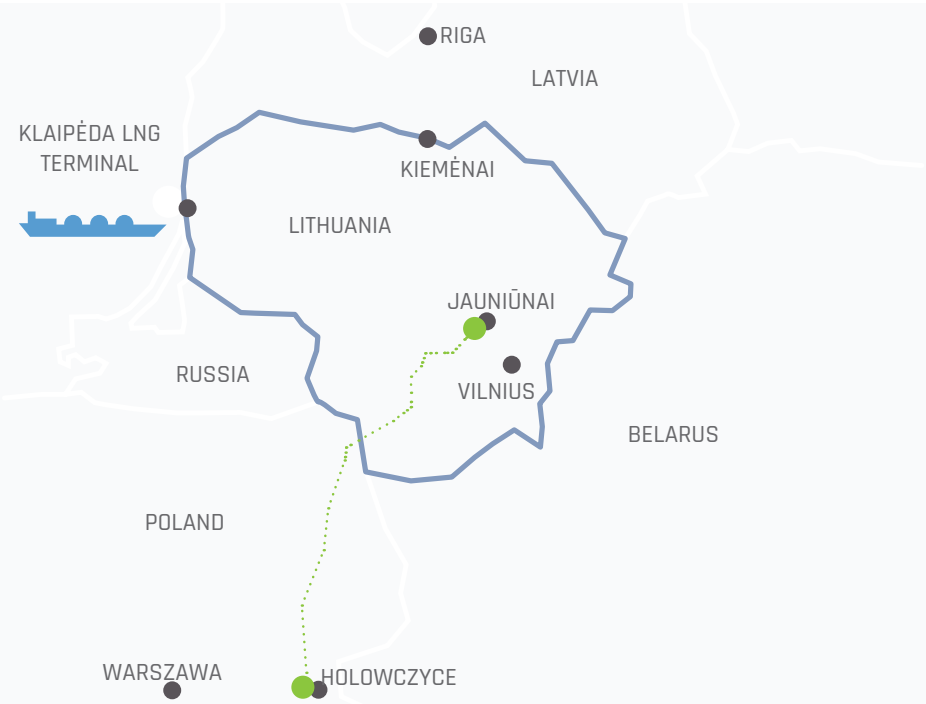
• In 2018, "Litgrid" started to implement a project of reconstruction of 330 kV electricity transmission line from the Lithuanian Power Plant to Vilnius. An additional electricity line will be built during the reconstruction work at the existing overhead line. This is one of the projects of the "Litgrid's" managed transmission network preparation for synchronization with the continental European networks. It is also needed to ensure reliable electricity supply to residents and businesses of the rapidly growing city of Vilnius. The main contractor, winning tenderer, is Žilinkis ir Co UAB. The project value is EUR 17.99 million (VAT excluded). Reconstruction works are expected to be completed by the end of 2020. 50% of the Project value is funded by the EU structural funds.

• In 2018, "Litgrid" signed a contract with the winning tenderer, a group of entities AB Kauno tiltai, ABB OY and ABB AS on optimization of the electricity transmission grid in the Northern Lithuania and preparation for synchronous operation with the energy system of continental Europe. During the implementation of the project, two 330 kV transformer substations in Ignalina and Utena will be reconstructed, and a controlled 330 kV shunt reactor will be transferred from the Ignalina substation to the 330 kV switchyard in Elektrėnai. The most powerful 750 kV high-voltage line connecting the Ignalina NPP substation with Belarus will also be dismantled. For this state-important economic project, EUR 10.8 million is allocated from the EU structural funds, which is 45% of the project value funded by the EU structural funds. During the project, advanced infrastructure will be installed, which will ensure reliable electricity transmission and higher quality of services for both existing and new electricity network users in Visaginas and Utena district municipalities. It is planned that the reconstruction of the electricity transmission system unit in Northeast Lithuania will last for four years and will be completed by spring 2021 at the latest. Total project value is EUR 23.9 million (VAT excluded).

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.



On 24 May 2018, "Amber Grid" and GAZ-SYSTEM S.A. concluded a GIPL interconnection agreement by which the final decision to invest in the GIPL project was confirmed.

On 7 June 2018, the tender for contract works of the GIPL project was published.

The GIPL gas pipeline will run from Jauniūnai Gas Compressor Station (GCS) in Širvintos district to the Hołowczyce GCS on the Polish side. Natural gas will be transmitted in both directions.

This project is recognised as an important and significant contribution to ensuring the EU's energy security:

- The length of the pipeline – up to 522 km, of which 165 km in the territory of Lithuania;
- The capacity created will allow transport to the Baltic countries around 27 TWh (2.4 billion m3) per year;
- Transferred gas flow to Poland – up to 21 TWh (1.9 billion m3) per year;
- The total value of the project is estimated at around EUR 500 million;
- Of which investment in infrastructure in Lithuania – up to EUR 136 million;
- The project is expected to be implemented by the end of 2021;
- The project is carried out by the Lithuanian and Polish natural gas transmission system operators "Amber Grid" and GAZ-SYSTEM S.A.

Importance and benefits of GIPL:

- Will integrate gas markets of the Baltic countries and Finland into a common EU gas market;
- Will increase security and reliability of natural gas supply;
- Will open access to alternative gas supply routes and sources;
- Will create the possibility to apply energy solidarity mechanisms between EU Member States;
- 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;
- Will increase the competitiveness of the gas market.

EU financial support is used to implement the project. According to the cross-border cost allocation decision of the European Agency for the Cooperation of Energy Regulators, part of the project's infrastructure costs in the Polish territory will be covered by the Lithuanian, Latvian and Estonian transmission system operators. The remaining part of the project in the territories of Lithuania and Poland will be financed by "Amber Grid" and GAZ-SYSTEM S.A. respectively.

In 2018, the Company, jointly with the Latvian and Estonian transmission system operators, used implicit capacity allocation model in cross-border connection points in the Baltic countries the implementation of which was accepted by the national regulatory authorities. This model is a transitional period measure of integration of Baltic countries' gases which is aimed at increasing the competitiveness of the gas markets and promoting cross-border trade in gas.

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.

In 2018, "Amber Grid", together with the Latvian natural gas trans-

mission system operator AS Conexus Baltic Grid, participated in the preparation of the feasibility study and cost-benefit analysis of this project.

On 25 May 2018, the Company and Conexus Baltic Grid signed the trilateral EU financial assistance agreement with the Innovation and Networks Executive Agency (INEA) on the financing of a study under the EU Connecting Europe Facility (CEF). The EU financial assistance in the amount of up to EUR 175 thousand was allocated for the preparation of the study.

The feasibility study of the project to increase the capacity of the gas pipeline link between Lithuania and Latvia and the results of the cost-benefit analysis (market analysis and gas flow simulation) showed that in order to satisfy the regional gas market demand and to ensure the security of gas supply after the development of other regional infrastructure, i.e. construction of gas interconnections between Finland and Estonia (Balticconnector) and between Poland and Lithuania (GIPL), higher transmission capacities between Lithuania and Latvia will be required.

In Lithuania, it is planned to increase the capacities of Kiemėnai gas metering station and to readjust the piping of Panevėžys compressor station. In Latvia, it is planned to modernise high-pressure pipelines to be able to increase maximum operating pressure up to 50 bar (from 40 bar), as well as to install compressor unit with the capacity of 12 MW in the location of Inčukalns Underground gas storage. These investments would enable to provide capacity of interconnection of 130.47 GWh/d towards Latvia and 119.5 GWh/d towards Lithuania.

In December 2018, "Amber Grid" together with Conexus Baltic Grid submitted the Investment request to Lithuania, Latvia, Estonia and Finland's national regulatory authorities asking to take a decision for Cross Border Cost Allocation. Planned investment – EUR 25.4 million, out of which EUR 4.7 million in the territory of Lithuania the end of the project – 2023.

Project operators – AS "Conexus Baltic Grid" and "Amber Grid".

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

On 18 January 2018, the National Control Commission for Prices and Energy approved the ten-year (2017–2026) network development plan of the natural gas transmission system operator "Amber Grid", which was prepared in 2017.

The planned investment value to gas transmission system development projects in the next decade will amount to EUR 192.8 million.

The ten-year plan provides for investments in the development of the gas transmission system aimed at the objectives of the European Union and Lithuania's strategic natural gas sector – to diversify gas supply sources, to ensure the security and reliability of gas supply, to promote competitiveness, to integrate the Baltic gas markets into the common European gas market, and to develop the common Baltic regional gas market.

The network development plan of 2017–2026 foresees the following strategic gas infrastructure projects:

- By the end of 2021 together with Polish gas transmission system operator GAZ-SYSTEM, it is planned to construct a pipeline connection between Poland and Lithuania. The aim of this project is to integrate the Baltic gas markets into the single European gas market, to diversify sources of gas supply and increase security of gas supply;
- In cooperation with Latvian gas transmission system operator Conexus Baltic Grid, it is planned to implement a project to increase the capacity of the gas pipeline link between Lithuania and Latvia. This project aims to create preconditions for a greater integration of the Baltic gas markets, to ensure the safety and reliability of the natural gas system. Detailed project parameters, resources needed for the implementation and implementation deadlines will be announced in 2018 following the feasibility study of the project.

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: https://www.ambergrid.lt/uploads/documents/Tinklo%20pl%C4%97tros%20planas%202017-2026.pdf.

3.5.2 Development Plan of Electricity Transmission Network

When implementing the strategic objectives of the Lithuanian electricity system, in 2018, "Litgrid" has updated the ten-year development plan for the Lithuanian power system of 400 kV, 330 kV and 110 kV grids. It contains forecasts of electricity demand, power plant capacity, electricity market and electricity balance of the system, information on electricity transmission network, its development and projected investments.

The National Control Commission for Prices and Energy (NCCPE) submitted for the public consultation the 400-110 kV grid development plan for 2018–2027, which forecasts the investment of almost EUR 766 million, out which about EUR 419 million will be dedicated to the synchronization of the Baltic networks with Continental Europe.

http://www.litgrid.eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-/3850

PERFORMANCE REVIEW

4. PERFORMANCE REVIEW

4.1. Important Events in the Reporting Period

January

As at 1 January 2018, for the second consecutive year, the services of EPSO-G group of companies have been cheaper for the Lithuanian consumers – the average electricity transmission tariff has been reduced by 7.9% (up to 0.619 ct per kilowatt-hour), and the average cost of natural gas transmission – by 36.5% (up to EUR 1.13 per megawatt hour).

On 10 January 2018, the energy resource exchange operator Baltpool, part of the EPSO-G group of companies, started administering the electronic sales system of raw wood produced in state forests. The aim is to enable market participants to buy roundwood under competitive conditions, thus ensuring maximum return to the state.

On 18 January 2018, the electricity and gas distribution company Energijos Skirstymo Operatorius (ESO) and the electricity transmission system operator "Litgrid" signed an agreement of the joint project implementation, which will provide reliable electricity supply to the residents and businesses of eastern Lithuania. This solution will save over EUR 19 million.

February

On 6 February 2018, Baltpool together with its partners in the Kingdom of Denmark opened a biofuel exchange BiomassPool ApS. It has been created using Baltpool trading system, know-how and experience.

On 8 February 2018, "Litgrid" has started implementing a project for increasing the capacities of Vilnius and Alytus transformers. Its purpose is to ensure reliable electricity supply in Vilnius city and eastern Lithuania.

On 9 February 2018, "Litgrid" started implementing a 330 kV power transmission air-line from the Lithuanian Power Plant to the reconstruction of Vilnius. The existing air-line will be equipped with an additional electrical circuit. This is one of the projects for preparing the transmission network for synchronization with continental European networks. It is necessary to ensure reliable electricity supply for Vilnius city residents and businesses. The agreement signed with public procurement winner, Žilinkis ir Co. UAB. The agreement value is EUR 17.99 million (excluding VAT). Work is expected to be completed by 2021.

March

On 1 March 2018, "Litgrid" was announced as the leader of the energy sector at the business daily's Verslo žinios conference after assessing the following six indicators: profit, revenue, their annual change, profitability and average wages.

On 19 March 2018, "Amber Grid" and the Latvian natural gas transmission system operator Conexus Baltic Grid AS signed an agreement with Ernst & Young to conduct a feasibility study and cost-benefit analysis of the Latvian-Lithuanian gas pipeline interconnection capacity increase. The aim is to find out the need for increasing the capacity of the gas pipeline link between Lithuania and Latvia after laying the connection between Finland and Estonia (Balticconnector) and between Poland and Lithuania (GIPL).

April

On 10 April 2018, "Litgrid" signed an agreement with a group of companies Kauno tiltai AB, ABB OY and ABB AS on optimization and preparation of the North East Lithuania electricity transmission network for synchronous operation with the continental European energy system. Two 330 kV transformer substations will be reconstructed in Ignalina and Utena, and the managed 330 kV shunt reactor will be transferred from the Ignalina substation to the 330 kV switchyard in Elektrėnai. The most powerful 750 kV high-voltage line connecting the Ignalina NPP substation with Belarus will also be dismantled.

On 12 April 2018, under the decision of April 11 of the Board of Litgrid Power Link Service UAB, patronized by "Litgrid", the head of Kaunas region of "Litgrid" – Rokas Muleravičius – was appointed as the interim Director General.

On 17 April 2018, EPSO-G's Director General Rolandas Zukas was elected the president of the Council of the National Energy Association of Lithuania (NLEA), representing the overall position of the energy sector, for a two-year term.

On 24 April 2018, at the Annual General Meeting of Shareholders of "Litgrid" approved the profit distribution project of 2017 of the said company to pay EUR 7,716 dividends.

On 24 April 2018, at the Annual General Meeting of Shareholders of "Amber Grid" approved the profit distribution project of 2017 of the said company to pay EUR 20,300 dividends.

On 24 April 2018, at the Annual General Meeting of Shareholders of Baltpool approved the profit distribution project of 2017 of the said company to pay EUR 162 thousand dividends.

On 24 April 2018, the Ministry of Energy approved a new version of the Corporate Governance Guidelines for EPSO-G Group and the Company's Articles of Association for registration with the Register of Legal Entities in the third quarter of 2018. The review of the EPSO-G's corporate governance model was inspired by amendments to the Law on Companies of the Republic of Lithuania. Based on them, the boards of "Amber Grid" and "Litgrid", part of EPSO-G holding company and group of companies the shares of which are traded on a stock exchange, are reinforced by providing them with supervisory functions.

On 28 April 2018, at the Annual General Meeting of Shareholders of EPSO-G approved the profit distribution project of 2017 of the said company to pay EUR 682 thousand dividends. The dividends amounting to 0.5 % of the distributable profit of the company, was paid in accordance with the Decree No 1116 of 9 November 2016 of the Government of the Republic of Lithuania on dividends paid by UAB EPSO-G for shares owned by the state, with respect to the company's liabilities to Lietuvos Energija UAB for the shares of "Litgrid" acquired in 2012.

May

On 2 May 2018, it was reported that the owners of the electricity market operator Nord Pool, the transmission system operators of the Nordic and Baltic countries, decided on the reorganization of Nord Pool by separating the functions of the market coupling operator (MCO) and the power exchange by establishing two legal entities. To ensure reliable operation, collaboration and cost control, these two legal entities since 19 April 2018 have been managed by the holding company. The decision on a new governance structure was adopted by the Nord Pool General Assembly held on 19 April 2018. This means that since 19 April 2018 "Litgrid" owns 2 % (306 shares) of Start Up 170 Invest AS shares, which manages Nord Pool AS 100 percent.

On 11 May 2018, the solution of the regional gas trading platform with an integrated trading model implemented by the exchange GET Baltic, belonging to EPSO-G Group, and its partners, at the National business awards ceremony was awarded as the Project of the Year in the energy sector. By implementing a unique project for the creation of a regional gas trading platform with an integrated trading model, GET Baltic has established trading platforms in Latvia and Estonia and has de facto become a regional Baltic natural gas exchange.

On 17 May 2018, the Minister of Energy Žygimantas Vaičiūnas signed an order for EU support for optimization of the transmission network of North-East Lithuania. This economic project of state importance was allocated EUR 10.8 million of EU funds. With the help of EU funds, two 330 kV transformer substations in Visaginas and Utena districts will be reconstructed. Intelligent infrastructure will ensure a reliable power transmission and higher quality of service to existing and new electricity network users in Visaginas and Utena district municipalities.

On 18 May 2018, the Baltic and Polish natural gas transmission system operators signed an agreement that will allow the costs of the gas pipeline connection with Poland to be allocated. The multilateral cost allocation agreement sets out the procedures and principles necessary to implement the decision of the EU Agency for the Cooperation of Energy Regulators (ACER) on the cross-border cost allocation of the Polish-Lithuanian Pipeline Connection (GIPL) project. The agreement among "Amber Grid", Conexus Baltic Grid (Latvia), Elering (Estonia) and Gaz-System (Poland) also defines how to calculate and adjust compensation that the Baltic transmission system operators (TSOs) have to pay to the TSO of Poland, and provisions for the reimbursement of compensation, if the Polish TSO would receive additional revenues from the gas pipeline GIPL, are set out. This agreement is one of the important GIPL project implementation agreements.

On 24 May 2018, the Lithuanian and Polish natural gas transmission system operators "Amber Grid" and GAZ-SYSTEM S.A. signed a network interconnection agreement which confirmed the final decision to invest in a gas pipeline interconnection between Poland and Lithuania (GIPL) project.

On 24 May 2018, "Litgrid" and Conresta UAB signed an agreement for the construction of the System Management and Data Security Center. By the end of 2019, "Litgrid" will set up a new System Management and Data Security Center with the value of EUR 10.183 million (VAT excluded). Investments are funded by the company.

On 25 May 2018, "Amber Grid" and Conexus Baltic Grid, the Latvian natural gas transmission system operator, signed a tripartite EU financial support agreement with the Innovation and Networks Executive Agency (INEA) to finance a feasibility study on the capacity extension of the pipeline link between Latvia and Lithuania under the Connecting Europe Facility (CEF). Up to EUR 175 thousand of EU support has been allocated to the study.

June

On 7 June 2018, "Amber Grid" announced the international procurement for the part of the project of the construction work on gas pipeline connection between Poland and Lithuania (GIPL) in the territory of the Republic of Lithuania.

On 13 June 2018, it was reported that "Litgrid's" Board approved the termination of the purchase-sale agreement of the shares of Duomenų logistikos centras UAB signed in 2017 with Telia Lietuva AB, according to which "Litgrid" had to sell to Telia Lietuva AB, 20.36% of shares of Duomenų logistikos centras. The mutual decision to terminate the agreement was made by the contractual parties Lietuvos Energija UAB, LITGRID AB and Telia Lietuva AB in accordance with the offer made by Telia Lietuva AB.

On 28 June 2018, the president of the Republic of Lithuania Dalia Grybauskaitė together with the Prime Ministers of Latvia, Estonia and Poland and the President of the European Commission Jean-Claude Juncker signed a political agreement on the synchronization of the three Baltic power grids with continental Europe through Poland until 2025.

On 29 June 2018, Agnė Kairytė, the chancellor of the Ministry of Energy, resigned from EPSO-G Supervisory Board for personal reasons.

July

On 13-18 July 2018, the holding company EPSO-G signed agreements with "Litgrid" and "Amber Grid" for the transfer of tax losses. The agreements were signed following the delivery of the opinion of the Audit Committee of EPSO-G that the transactions are fair with respect to all shareholders of "Litgrid" and "Amber Grid", the transfer of tax losses is carried out in accordance with the procedure laid down by the Law on Corporate Income Tax.

August

On 1 August 2018, the updated version of the Articles of Association of the holding company EPSO-G was registered with the Register of Legal Entities, which expanded the Board's responsibility by providing it with a supervisory function. With this corporate governance model, EPSO-G's organizational and management structure has become simpler, more efficient, and continues to meet the highest standards of governance. The sole shareholder of the holding company EPSO-G – the Ministry of Energy – approved these changes on 24 April 2018.

Taking into account the new provision of the Articles of Association, the Director General of the Company or other members of the administration shall not be elected to the new Board; Rolandas Zukas, Director General of EPSO-G, and Algirdas Juozaponis, Finance Director of EPSO-G, resigned from the position of the Board member. They continue to take the positions of Director General and Finance Director of the holding company EPSO-G respectively and are directly accountable to the Board, which, as before, approves and supervises a timely implementation of objectives set out in the shareholder's letter of expectations.

On 1 August 2018, by the decision of the Board of "Litgrid", the activities of the subsidiary Litgrid Power Link Service UAB were suspended and all employees were transferred to "Litgrid". This means that since 1 August 2018 works on the electrical connections "Litpol Link" and "NordBalt" are performed by "Litgrid".

On 23 August 2019, the National Control Commission for Prices and Energy approved the ten-year (2018-2027) network development plan of the natural gas transmission system operator "Amber Grid". The planned investment amount is EUR 195.2 million.

September

On 7 September 2018, the composition of Supervisory Boards of EPSO-G's affiliated "Litgrid" and "Amber Grid" performing the supervisory function was completed. With regard to EPSO-G's recommendation to award remuneration, the shareholders of the companies have nominated Algirdas Juozaponis, Finance Director of EPSO-G, and one new independent member to each of the boards of both companies. Dr. Šarūnas Nedzinskas, the specialist of management and management of changes, became an independent member of the Board of "Litgrid". The Board of "Amber Grid" was supplemented by Sigitas Žutautas, an audit and financial management consultant. Shareholders of the companies also approved the conditions of remuneration for independent board members. Members of the Board nominated by the holding company EPSO-G shall not be remunerated for their work on the boards of subsidiaries.

On 19 September 2018, the researchers of Kaunas University of Technology (KUT) Department of Electrical Power Systems presented the assessment of adequacy of Lithuanian power system by 2030 performed for the first time by using probabilistic method. The study commissioned by EPSO-G has shown that in the nearest future, the development of reliably accessible efficient local capacity in Lithuania is necessary to ensure the adequacy of the power system's capabilities and system reliability.

On 21 September 2018, the Polish transmission network operator PSE, together with the Baltic operators, submitted an application to ENTSO-E for the expansion of continental European electricity networks.

On 24 September 2018, the sole shareholder of the holding company EPSO-G, the Ministry of Energy, appointed Dainius Bražiūnas, the head of the Oil and Gas Division of the Ministry, and Gediminas Karalius, the deputy head of the Electricity Division, as new members of the Board of the state-owned enterprise. G. Karalius was also appointed the member of the Audit Committee of EPSO-G. On the five-member Board of EPSO-G, they replaced the Director General Rolandas Zukas and Finance Director Algirdas Juozaponis, who resigned as members of the Board after it started performing supervisory functions.

On 27 September 2018, EPSO-G signed a mutual lending and borrowing agreement with the patronized company "Litgrid". This means that "Litgrid" and EPSO-G can lend to each other using a group account service, which allows for more efficient use of temporarily available group funds and creates an alternative to short-term borrowing from credit institutions. The agreement stipulates that the borrowing limit of EPSO-G is up to EUR 23 million and the one of LITGRID AB – up to EUR 20 million. Eur. EPSO-G undertakes to provide the specified borrowing limit, while "Litgrid" will only lend money in the event of a positive balance on the bank account.

October

On 9 October 2018, the Baltic energy transmission operators submitted an application to the European Commission (EC) to finance the first phase of the Baltic electricity network synchronization with continental Europe. The total amount requested was EUR 432.5 million. The requested part of Lithuania was EUR 167 million 45 thousand.

On 11 October 2018, the Regional Group Continental Europe of ENTSO-E (European Network of Transmission System Operators for Electricity) supported the decision to extend the European transmission system synchronous space to the Baltic States. From now on, ENTSO-E has started to prepare a list of technical requirements to be met by the Baltic States before joining the continental European energy network. This document (Catalogue of measures) is expected to be prepared at the early second quarter of 2019.

On 12 October 2018, the operation of the "NordBalt" electricity connection with Sweden was renewed two weeks ahead of time. In order to maximize the accessibility of the connection to the market and its reliable operation, 120 ground cable couplings have been replaced: 22 on the Lithuanian side and 98 on the Swedish side. The Danish company NKT has taken over the warranty by taking over the guarantee obligations from the Swedish company ABB, which produced and laid the cable.

On 15 October 2018, the Ministry of Energy has announced the election of three independent members to the Board of the holding company EPSO-G. The selection of the Board is carried out 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.

On 17 October 2018, 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 of financial and related reports was established. Taking into account the results of the public tender for the procurement of external audit services, Deloitte Lietuva UAB provides these services to all EPSO-G group of companies.

On 17 October 2018, at the Extraordinary General Meeting of Shareholders, the decision of the Board of "Amber Grid" dated 3 October 2018 regarding the launching of the control device and the installation of the intake chambers and the conditions of the implementation of operative technological control of gas transmission system (Phase II), concluded between Šiaulių dujotiekio statyba UAB and "Amber Grid", was approved.

November

On 22 November 2018, the National Control Commission for Prices and Energy approved the prices of natural gas transmission services established by Resolution No 10 of the Board of "Amber Grid" as of 19 November 2018. It has been confirmed that the average price of long-term transmission services for the needs of Lithuanian consumers, in comparison to the average price of 2018, is increasing by 3.5%, i.e. lower than the ceiling allowed by NCCPE.

On 3 December 2018, EPSO-G group of companies, listed on stock exchange, "Litgrid" and "Amber Grid" published information of the

interim disclosure and the investor calendar of 2019.

On 2 October 2018, the National Control Commission for Prices and Energy has approved the upper limit of the price of 0.658 ct/kWh of electricity transmission through high voltage networks, which will come into force from 1 January 2019.

December

On 14 December 2018, "Amber Grid" signed a financing agreement with the Lithuanian Business Support Agency, according to which 50 percent of EU financial support was allocated for the implementation of the project "Implementation of the Operative Technology Management of Gas Transmission System". All planned project investments amount to EUR 9.06 million. The project aims to reduce the amount of gas lost in maintenance of the main gas pipeline and in cases of failures to optimize gas flow management. The project will be implemented by the third quarter of 2022.

On 21 December 2018, the heads of the transmission system operators "Litgrid" and PSE signed an agreement, under which they oblige to start the preparatory phase of a new Lithuanian-Polish high-voltage direct current (HVDC) cable construction project. In the preparatory phase, actions will be taken on the basis of which investment decisions will be made, the procurement procedure for purchase of cable construction works will be published and other preparatory works will be performed. The investment decision should be made in 2020.

4.2. Key Performance Indicators

With the growth of the Lithuanian economy, the demand for electricity in 2018 and at the same time the transmission services exceeded the overall growth rate of the national economy.

Over the year 2018, for the needs of the state's residents and businesses, 10,491 million kilowatt-hours (kWh) of electricity were transmitted through high voltage transmission networks. That is 5.0% more compared to 2017. According to the data of the first estimate of the Lithuanian Department of Statistics, in comparison with 2017, last year the gross domestic product (GDP) of the country grew by 3.6%.

The distribution network operator (Energijos Skirstymo Operatorius AB) supplied with 9,413 GWh of electricity to consumers, i.e. by 4.7% more. Other consumers directly connected to the transmission network received 1,077 GWh of electricity or by 7.3% more.

The most important indicators of the performance of the companies of EPSO-G group:

	2018	2017	Change		2016
			+/-	%	
Electricity					
Electricity amount transmitted, GWh	10 491	9 992	499	5.0%	9 729
ENS (energy not delivered), MWh *	0,95	1,68			1,03
AIT (average interruption time), min. *	0,04	0,06			0,04
"NordBalt" availability, % **	97%	84%			78%
"LitPol Link" availability, %	98%	99%			96%
Natural gas					
Gas amount transported to the internal discharge point, GWh	22 320	24 290	-1 970	-8.1%	23 336
Gas amount transported to the internal discharge point, GWh ***	30 140	28 262	1 878	6.6%	23 985
Turnover of the natural gas exchange, GWh	1084	442	642	145.3%	313
Biofuel					
Biofuel amount sold in the energy exchange, toe	430 122	413 232	16 890	4.1%	403 614

*Only for the reasons that fall within the responsibility of the operator and for the unidentified reasons.
**Excluding the repair period of time.
***The transmission systems of Latvia and Kaliningrad region of the Russian Federation.

The scope of natural gas transmission services in Lithuania in 2018 decreased by 8.1%, however the volume of gas transported to neighbouring countries has increased by 6.6%.

In 2018, 22 320 GWh of natural gas was transported for the Lithuanian consumers to gas distribution or directly connected consumer systems, compared with 24 290 GWh for the same period last year. This was mainly due to a decline in demand for natural gas and consumption in the fertilizer sector.

27 832 GWh of natural gas were transported to the Kaliningrad Region of the Russian Federation during the reporting period (2017: 25 664 GWh). 2 308 GWh of natural gas were transferred to the Republic of Latvia via the Kiemėnai DAS system (2017: 2 598 GWh).

As the volume of services provided increased, the energy transmission network and connections were operating in a reliable mode – in 2018, due to high-voltage grid failures for which the operator was responsible, 0.95 MWh of electricity was not supplied to consumers, compared to 1.68 MWh in 2017. The accessibility of the gas transmission network to the system users was 100%.

Asynchronous connections worked reliably. After the repair work of the connection with Sweden was completed ahead of time, in 2018, the accessibility of the "NordBalt" connection to the market reached 97% (2017: 84%). The market accessibility of the Polish "LitPol Link" reached 98% during this period (2017: 99%).

In 2018, the natural gas exchange trading volume of GET Baltic amounted to 1 084 GWh. As a de facto regional gas trading platform, the volume of trade on GET Baltic exchange has more than doubled compared to 2017.

In 2018, heating supply companies, independent heat producers and industrial companies centralized on Baltpool energy exchange purchased 430.1 thousand toe biofuel. That is by 4.1% more compared to 2017.

4.3 Financial Indicators

Financial indicators, thousand EUR	2018	2017	Change		2016
			+/-	%	
Income	245 833	225 246	20 587	9,1%	234 522
Operating costs	318 171	225 607	92 564	41,0%	189 639
EBITDA[1]	55 306	77 213	-21 907	-28,4%	89 509
Net profit	-47 720	-2 796	-44 924	1606,7%	39 074
Normalized net earnings[2]	14 365	26 888	-12 523	-46,6%	34 893
Assets	684 663	770 456	-85 793	-11,1%	835 763
Non-current assets	540 535	629 559	-89 024	-14,1%	689 321
Current assets	144 128	140 897	3 231	2,3%	146 442
Equity	183 873	236 247	-52 374	-22,2%	240 413
Liabilities	500 790	534 209	-33 419	-6,3%	595 350
Net debt[3]	342 916	414 865	-71 949	-17,3%	468 238
Dividends*	Not allocated yet	682	-	-	508
Relative financial indicators					
EBITDA margin[4]	22,5%	34,3%			38.2%
Return on equity (ROE)[5]	-22,7%	-1,2%			17,7%
Normalized Return on Equity (ROE)[6]	6,8%	11,3%			15,8%
Turnover of assets[7]	35,9%	29,2%			28,1%
Net debt-to-equity ratio	186,5%	175,6%			194,8%
Equity/asset ratio	26,9%	30,7%			28,8%
Total liquidation factor[8]	0,8	0,8			0,9

*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

Asset revaluation

International Financial Reporting Standards (IFRS) establish the procedures that are mandatory in order to guarantee that assets are carried at fair value. The companies of EPSO-G group regularly assess the internal and external features of potential decrease in value. Should there exist such features, the company must assess a fair value of these assets.

Changes in the regulatory environment independent of the operations of EPSO-G group of companies as at the end of the reporting year and their impact on the value of assets using the income approach applying the discounted cash flow approach were assessed at the end of 2018.

Major changes in regulatory activity in 2018:

Under the Decree No 03-E-300 as of 2 October 2018 regarding the conversion of LITGRID AB transmission service price cap for 2019, the National Control Commission for Prices and Energy the Company decided on the amount of the Company's return exceeding the set amount in 2016–2017, by which the actual capital costs in 2016-2017 assessed at the historical value and did not apply the long run average incremental costs (LRAIC) model approved by the Commission, where the cost of capital for optimized assets is estimated at recoverable amount. With regard to this decision and assuming that in 2018-2020 the commission will apply the same method of capital cost estimation that was used in 2016-2017 and the possible change in the application of LRAIC model, since the beginning of the new regulatory period in 2021, for "Litgrid", assessed the impact of these assumptions on future cash flows.

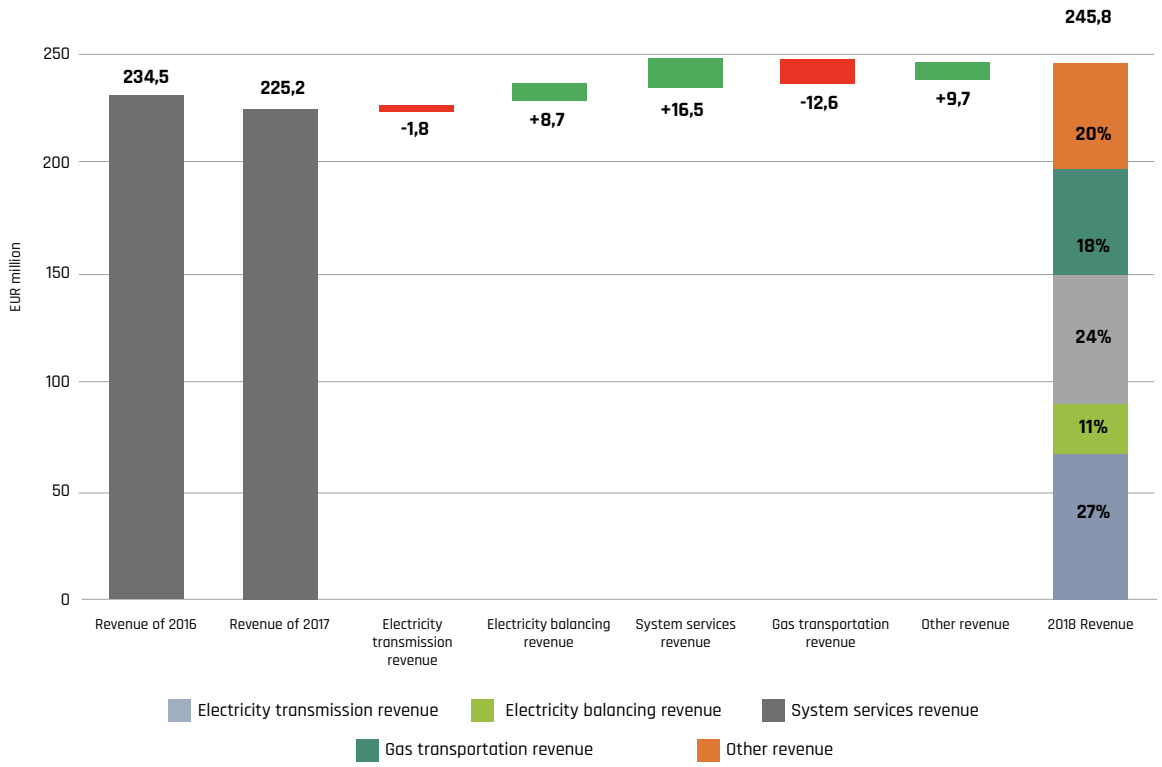
At the start of the new five-year price regulation period for natural gas transmission services (2019-2023) in 2019, "Amber Grid" was set to 3.33% rate of return on investment from the assets assigned to the regulated activity. It is much lower compared to 7.09% rate of return applied during the regulatory period 2014-2018. According to the methodology for determining the rate of return on investments approved by the NCCPE, it will be adjusted annually, taking into account the Company's actual borrowing costs.

For these reasons, as well as other less significant changes in the valuation model, "Amber Grid" accounted for asset impairment of EUR 37.7 million when assessing property, plant and equipment, whereas "Litgrid" – EUR 56.3 million. EPSO-G accounted for the depreciation of EUR 94.0 million, including the decrease in revaluation reserve of EUR 5.3 million with the effect of deferred income tax. The impact of the valuation on the decrease in equity in the income statement amounted to EUR 75.4 million including the effect of deferred income tax.

It should be noted that the amount of physical assets or their properties has not changed, and the decrease in value reflects only the assessment of income earning potential based on conservative assumptions.

Income

EPSO-G consolidated revenue of 2018, in comparison with the same period last year increased by 9.1% up to EUR 245.8 million disregarding significantly lower service rates since the beginning of the year. This was mainly influenced by the increased amount of electricity and natural gas transferred to the system consumers of Lithuania and the neighbouring countries.



After the actual electricity price dropped by 7.2%, the revenue from electricity transmission decreased by 2.6% to EUR 66.6 million and amounted to 27.1% of all the Group's revenue. The decrease in transmission price was partly compensated by higher amount of electricity transmitted.

Revenue from natural gas transportation services in 2018 amounted to EUR 43.6 million, 17.7% of all EPSO-G Group revenue. Due to the gas transportation tariff lower by 36.5% since the beginning of the year, compared to the same period last year, the revenue from this activity was by 22.4% lower. The impact of more favourable price system for consumers has been amortized by a higher number of services provided to neighbouring countries.

Due the tariff of the system services higher by 35%, established by the National Control Commission for Prices and Energy since 1 January 2018, he increase in the volume of services by 4 % and the exceeded declared (contracted) power of the network consumers, for which the price of systemic services is doubled, revenue from systemic electricity services has increased by 38.9% up to EUR 59.1 million.

Balancing (regulatory) electricity sales revenue increased by 48.7% up to EUR 26.4 million. This was mainly due to the increased demand for balancing energy and the need to ensure the distributor permeability (i.e. the amount of electricity traded on the exchange) of connections with Sweden and Poland.

Operation of the international electricity interconnections Lithuania-Poland and Lithuania-Sweden generated EUR 12.9 million of congestion revenue in 2018. Congestion revenue occurs due to insufficient capacity of electricity interconnection lines resulting in different electricity market prices in Lithuanian and Swedish, Polish, Latvian electricity exchanges. In accordance with the Regulation (EC) No 714/2009 of the European Parliament and of the Council on conditions for access to the grid for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003, "Litgrid" recognizes only a part of the revenue received as congestion revenue, i.e. only those used for the ensuring distributed capacity of connections. EUR 0.8 million was recognized as income in 2018, EUR 2.9 million was used to finance investments. The remaining revenue shall be accounted for as the income of the future periods.

The remaining income of the group amounted to EUR 49.4 million.

Operating costs

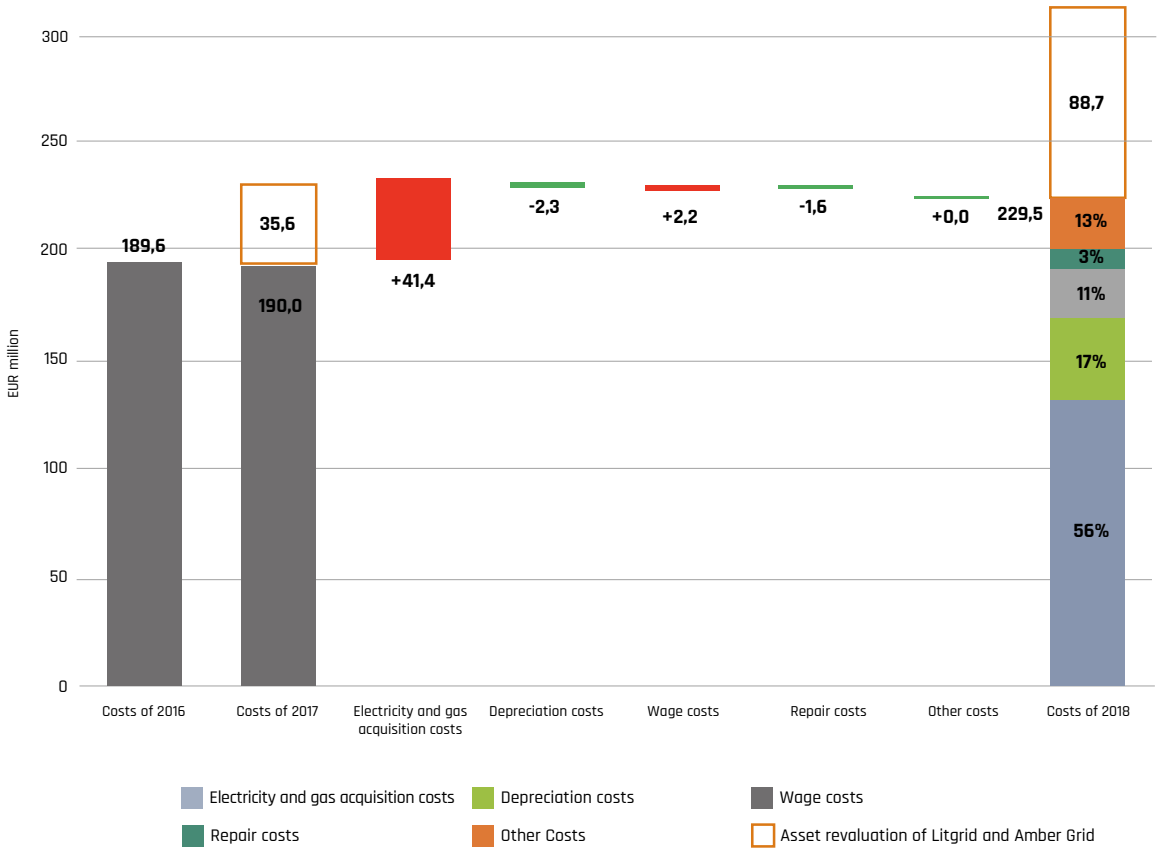
The Group's operating costs, excluding the cost of revaluation of assets, in 2018 increased by EUR 39.5 million up to EUR 229.5 million. The increase in costs was due to prices increased by EUR 41 million for system services and energy resources. In 2018, the growth of energy resource and related service costs amounted to EUR 41.4 million. Other operating expenses, taken together, decreased compared to 2017.

To ensure an uninterrupted power supply, i.e. the necessary balance of energy supply and consumption in the transmission system, operators buy the necessary services in the market. In 2018, the cost of purchasing energy resources and related services amounted to EUR 129.4 million. Out of these, the cost of purchasing electricity and related services amounted to EUR 119.0 million. Natural gas acquisition costs amounted to EUR 10.4 million.

Depreciation and amortization costs amounted to EUR 38.6 million, wages and associated costs – EUR 25.7 million, repair and maintenance costs – EUR 7.0 million, telecommunications and ITT costs – EUR 2.6 million, remaining costs amounted to EUR 26.3 million.

Performance result

Due to the changes in the regulatory environment that led to impairment of the "Litgrid's" and "Amber Grid's" recorded tangible fixed assets, the consolidated net loss of EPSO-G Group in 2018



was EUR 47.7 million. Besides the influence of the value of assets in accounting, the normalized net profit of EPSO-G Group amounted to EUR 14.4 million in 2018 and the normalised return on equity (ROE) amounted to 6,8%. The average normalized return on equity of EPSO-G group of companies for the period 2016-2018 was 11.3%, i.e. it was 2.5% higher than 8.8% set as a target by the Government of the Republic of Lithuania for the Group for this period.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the group's performance in 2018 were EUR 55.3 million. Compared to the same period the year before EBITDA has decreased by 28.4%. The EBITDA margin in 2018 was 22.5% (in 2017 – 34.3%).

Statement of financial position

On 31 December 2018, the Group's assets amounted to EUR 684.7 million, the non-current assets of the Group amounted to EUR 540.5 million and constituted 78.9% of all of the Group's assets. Equity component of the shareholders in the Group's assets constituted 26.9%.

At the end of 2018, the financial liabilities of the Group to the credit institutions amounted to EUR 352.8 million, including EUR 156.6 million of liabilities to "Lietuvos energija", UAB for the acquisition of the shares of "Litgrid". Cash and cash equivalents amounted to EUR 9.9 million. Net debt-to-equity ratio constituted 186.5%.

Investments

In 2018, the investments of the transmission system operator "Litgrid" (works performed and assets acquired regardless of payment terms) amounted to EUR 18.9 million, 25% of them for the implementation of the strategic electricity projects that are important for the state and 75% for the reconstruction and development of the transmission grid.

"Amber Grid" investments in 2018 represented EUR 15.9 million.

4.4 Research and Development Activity

Adequacy study

At the request of EPSO-G, scientists of Kaunas University of Technology (KUT), Department of Electrical Power Systems performed 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.

Dynamic stability study

The Baltic and Polish TSOs carried out a study of dynamic stability of the Baltic states' synchronous connection with the Central European Network (CEN). The aim of the study is to analyze the influence on the dynamic stability of the connection of EES of the Baltic states to CEN. The study includes stability analyzes of inter-system fluctuations and transient processes for CEN synchronization scenarios:

The study was conducted by the Polish Institute of Power Engineering, Gdańsk Division. The study was completed in June 2018. It was partly funded by the European Union under the Connecting Europe Facility (CEF).

Strategic vision study

In 2018 "Litgrid" conducted a study aiming to identify measures to ensure the implementation of the Company's vision of becoming the most advanced TSO in Europe. On June 5, the Company signed agreements with a consortium: ENERGIANALYSE (DK), Ecofys (DE) and KPMG (DK), represented by Glimstedt law firm in Lithuania. The partners reviewed trends and tendencies in the development of the European electricity sector (innovations in the technical electricity sector, new management and managerial methods), analyses and evaluations of different strategies for the development of transmission system operators in Europe, and determined specific innovative measures that could be applied to "Litgrid" aiming to implement the strategic vision. After assessing the feasibility of the proposals, the Company will include appropriate measures in its strategy and action plan for 2019.

Technical feasibility study of regulatory load services

"Litgrid", together with Energijos Skirstymo Operatorius AB, conducted a technical feasibility study on regulatory load services, which assessed the technical potential of electricity demand management services in Lithuania and established technical requirements for such service providers. The results of this study will be used in creating a market of flexible services in Lithuania and other Baltic countries. In 2019, the work on developing the design concept of the market of flexible services market of the Baltic States will be continued.

Concept of Power Mechanism

On 14 November 2018, "Litgrid" signed an agreement with a consultancy firm FTI France SAS, on the establishment of a long-term power mechanism in Lithuania. This detailed concept should become the basis for building the long-term power mechanism in Lithuania.

Analysis of Common Market Commerce Model and Balancing Model

"Amber Grid" together with the members of East-Baltic Transmission System Operator Coordination Group consisting of the transmission system operators of the Baltic states and Finland par-

ticipated in the preparation of the analyses of the single market marketing model and balancing model. In October 2017, the models were presented for public consultation, and in December 2017, after assessing of the comments and suggestions of the market players, they were approved by the Regional Gas Market Coordination Group. Based on the analyses of the models performed, the Rules of balancing of the common area and use of the transmission system were prepared in 2018.

Feasibility study on increasing the capacity of the Latvian-Lithuanian gas pipeline connection

On 19 March 2018, "Amber Grid" and the Latvian natural gas transmission system operator Conexus Baltic Grid AS signed an agreement with an independent expert company Ernst & Young, according to which the latter will be obliged to carry out a feasibility study and cost-benefit analysis of the Latvian-Lithuanian gas pipeline connection's capacity increase. The feasibility study will analyze the potential need for increasing the capacity of the Latvian-Lithuanian gas pipeline connection after the construction of the pipeline connections between Finland and Estonia (Balticconnector) and between Poland and Lithuania (GIPL).

Draft rules for transmission system

In 2018, "Amber Grid" also prepared the common draft rules for use of the transmission system coordinated among the transmission system operators. This project is important, as once it has been approved uniform rules for all users of the system would be established in the single market, which would result in facilitating the transportation of natural gas and payment throughout the zone. The project includes procedures such as capacity allocation, congestion management, submission and approval of quantity applications, as well as natural gas metering, quality regulations, billing and payment procedures.

Common IT platform

The regional market plan provides that transmission system operators shall provide basic services to market participants through a single IT platform. The tender for the development of a technical specification of a common IT platform organized by "Amber Grid", "Connexus Baltic Grid" AS (Latvia), Elering AS (Estonia), Gasum (Finland) and Balticconnector (Finland) was awarded to Ernst & Young. It is planned to prepare the technical specification in the first quarter of 2019. It is expected to analyze the existing IT systems of transmission system operators and on this basis to formulate requirements for a common IT platform.

4.5. Competence and Membership in Organizations

Strength of the group of companies: connections with the surrounding countries and well-developed electricity and gas infrastructure in the country that ensures secure and reliable operation of transmission systems and rendering of services.

EPSO-G and the transmission system operators actively participate 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", collaborate closely, initiate projects and share experience with the transmission system operators of the Baltic states, Scandinavian countries and Poland.

- On 17 April 2018, Rolandas Zukas, Director General of the holding company EPSO-G, was elected as Chairman (President) of the Council of the National Lithuanian Energy Association for a two-year term of office.
- On 24 May 2018, Rolandas Zukas, Director General of EPSO-G, was elected as member of the Board of the CEEP Association at the General Meeting of Members.

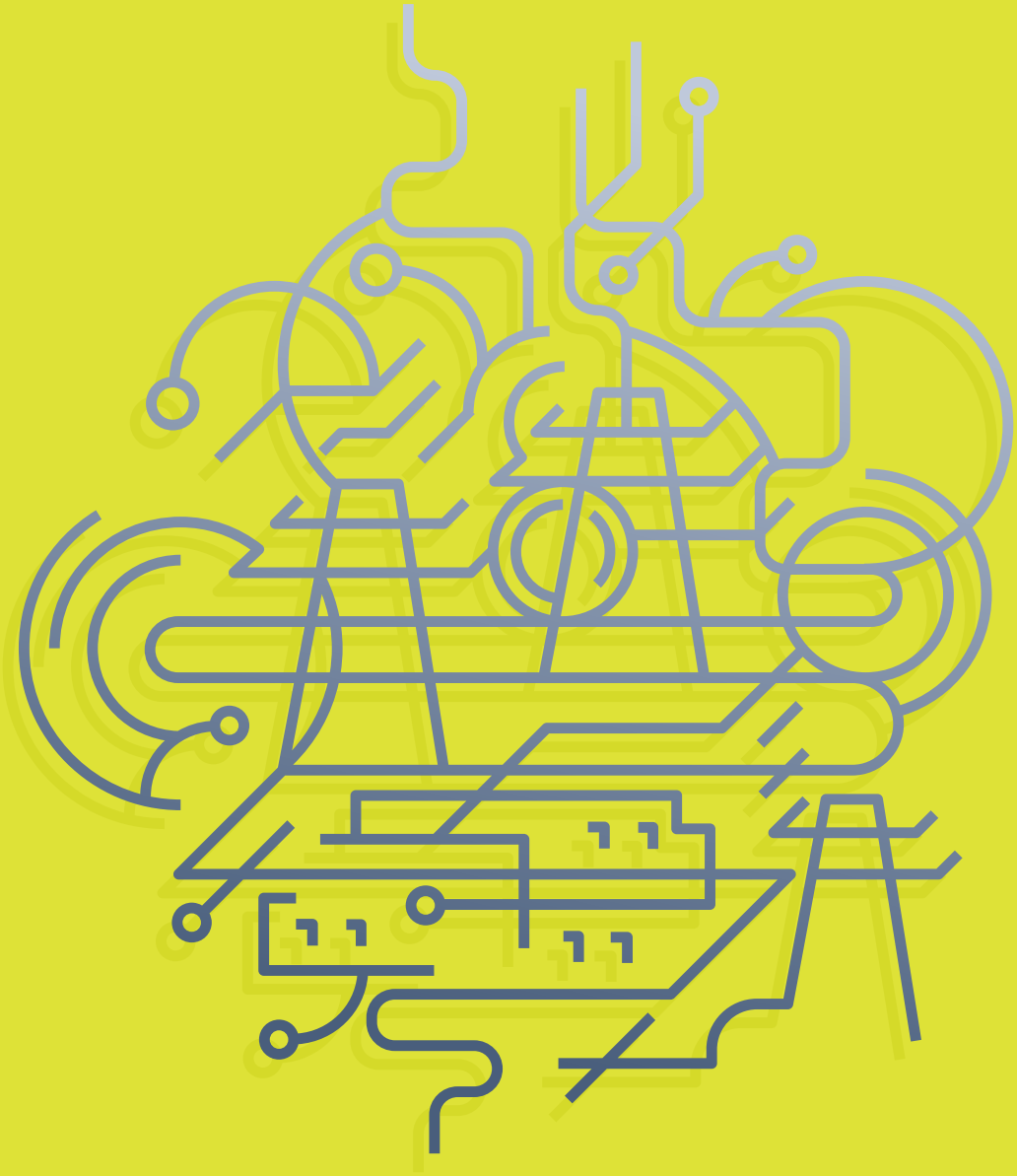
Memberships of the companies of EPSO-G group:

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.
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.
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 2018, the Board of EPSO-G approved the Policy of Transactions with Associated Parties. The purpose of the Policy of Transactions with Associated Parties is to establish supervision and disclosure procedures of the transactions carried out by the companies of the group EPSO-G with the associated parties that would 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.

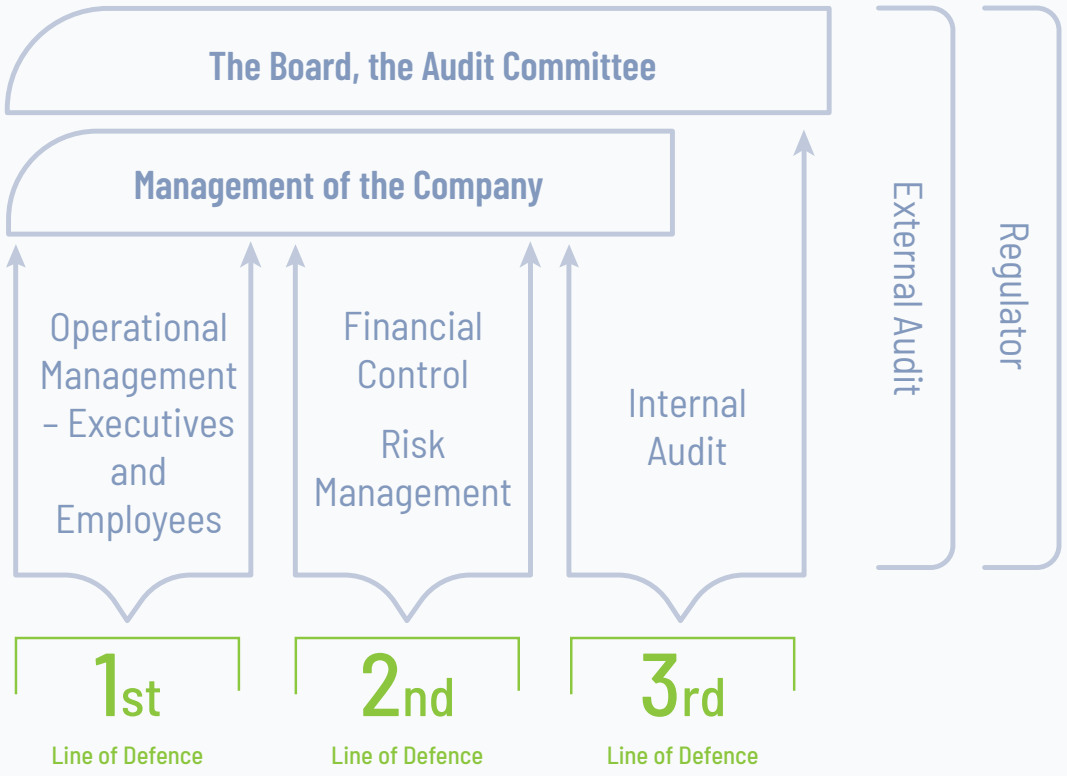


RISK MANAGEMENT AND AUDIT

5. 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 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.

At the end of 2017, the Board of EPSO-G approved the Group's Risk Management Policy and Risk Management Methodology. The purpose of both documents is to create in EPSO-G Group 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.

During 2018, all the companies of the Group joined the Risk Management Policy of EPSO-G and, by using the Risk Management Methodology of the Group, identified the risks relevant to them as well as made plans for managing these risks.

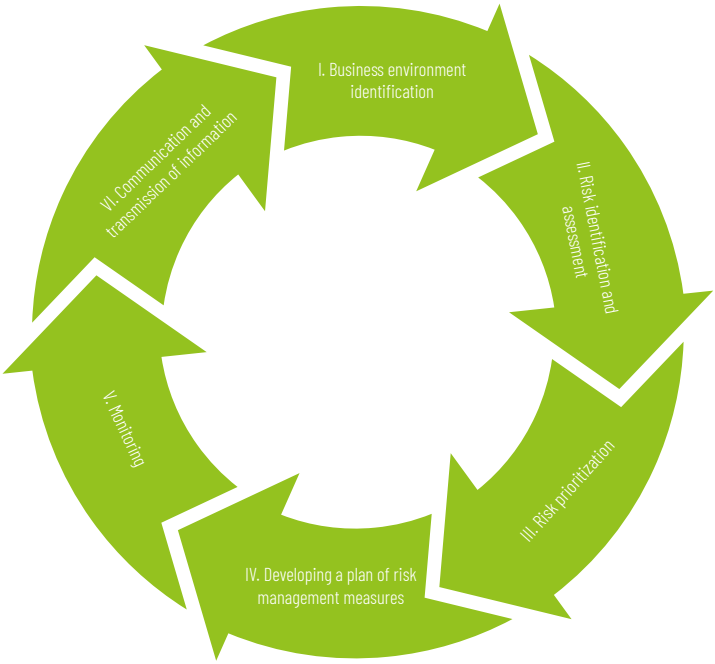
In 2018, the process of the monitoring of risk management and presentation of its results to the management bodies of the Company was also improved in order to ensure that decisions taken by them would be based on relevant information relating to risk management in the Companies. Each quarter of the year, the Board and Audit Committee of EPSO-G was presented with the risk management results in the individual companies of EPSO-G group and newly identified risks and incidents were discussed.

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:

Regulatory risk

The prices of electricity and natural gas transmission and related services are regulated, the price ceilings are set by the Commission. 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 order to reduce the impact of regulatory risk on their performance, the companies actively cooperate with the Commission, participate 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.



Cyber security risk

Information and data managed by the companies of EPSO-G group are of strategic significance for Lithuanian security. 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.

In order to avoid cyber incidents, threats of information systems of the companies of EPSO-G group, their physical protection, security management systems are assessed on a regular basis, 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 exercises 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. In order to ensure a reliable operation of transmission systems, LITGRID AB and AB "Amber Grid" are introducing specialized information systems, modern business management systems, update on a continuous basis the plans of emergencies management, pose high requirements for the contractors.

In order to avoid disturbances of transmission systems operation, LITGRID AB and AB "Amber Grid" carry out a continuous supervision of the systems, respectively draw up the maintenance plans and plan 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 order to ensure transparency of activities, from 1 January 2018 all employees of the holding company EPSO-G and its subsidiaries involved in public procurement shall declare their private interests publicly.

In support of the Ministry of Energy's initiative, 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.

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.

5.2 Information about the Internal Audit

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 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.

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 2018 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 wage cost control;
- Assessment of control of acquisitions (public procurements);
- Assessment of revenue (sales) control;
- Assessment of the financial management and accounting control system;
- Assessment of compliance with information security requirements;
- Assessment of control of the use of vehicles;
- Assessment of compliance with the policies of the companies of EPSO-G group.

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.

5.4 Information about the External Audit

On 17 October 2018, 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. Taking into account the results of the joint public tender for the procurement of external audit services, 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 2018	Fixed remuneration for the audit firm for the audit of the financial statements for 2018*, EUR (VAT excluded)	The firm that has carried out an audit of the financial statements in 2017
EPSO-G	DELOITTE LIETUVA UAB	14 170	PricewaterhouseCoopers UAB
LITGRID AB		32 700	
"Amber Grid"		39 240	
Baltpool		7 630	
TETAS		7 630	
Litgrid Power Link Service		3 270	
Get Baltic		4 360	Rodl & Partner, UAB

*Conditions set by the General Meetings of Shareholders of companies.

SHAREHOLDERS AND DIVIDENDS

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 2018. The authorized capital of the company did not change.

On 31 December 2018, 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 Ministry 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 2018, the management company EPSO-G allocated and paid to the state budget EUR 682 thousand of dividends for the operating results of (in 2017, EUR 508 thousand dividends were allocated for the results of 2016).

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

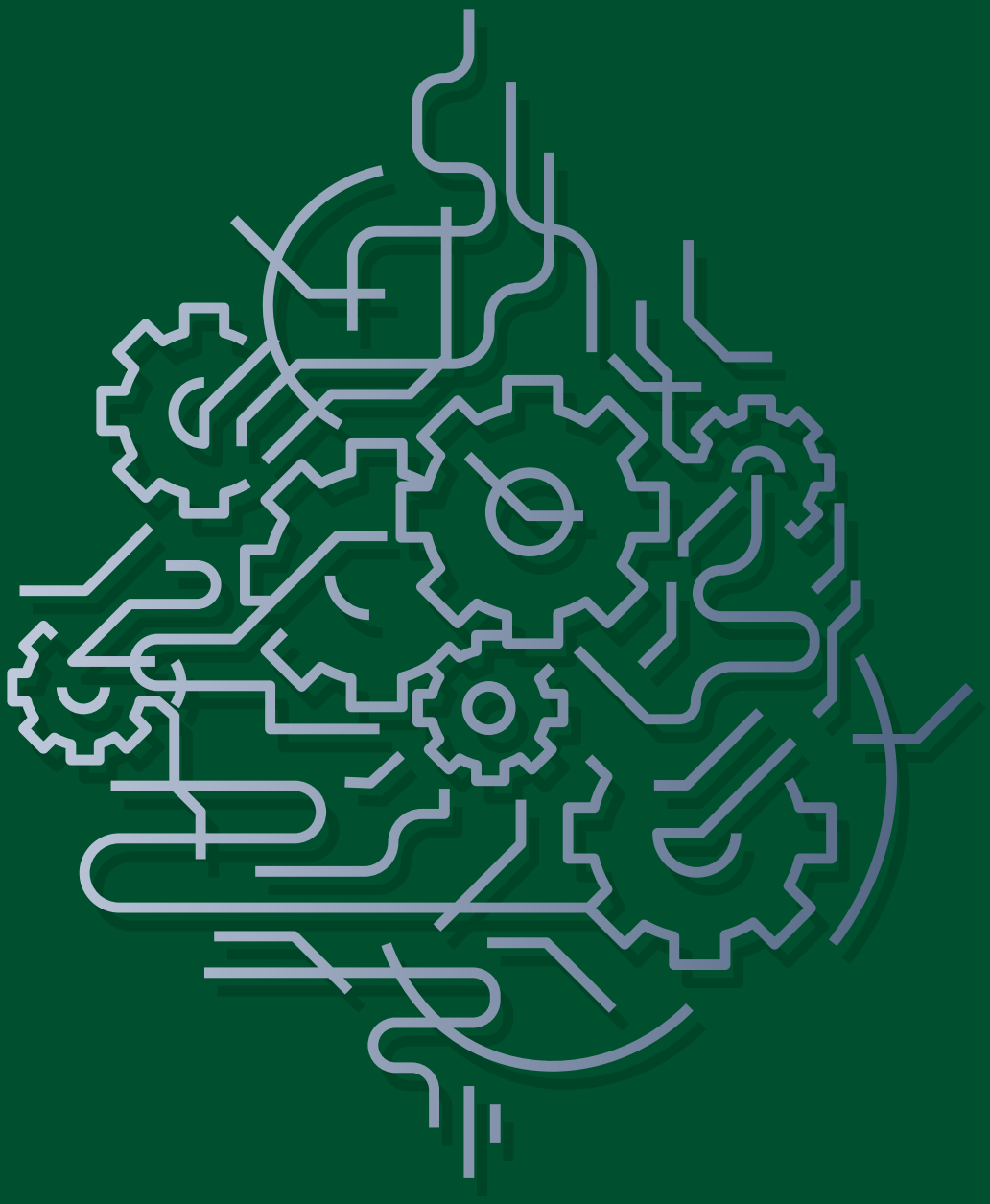
On 14 July 2017, the Board of EPSO-G approved the Dividend Policy that governs the policy of determining the dividend amount, pay-out of and publication about dividends for all companies that form the group.

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. 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

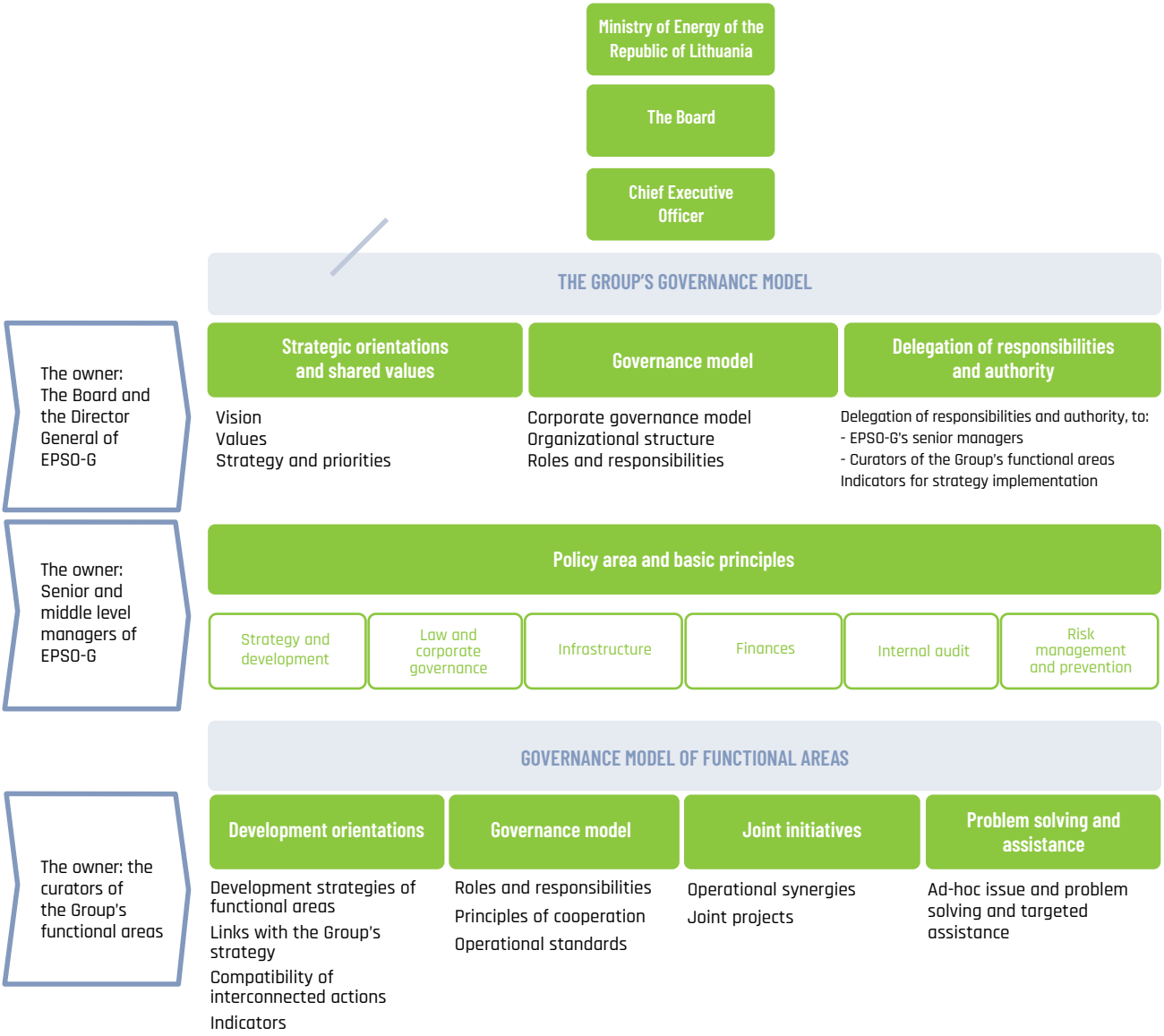
The international credit rating agencies have not issued the companies of EPSO-G group with credit ratings.



GOVERNANCE REPORT

7. GOVERNANCE REPORT

In 2018, 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 preparation of the 2019 operational plan, the holding company EPSO-G will continue to improve governance by consistently implementing MPA recommendations.

Governance index leaders

Name of the company	Tr	CB	SP	Index rating
EPSO-G UAB group of companies	A+	A+	A+	A+
Lietuvos energija UAB group of companies	A+	A	A+	A+
Smiltynės perkėla, AB	A-	A+	A+	A
Klaipėdos nafta AB	A+	A-	A+	A
Lithuanian Exhibition And Congress Centre LITEXPO	B+	A+	A	A
Investment and Business Guarantees, UAB	A-	A+	A-	A
Oro navigacija SE	A	A-	A-	A

Highlighted SOEs classified as large-sized

Tr – transparency dimension
CB – collegial bodies dimension
SP – strategic planning and implementation indicator
Index rating – general indicator of good governance

7.1 The Articles of Association of EPSO-G

On 1 August 2018, the updated version of the Articles of Association of the holding company EPSO-G was registered with the Register of Legal Entities, which increased the Board's responsibility by assigning a supervisory function to it. After the implementation of this corporate governance model, EPSO-G's organizational and governance structure has become simpler, more efficient, and continues to meet the highest standards of governance. The sole shareholder of the holding company EPSO-G – the Ministry of Energy – approved these changes on 24 April 2018.

The review of EPSO-G's corporate governance model was inspired by the amendments to the Law on Companies of the Republic of Lithuania. Based on them, the sole shareholder of the holding company approved a new version of the Corporate Governance Guidelines for EPSO-G Group.

In implementing these guidelines, the Articles of Association of the holding company as well as of the group of companies listed on the stock exchange ("Litgrid", "Amber Grid") have been amended. According to the new provision of the Articles of Association, the boards of EPSO-G, "Litgrid" and "Amber Grid" shall be assigned to perform a supervisory function that previously was exercised by the Supervisory Board at the Group level.

It is provided that in order to continue complying with the good governance practices of the Organization for European Cooperation and Development (OECD), the majority of the Board of EPSO-G, having more powers and responsibilities, shall be composed of independent members. In addition, members nominated by the sole shareholder – the Ministry of Energy – shall be also appointed to the Board.

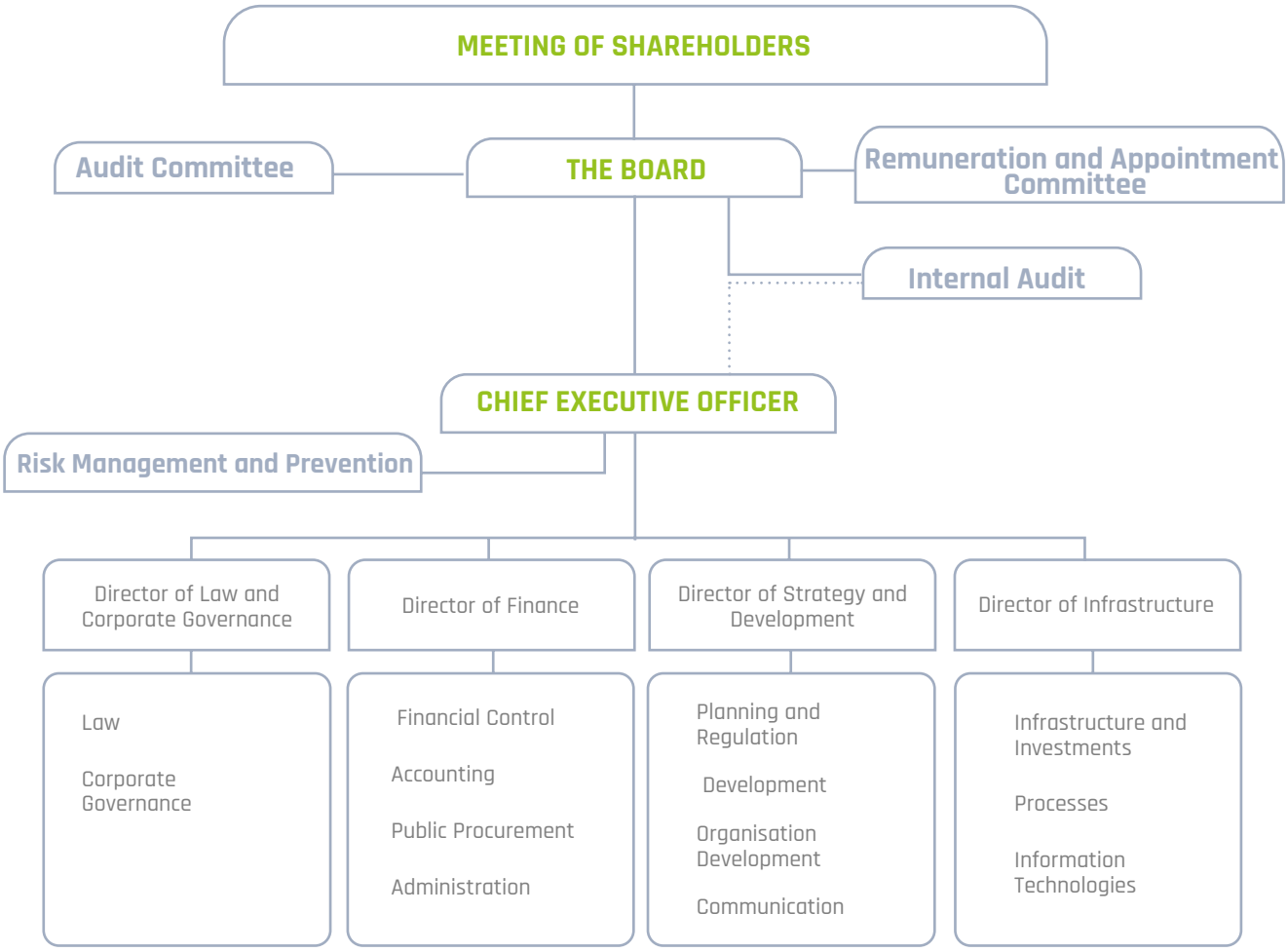
The Director General of the Company or other members of the administration shall not be elected to the Board performing the supervisory function. In accordance with legislative requirements, the Board of EPSO-G shall be formed by a decision of the sole shareholder.

In order to continue the transparent and accountable activities of EPSO-G Group, recommendations to the Board of the holding company are provided by the Audit and Remuneration and Appointment Committees, where the majority is made up of independent members.

Please get acquainted with the Articles of Association of EPSO-G at https://www.epsog.lt/lt/apie-mus/korporatyvinis-valdymas., in the column of Corporate Governance.

The governance model applied by EPSO-G before 1 August 2018, was fully disclosed in the 2017 annual activity report and in the 2018 interim report. This report does not repeat it in detail, instead a new governance model is introduced.

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 corporate governance of EPSO-G is carried out in accordance with the Corporate Governance Guidelines of the State-owned Energy Sector Group, approved by the Minister of Energy of the Republic of Lithuania, which has established common corporate governance principles, management organization model, management structure, accountability and performance monitoring and control systems applicable to the entire enterprise group:

- 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
- EPSO-G collegial bodies assess their performance on an annual basis in a form that is set and informs the public in an annual report.

These documents are published in full on the EPSO-G Corporate Governance and Management sections.

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.).

Supervisory Board

According to the current Articles of Association, the Supervisory Board of the holding company EPSO-G worked until 1 August 2018.

Until 1 August 2018, the Supervisory Board:

- Carried out supervision of the activities of the companies of the Group;
- Carried out supervision of the functioning and risk management of the Group's internal control system;
- Ensured the effectiveness of the internal control system within the Group;
- Provided feedback/suggestions to the Board on important issues.

From 1 January 2018 until 1 August 2018, 11 Supervisory Board meetings were held.

In 2018, the Supervisory Board and its committees paid special attention to and assessed the practical implementation and application of the operational policies within the companies of the Group.

The main decisions taken by the Supervisory Board in January-July 2018, in addition to the assessment of annual reports and the submission of responses to the General Meetings of Shareholders, were related to supervisory functions and the assessment of the situation in the areas of implementation of strategic projects, risk management, remuneration, motivation, coordination of interests, organisation of internal audit and implementation of recommendations.

The Supervisory Board has submitted feedback and recommendations for the project of the new version of operational strategy for 2017-2025 of EPSO-G group of companies.

The significant attention of the Supervisory Board was dedicated to the quality of activities of the subsequent subsidiary company Tetas UAB and its parent company "Litgrid", analysis of the situation and action plan for improving the situation.

Before the end of their term of office on 1 August 2018, the Supervisory Board consisted of:

Viktorija Trimbel
Independent member, Chairman

"Quantum capital", UAB
From 11 May 2016

Raimondas Rapkevičius
Independent member

"General Financing", UAB
From 11 May 2016

Inga Černiuk
Member

Ministry of Transport and Communications of the Republic of Lithuania
From 11 May 2016

Agnė Amelija Kairytė
Member

Ministry of Energy of the Republic of Lithuania
From 11 May 2016 to 27 June 2018

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.

On 24 September 2018, the sole shareholder of the holding company EPSO-G, the Ministry of Energy, appointed Dainius Bražiūnas, the head of the Oil and Gas Division of the Ministry, and Gediminas Karalius, the deputy head of the Electricity Division, as new members of the Board of state-owned enterprise.

On the five-member Board of EPSO-G, they replaced Rolandas Zukas, Director General, and Algirdas Juozaponis, Finance Director, who resigned from the position of a member of the Board in compliance with the provision of the Articles of Association stipulating that the Director General of the Company or other members of the Board shall not be elected to the Board performing a supervisory function. They continue to work as the Director General and Finance Director of the holding company EPSO-G respectively and are directly accountable to the Board, which, as before, approves and supervises the timely implementation of the objectives set out in the letter of the shareholder's expectations.

With regard to the change in the governance model 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. It is expected to be completed in March 2019.

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 and one of their activities self-assessment session.

The composition of the Board of EPSO-G and its changes during the reporting period:

Rytis Ambrazevičius
Independent member*, Chairman
Association "Baltic Institute of Corporate Governance"
From 10 November 2016

Valdas Vitkauskas
Independent member
European Bank for Reconstruction and Development
From 10 November 2016

Gediminas Almantas
Independent member
Member of the Board of State Enterprise Oro navigacija
From 10 November 2016

Dainius Bražiūnas
Member
Ministry of Energy of the Republic of Lithuania
Head of oil and gas division
From 21 September 2018

Gediminas Karalius
Member
Ministry of Energy of the Republic of Lithuania
Advisor on electricity issues
From 21 September 2018

Rolandas Zukas
Member
"EPSO-G", UAB
From 10 November 2016 until 1 August 2018

Algirdas Juozaponis
Member
"EPSO-G", UAB
From 10 November 2016 until 4 September 2018

* is considered to be the independent member of the Board from the moment of his resignation from the position of the member of the Board of "Klaipedos nafta", AB, i.e. from 1 December 2016.

In 2018, the main areas of the Board's attention were:

• Supervision and control of the implementation process of the Risk Management Policy and methodology in the companies of the Group;

• Assessment of the organisational structure, functions and processes of the Group;

• Assessment of the potential for development and/or expansion of new activities of the Group;

• Assessment of the potential for EPSO-G capital structure optimization;

• Supervision of the implementation of the adopted Group level documents;

• Identification and validation of missing Group level documents.

During 2018, the Board of EPSO-G approved seven new policies/ guidelines:

• Personal Data Protection Policy of EPSO-G group of companies;

• Information Technology and Telecommunications Management Policy of EPSO-G group of companies;

• Code of Conduct of EPSO-G group of companies

• Procurement Policy of EPSO-G group of companies;

• Policy of Transactions with Associated Parties of EPSO-G group of companies;

• Guidelines for Conducting Research and Experimental Development Activities of EPSO-G group of companies;

• Competence Policy of EPSO-G group of companies.

During 2018, the Board of EPSO-G approved the amendments of three policies:

• Employee Remuneration Policy of EPSO-G group of companies;

• Corporate Governance Policy of EPSO-G group of companies;

• Employee Performance Assessment Policy of EPSO-G group of companies.

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.

On 1 August 2018, after the registration of the currently valid version of the Articles of Association, the powers of the Remuneration and Appointment Committee formed by the Supervisory Board expired along with the powers of the Supervisory Board. The Board of EPSO-G, acting in accordance with the new governance model, has approved a new wording of the provisions of the Remuneration and Appointment Committee and has set up a committee of former independent committee members Viktoria Trimbel and Jolita Lauciuvienė appointed until the end of EPSO-G's term of office, while Dainius Bražiūnas was appointed as a new member, who is a the Board member of EPSO-G nominated by the Ministry of Energy.

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.

15 meetings of the Remuneration and Appointment Committees took place in 2018.

Composition of the Remuneration and Appointment Committee of EPSO-G and its changes during the reporting period:

Viktorija Trimbel
Independent member, Chairman

"Quantum capital", UAB
From 11 May 2016

Jolita Lauciuvienė
Independent member

"Personalo vertė verslui", UAB
From 25 August 2016
Re-elected on 31 August 2018

Dainius Bražiūnas
Member

Ministry of Energy of the Republic of Lithuania
Head of oil and gas division
From 21 September 2018

Inga Černiuk
Member

Ministry of Transport and Communications of the Republic of Lithuania
From 11 May 2016

The activities of the Remuneration and Appointment Committee of 2018 were related to the following:

• An annual assessment of the relevance of the remuneration to market conditions and the provision of recommendations;

• Improving the processes of self-assessment of the activities of collegial bodies and evaluation of the content of their activities;

• Further formation and evaluation of a uniform policy of the group of companies in the field of human resources – the Committee made recommendations on remuneration policy, approval of new versions of employee performance assessment policy, new policy of the Group competency model, approval of selection policy; recommended the application of a standard employee employment agreement in the Group, as a result of the amendment of the Law on Companies, recommended a new standard agreement for the heads of the group of companies in order to standardize their essential terms and conditions as well as benefit packages;

• After the change of corporate governance structure and the functions of the collegial bodies, the committee organized the selection process for the subsidiaries "Amber Grid" and "Litgrid", as well as the selection of the members of the Board of TETAS after the end of the term of the current Board.

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.

The introduction of the new governance model of EPSO-G had no significant impact on the operations of the Audit Committee, as the Audit Committee is formed by a decision of the sole shareholder. Therefore, on 1 August 2018, following the registration of the new version of the Articles of Association of EPSO-G, the powers of the Audit Committee of EPSO-G continued.

On 21 September 2018, Gediminas Karalius, who is a member of the Board of EPSO-G nominated by the Ministry of Energy, was appointed as the third member by decision of the sole shareholder. Two members of the Audit Committee, Gediminas Šiušas and Raimondas Rapkevičius, are independent.

On 28 June 2018, Agnė Amelija Kairytė resigned from the Audit Committee for personal reasons (maternity leave).

On 1 August 2018, the new version of the operational provisions of the Audit Committee came into force - the functions of the Audit Committee were supplemented with regard to new legal requirements.

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.

14 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:

Raimondas Rapkevičius
Independent member

"General Financing", UAB
From 11 May 2016

Gediminas Šiušas
Independent member

Western Union Processing Lithuania, UAB
From 12 September 2016

Gediminas Karalius
Member

Ministry of Energy of the Republic of Lithuania
Advisor on electricity issues
From 21 September 2018

Agnė Amelija Kairytė
Member

Ministry of Energy of the Republic of Lithuania
From 11 May 2016
to 27 June 2018

Major activities of the Audit Committee within the reporting period:

• Assessment of the operations of the centralized subdivision of the internal audit, activity plan and audit results;

• Supervision of implementation of the Group's Risk Management Policy and methodology – the major focus was on the performance of the strategic projects and IT safety risks;

• Review of the 2017 audited annual results of the group of companies;

• Review of the selection process of the Group's audit firm – the Committee approved the report on conclusions of the selection process of the Group's audit firm and recommended the Boards of EPSO-G, "Litgrid", "Amber Grid", Baltpool, TETAS, GET Baltic, LITGRID Power Link Service to propose Deloitte Lietuva UAB as an audit firm for compiling 2018 financial statements at their General Meeting of Shareholders;

• Submission of recommendations on the policy of EPSO-G transactions with associated parties intended to be applied, opinions on conclusions of such transactions;

• On the basis of the policy of non-audit services purchased from an audit firm or from any other chain, the auditing company of which belongs to, EPSO-G group of companies analyzed the nature and scope of non-audit services provided by the companies PricewaterhouseCoopers UAB and subsequently by Deloitte Lietuva UAB as well as applications for permission to participate in public procurement organized by the Group for the provision of non-audit services;

• The evaluation of decisions taken by the collegial bodies and the heads of the group of companies in 2017 and the first half of 2018 was performed. From 1 August 2018, after the Board of EPSO-G started performing its supervisory function, the Board instructed the Audit Committee to evaluate the decisions taken by the collegial bodies and the heads of the group of companies.

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 holds the post since 17 February 2015. In accordance with the Article 371 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.

7.3 Additional Information about the Chairman of the Board, the Director General and the Chief Financial Officer:

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.

Additional information about the Chairman of the Board, the Director General and the Chief Financial Officer:

Rytis Ambrazevičius (the Chairman of the Board) – R. Ambrazevičius has been holding the office of the Chairman of the Board of EPSO-G from 10 November 2016. R. Ambrazevičius is a professional with a great deal of business strategy and corporate governance experience. He also holds the office of the President of "Baltic Institute of Corporate Governance". R. Ambrazevičius for more than five years worked as the independent Board member of "Klaipėdos nafta" AB, held excecutive posts in the companies "Omnitel", "Mandatum Life Baltic".

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.

R. Zukas started his professional career in the Telecommunication sector in the company TEO LT, later he worked in DNB bank. 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).

Ilona Vaitkuvienė (Chief Financial Officer) – I. Vaitkuvienė, who has more than twenty years of work experience in the field of finance, from 16 September 2014 has been holding the office of the Chief Financial Officer in EPSO-G.

Before she took up her duties in this position I. Vaitkuvienė had a leading position in the field of accounting and finances in the logistics company "Avelita", UAB.

I. Vaitkuvienė holds the Master's degree in Business Administration of Economic Sciences from Vilnius University. She has also acquired the Engineer's qualification in Kaunas University of Technology.

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.

7.4 Interest Management

In order to ensure transparent and efficient operations, EPSO-G Group has a policy of managing the interests of members of the collegial bodies and supervisory bodies, heads and employees. Its aim is to create a uniform system of interest management that is consistent with good practice and to ensures 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.

• 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, who on 31 December 2018 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.

7.5 Number of the Meetings of the Collegiate Supervisory and Management Bodies and the Participation of the Members in the Meetings

83 meetings of the collegiate supervisory and management bodies of EPSO-G took place during the reporting period:

Full name of the member	Meetings of the Board[1]	Meetings of the Supervisory Board	Meetings of the Audit Committee	Meetings of the Remuneration and Appointment Committee
Number of meetings (including the participation in the meeting by means of a conference telephone and voting by correspondence)	24	11	14	15
Rytis Ambrazevičius	24	–	–	–
Valdas Vitkauskas	24	–	–	–
Gediminas Almantas	23	–	–	–
Dainius Bražiūnas[2]	7	-	-	3
Gediminas Karalius[3]	7	-	4	-
Rolandas Zukas[4]	14	–	–	–
Algirdas Juozaponis[5]	16	–	–	–
Viktorija Trimbel	–	11	–	15
Raimondas Rapkevičius	–	11	14	-
Inga Černiuk	–	10	-	11
Agnė Kairytė[6]	–	10	8	-
Gediminas Šiušas	–	–	14	–
Jolita Lauciuvienė	–	–	–	15

1 The Board's strategic sessions are not included in the number of meetings of the Board.
2 Dainius Bražiūnas was elected as a member of the Board on 21 September 2018, and was appointed to the Remuneration and Appointment Committee on 28 September 2018.
3 Gediminas Karalius took up his duties as a member of the Board and Audit Committee from 21 September 2018 onwards.
4 Rolandas Zukas has resigned from the Board with the effect from 31 July 2018.
5 Algirdas Juozaponis has resigned from the Board with the effect from 4 September 2018.
6 Agnė Kairytė has resigned from the Supervisory Board and Audit Committee with the effect from 28 June 2018.

7.6 The 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.

The parent holding company EPSO-G carries out management, supervisory and control functions in compliance with a new version of Corporate Governance Policy approved by EPSO-G Group on 13 December 2018. The policy has been updated because of a new governance model, which came into effect on 1 August 2018, in accordance to which before 1 August 2018 the supervisory functions performed by the Supervisory board at the Group level were transferred to the boards of EPSO-G and the group of companies, the shares of which are traded on a regulated market. The policy was also complemented by the introduction of a functional mentoring model in the Group. The aim of this model is to ensure the compatibility of functional activities of the group of companies with the business strategy of the Group and the specific companies, to coordinate the activities of the functional areas of the group of companies, to ensure the sharing of know-how and to increase the competence of specialists in the group of companies. Functional mentoring does not negate the independence of each company of the Group.

EPSO-G, as the parent company, carries out the management, supervision and control functions in respect of the companies of the Group:

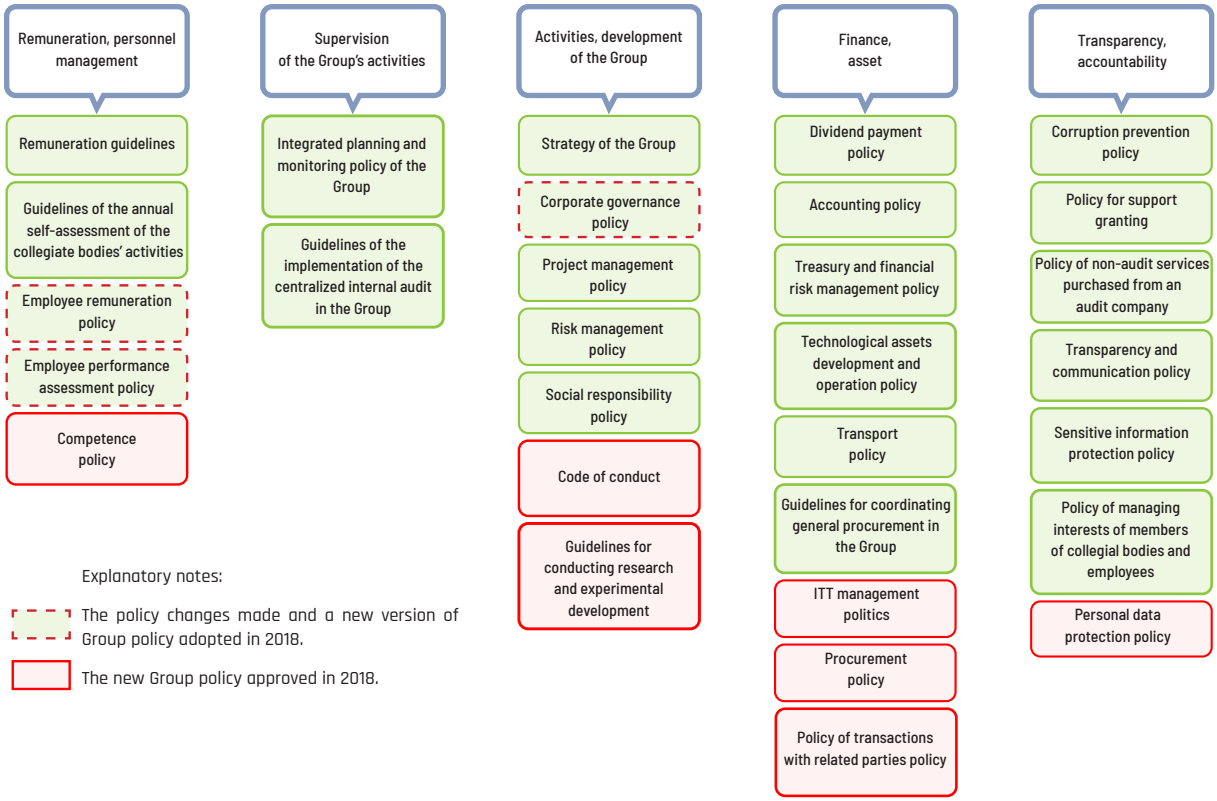
- By making decisions within the competence of the General Meeting of Shareholders in its subsidiaries;
- By nominating the employees of EPSO-G to the Boards of the companies of the Group;
- By forming the Audit Committee and the Remuneration and Appointment Committee operating on a Group level;
- By 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.

7.7 Operating Policies

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:



During the reporting period, six new policies were added to EPSO-G's policy framework:

• **Personal Data Protection Policy:** ensuring adequate protection of personal data is one of the key elements in building and maintaining the reputation of EPSO-G Group as a reliable employer and business partner. This Personal Data Protection Policy provides one of the essential conditions for the processing of personal data. It is intended to help companies in the EPSO-G group of companies to ensure adequate protection of personal data;

• **ITT Management Policy:** adequate management of information technologies and telecommunications (ITT) and clear linking to operational objectives and needs is one of the key tools for delivering performance and efficiency to EPSO-G group of companies. This policy sets out the essential conditions, principles and strategic priorities for the management of ITT in the EPSO-G group of companies. The policy is intended to standardize and raise the level of maturity of ITT management of EPSO-G group of companies in order to better link operational and ITT goals, to use ITT resources more efficiently, to improve the quality of ITT services provided by EPSO-G group of companies;

• **Code of Conduct:** is designed to establish a common set of guidelines for the conduct of companies within EPSO-G Group in their interaction and cooperation with internal and external interest holders or their groups, as a proper conduct of each employee increases the reputation and value of the company as well as the Group as a whole. The provisions of the Code derive directly from the values, the principles of leadership of EPSO-G Group and complement the related operational policies governing the relationship between the employer and the internal and external stakeholders;

• **Procurement Policy:** EPSO-G is a group of companies of energy transmission and exchange, the activity and projects of which are dependent on the successful procurement of goods, services and works. This policy in EPSO-G group of companies aims to follow good procurement practices of international organizations, European Union institutions and other contracting authorities and contracting entities and to ensure an efficient, dynamic and transparent procurement process, creating added value for the implementation of goals of EPSO-G group of companies;

• **Policy of Transactions with Associated Parties:** the purpose of this policy is to establish procedures for the supervision and disclosure of transactions with associated parties concluded by the companies of the EPSO-G Group, which would allow to appropriately assess the conflicts of interest related to such transactions and minimize the potential negative consequences of such transactions for the group of companies, minority shareholders and unrelated parties;

• **Guidelines for Conducting Research and Experimental Development:** the aim is to ensure the continuity and efficiency of EPSO-G group of companies, competitiveness or creation of conditions for competition, a significant contribution to the implementation of the national energy independence strategy, the creation of added value for society through the research, innovation and new solutions;

• **Competence Policy:** the goal is to identify the groups of competencies and competencies that are needed for successful strategy implementation, which would direct the employees to achieve clear and specific skills that have the greatest impact on the success of the organization and their work and help to improve, periodically evaluate these competencies with the purpose for their leadership and talent development and general organizational capacity building; to identify the competence assessment method and interfaces with other areas of organization development.

All policies or their summaries are published on the EPSO-G website at www.epsog.lt in the column "Operating Policies".

7.8 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 2019 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 2019.

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 organization of meetings should be improved.

• More attention should be paid to the topic of personnel management,

• The interaction between the Boards of the Remuneration and Appointment Committee and the group of companies should be improved (annual wage research discussion is planned).

7.9 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; hereinafter referred to as the "Corporate Governance Code"). 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 III to this annual report.

7.10 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 II to this annual report.

REPORT OF THE IMPLEMENTATION OF THE REMUNERATION POLICY

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 biofuels and wood. We create an open and advanced organisation by basing our activities on the values of EPSO-G such as professionalism, cooperation and progress.

We adapt the knowledge and experience accumulated in the region and create preconditions for contributing to the implementation of the strategic goals set by the State and the Energy Union striving to become the Energy Competence Centre of Lithuania and the Baltic Sea Region.

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 a proper management of the remuneration fund, the Remuneration and Appointment Committee to the Supervisory Board works in EPSO-G group of companies.

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 both for 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 post. 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.

• 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.

• Annual targets 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 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.

• The variable constituent of remuneration is not paid if performance results do not meet the expectations according to the established evaluation criteria.

• The termination payments of the heads and employees do not exceed the amount other than the one stipulated in the legal acts of the Republic of Lithuania and shall not be paid if the employment contract is terminated due to bad performance.

• 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.

• At the end of contracts, no severance pay is paid to members of the collegial bodies.

• 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 Remuneration Policy is updated on 26 October 2018. It is envisaged that, in exceptional cases, for exceptional outcomes not provided for in the employee's annual targets, an incentive payment may be granted that does not exceed the level set out in the policy. The relevant board of the group's company shall be informed thereof at its next meeting.

In the preparation of the Remuneration Policy of EPSO-G, the services of external consultants were not used. The Korn Ferry reward market research has been acquired and used by the group of companies for remuneration management, which represents more than 110 thousand employees from more than 310 companies operating in Lithuania.

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.

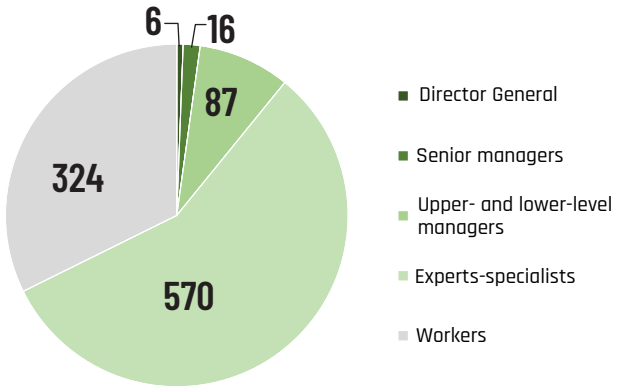
8.3 Employees

Number of the employees in the group of companies and in separate companies in 2018 (pcs)

	As at 31 December 2018	As at 31 December 2017
Group of companies	1 005	1 014
EPSO-G	22	22
"Amber Grid"	329	345
"Litgrid"	267	229
Tetas	369	375
Baltpool	11	11
Litgrid Power Link Service	2	29
Get Baltic	5	3

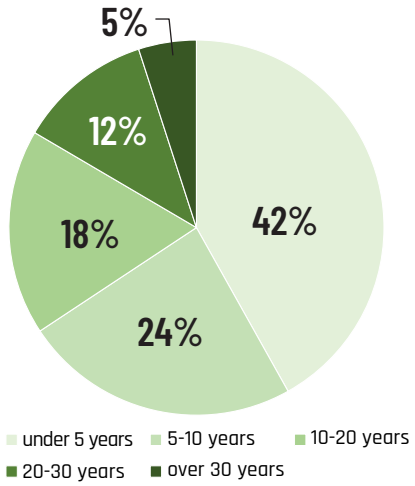
Distribution of Employees by Position Groups in 2018 (pcs)

Distribution of employees by position groups (pcs)

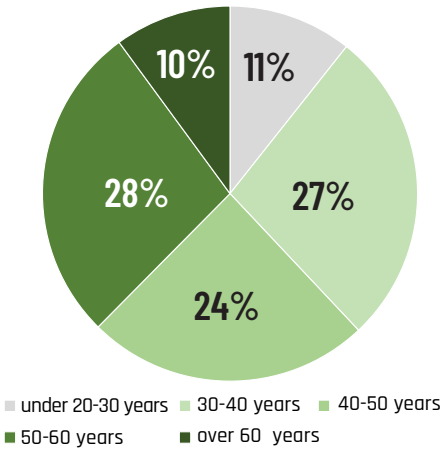


Distribution of Employees by Service Record, Age Groups, Education, Gender in 2018 (%)

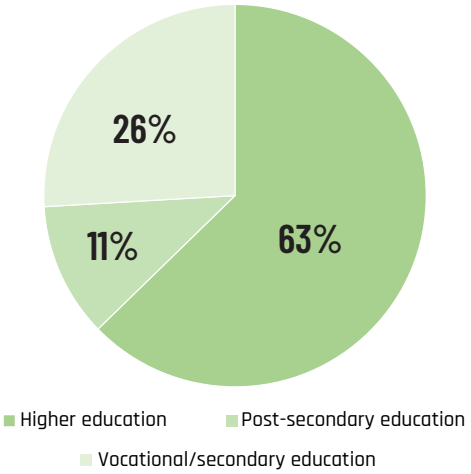
By service record (%)



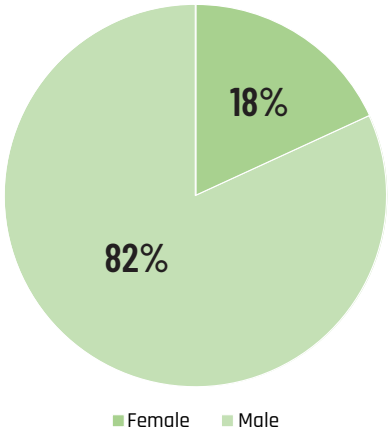
By age groups (%)



By Education (%)



By gender (%)



8.5 Information on Wages

As at 31 December 2018, EPSO-G Group had 1005 employees (as at 31 December 2017 – 1014 employees).

The wage fund of EPSO-G Group for twelve months of 2018 was EUR 19 457 thousand (for twelve months of 2017 – EUR 18 251 thousand).

Information on payments to the management is disclosed in Section 28 of this annual report.

Twelve month payroll information of 2018

	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	7	6 155	1	7 446
Top level executives	22	5 600	4	4 993
Middle level executives	77	3 043	8	3 888
Specialists	579	1 647	9	2 462
Workers	324	1 062	-	-
Total average wages	1 005	1 674	22	3 624
The wage fund, thousand EUR		19 457		1 001

Note: The amount of remuneration is specified including the variable remuneration amount paid out in 2018 for the objectives achieved in 2017.
1. Information on the average salary is published by the companies of EPSO-G group on the websites within 10 working days after the end of the reporting quarter. Information on EPSO-G salary is published on the website www.epsog.lt/lt/tikslai-ir-atskaitomybe/darbo-uzmokestis.
2. The new contracts for the term of office of 5 years were prepared in 2017 for the heads of the companies that form the group of companies. The contracts can be extended for no more than 1 term of office of the same duration.

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	5 815*	1 631
Top level executives	4	4 133	860
Middle level executives	8	3 092	796
Specialists	10	2 174	288
Total	23	2 999	625

* In 2018, the salary of EUR 5,763 fixed in the employment contract of the Director General did not change. Specified average salary size of the Director General changed due to the calculated payment for annual leave.

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.

As per the Remuneration guidelines approved by the sole shareholder, the members of the collegiate bodies in the EPSO-G Group can be paid the remuneration that cannot exceed EUR 1000, the chairmen can be paid the remuneration not exceeding EUR 1300 per month for the services actually rendered by the member of the Board. The variable constituent of remuneration is not paid to members of the collegial bodies.

The remuneration of the members of EPSO-G supervisory and management bodies is linked to the time spent for the performance of the functions provided for in the contract and cannot exceed the aforementioned threshold of the maximum remuneration.

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 2018	31 December 2017
Meetings of the collegiate supervisory and management bodies (pcs)	64	76
Number of the members of the collegiate bodies who are paid remuneration (persons)	13	17
Pay-outs associated with the members of the management bodies (thousand EUR)	148	176

Information on pay-outs to the individual members of supervisory and management bodies:

Full name of the member	31 December 2018	31 December 2017
Rytis Ambrazevičius	15 600	15 600
Valdas Vitkauskas	11 900	12 000
Gediminas Almantas	12 000	11 913
Rolandas Zukas	6 420	10 785
Algirdas Juozaponis	7 550	11 676
Gediminas Karalius	-	-
Dainius Bražiūnas	-	-
Viktorija Trimbel	12 596	14 849
Raimondas Rapkevičius	8 750	7 625
Gediminas Šiušas	5 525	5 225
Jolita Lauciuvienė	4 800	4 870
Inga Černiuk	-	-
Agnė Amelija Kairytė	-	-

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

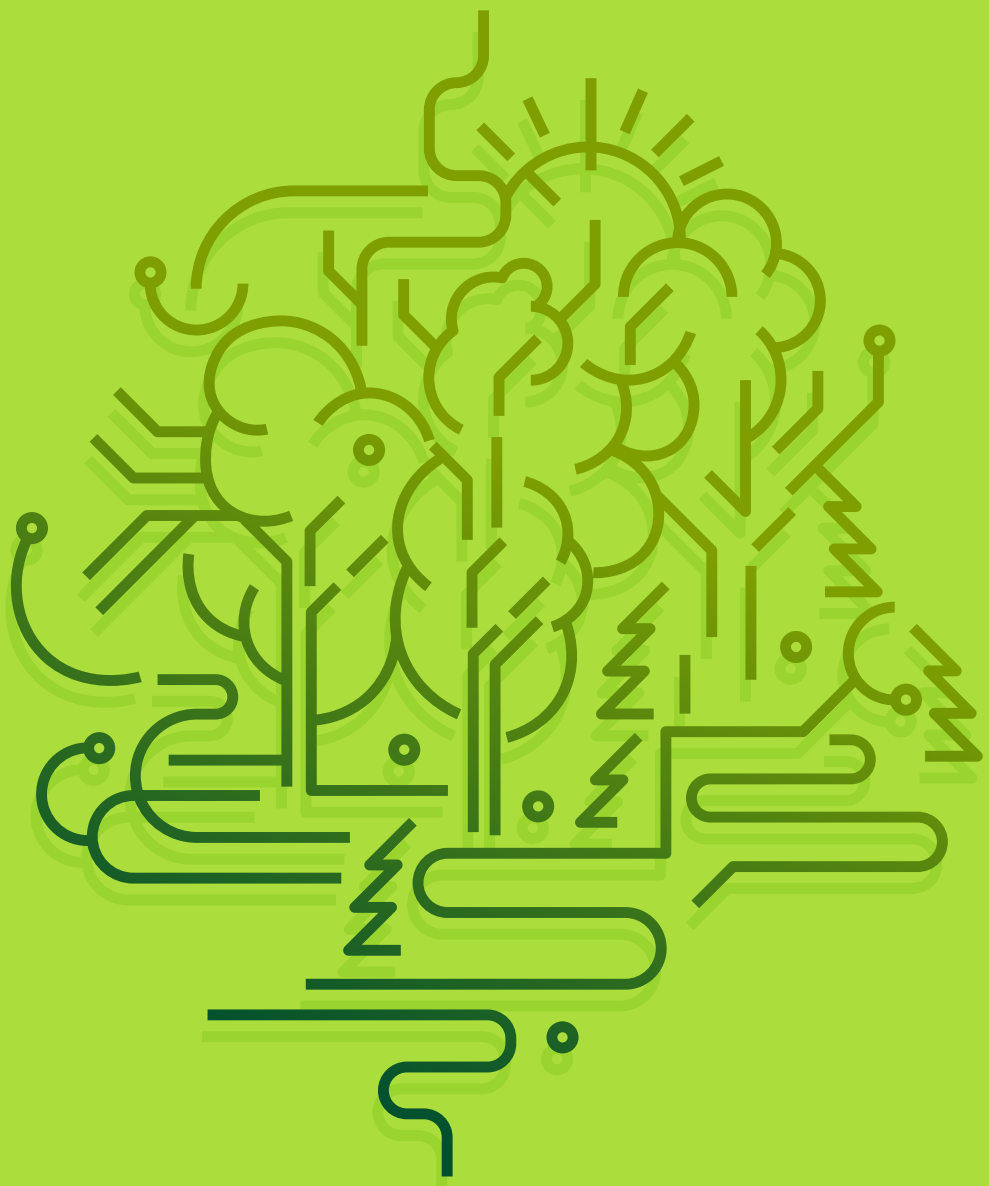
The company Baltpool, which is part of EPSO-G Group, is the administrator of the funds of the services of public interest (hereinafter referred to as "SPI") performing the functions of collecting, pay-out and administration of SPI funds (appointed to act as the administrator of SPI funds by Resolution No 1338 of the Government of 7 November 2012).

Important Events after the End of the Reporting Period

January

On 15 January 2019, 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 three quarters are allocated by the EU – EUR 125 million.



EPSO-G PROGRESS REPORT ON SOCIAL RESPONSIBILITY

9. EPSO-G PROGRESS REPORT ON SOCIAL RESPONSIBILITY

"We strive to ensure transparent governance, develop ethical relationships in the market, purposefully implement corruption prevention measures by contributing to the creation of a good business climate in the country,"

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 2019, the Progress Report on Social Responsibility of the Company for the year 2018 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 2018 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 www.epsog.lt.

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.

The procedure of adoption and entry into force of the policies can be found in Section 1.3 of the Corporate Governance Report of EPSO-G company of this annual report.

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 companies of the Group at least once a year publicly present financial and non-financial activity reports to the Stakeholders, i.e. shareholders and social partners.

The companies of the Group pre-inform the local communities about the projects carried out in their neighbourhood. During the implementation of the project, the time of works is agreed with the locals in order to minimize inconvenience caused to the locals by the works being performed.

In order to assess a quality of the social dialogue with the stakeholders, a "Vilmorus" survey of the internal and external stakeholders was carried out in December 2018 at the order of EPSO-G. According to the survey, stakeholders' satisfaction with the holding company's activities was two percentage points higher (76%) compared to the result of the year 2017 (74%).

Based on the conclusions of this survey, the actions to improve the quality of dialogue with the stakeholders will be carried out in 2019.

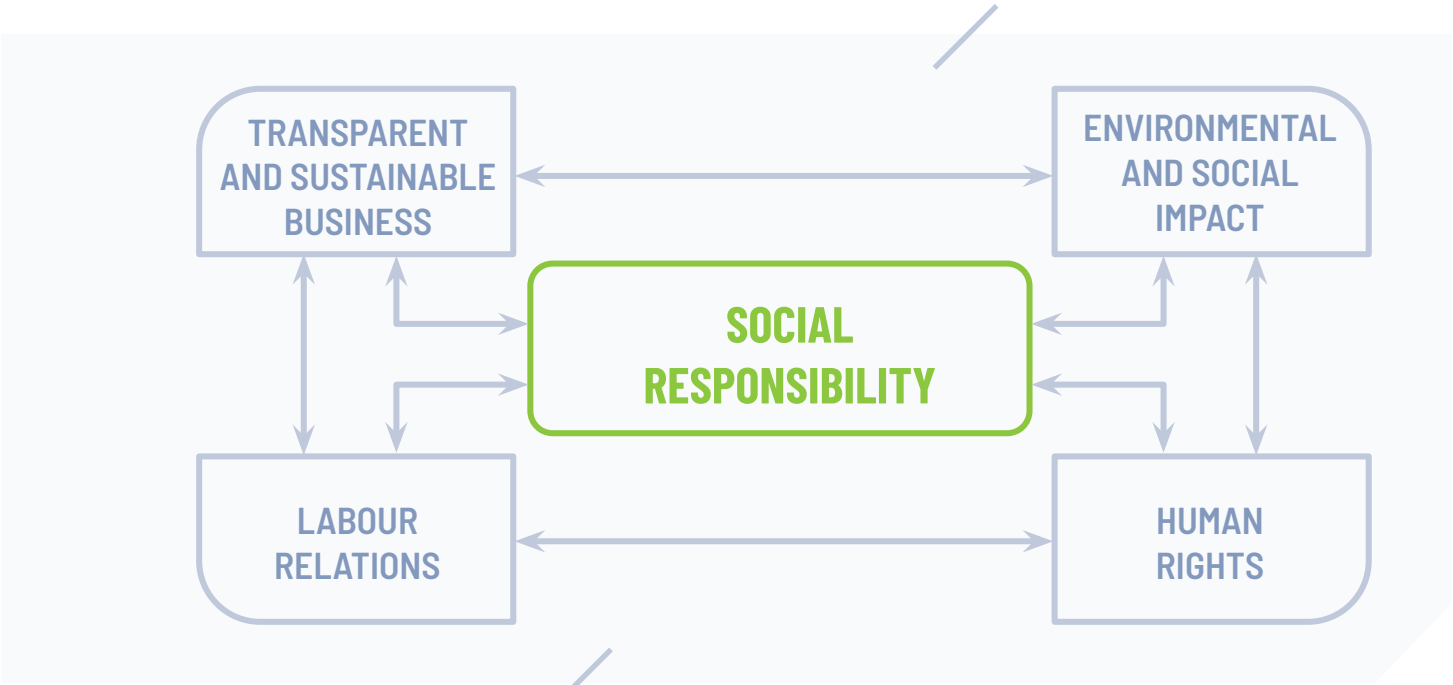
The stakeholders having an influence on the success of EPSO-G activities:

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 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 biofuel 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 biofuel 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 dialogue with the regulator.	• The main activities of the group are regulated. Therefore, it is necessary to ensure effective business relationships based on transparency, openness and responsibility.	• We provide in a timely manner the information necessary to ensure the functions of the regulatory authority; • 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. At least twice a year 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 uniform treatment of all employees and would ensure their legitimate interests.	• 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 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 eenrgy 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.

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

The companies of the Group keep accounts in a correct way, and prepare and submit 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 the 2018 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.

Detailed information on the accounting principles of EPSO-G group of companies is presented in the published financial statements.

In accordance with the provisions of EPSO-G Accounting Policy and Transparency and Communication Policy, in 2018 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.

The holding company EPSO-G observes the provisions of Sections IV-VII of the description of the Guidelines for Ensuring Transparency of Operation of State-Owned Enterprises approved by Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 and makes public the specified indicators of EPSO-G Group (http://vkc.turtas.lt/imones).

Presentation of Activities to Shareholders

In 2018 in the Vilnius Stock Exchange, Rolandas Zukas, Director General of EPSO-G, Daivis Virbickas, Director General of "Litgrid", and Saulius Bilys, Director General of "Amber Grid", presented the companies' financial results, business prospects and plans.

Respect for Social and Economic Interests

While respecting the right of the stakeholders to assess in advance the impact of the projects developed in the nearby environment on their economic and social interests, the companies of EPSO-G group that are the operators of transmission systems update and publish on an annual basis the ten-year plans of grid development.

Plans of Development of Electricity Transmission Systems

When implementing the Strategic Objectives of the Lithuanian Electricity System, in 2018 "Litgrid" updated the ten-year development plan for the Lithuanian power system of 400 kV, 330 kV and 110 kV networks. It contains forecasts of electricity demand, power plant capacity, electricity market and electricity balance of the system, information on electricity transmission network, its development and forecasted investments.

The National Control Commission for Prices and Energy for a public consultation submitted a 400-110 kV grid development plan for 2018–2027 with a projected investment of nearly EUR 766 million, out of which about EUR 419 million will be allocated to the synchronization of the Baltic States with Continental Europe.

http://www.litgrid.eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-/3850

Natural Gas Transmission Grid Development Plan

On 18 January 2018, the National Commission for Energy Control and Prices approved the ten-year plan (2017-2026) of the grid development of natural gas transmission system operator AB "Amber Grid".

The value of investments envisaged in the publicly announced plan to the gas transmission system development projects will amount to EUR 192.8 million over the next decade.

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.

In addition to the strategic infrastructure projects, the development plan also provides for the investments in the development, restoration and modernization of the transmission system that will allow ensuring security and reliability of natural gas supply, sufficiency of the existing capacities of the transmission system, the introduction of advanced natural gas transmission infrastructure using the funds of the European Structural Fund resources.

A ten-year "Amber Grid" network development plan has been prepared in accordance with the provisions of the Country Strategy Papers, the needs of the gas market players, ensuring the reliability of supply and efficient operating of transmission system, company strategy, the Environmental Policy of the company and the requirements of legal acts, and is published on https://www.ambergrid.lt/uploads/documents/Tinklo%20pl%C4%97tros%20planas%202017-2026.pdf.

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 2018 the executives of "Litgrid" and "Amber Grid" presented to the contractors the planned projects and planned works for 2019 and subsequent years for which the tenders are planned to be announced.

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 2019.

Information on annual procurement plans, their implementation and responsible persons are made public on the websites of the companies of EPSO-G group.

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 approved in 2018, 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 2018, 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.

Joint Procurement

For greater efficiency, in 2018 the EPSO-G Group launched joint procurement. Joint procurement is carried out in accordance with the public procurement guidelines adopted by the Board of EPSO-G last November. The purpose of joint procurement is to increase competition between suppliers, thus winning better service conditions and prices through economies of scale.

The group of companies also pursue the following goals in their procurement:

- **Economic benefit and efficiency of performance.** This means looking for ways to reduce the costs and deadlines for procurement procedures without denying the principles discussed in this section. Procurement costs should not exceed value;
- **Sustainability of procurement and ongoing activities.** This means that decisions on demand and procurement are made taking into

account the potential impact on the environment, society, respect for human rights, ethical conduct, ensuring safe working;

• **Strengthening the strategic procurement projects of energy infrastructure and managing related risks.** The companies of the Group implement projects of strategic importance not only for the Group alone, but for the holder of shares as well. Therefore, additional measures are taken to manage the risks associated with procurement;

• **Sharing of procumbent ant implementation practices, sharing of know-how and expertise.** The group is seeking for benefits and synergies in developing coordinated procurement, implementing various efficiency improvement measures in the area of procurement. Responsible persons share their know-how and proven good practice in improving the performance of companies and their individual experts and increasing the value they create in the Group.

Prevention of Corruption

The companies of the Group do not tolerate corruption, nepotism or protecting friends or any other forms of impact trade, 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 a trust based e-mail pranesk@epsog.lt. Trust lines are also installed 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.

During the reporting period, significant attention was paid to the management and prevention of corruption risks, the impeccable reputation of members of management bodies and the reputation of employees, the reconciliation of private and corporate interests.

In 2018, a message/complaint was received at "Amber Grid's" trust line stating that the Company contradicts the issue of a building permit to private individuals for the construction of residential houses near a gas pipeline. After the initial inspection it was established that the Company cannot agree to issue this permit, as the territory falls within the protection zone of the main gas pipeline, where the legislation of the Republic of Lithuania prohibits the construction of residential houses.

In order to increase the effectiveness of corruption prevention activities, in March 2018, EPSO-G together with Transparency International Lithuania, organized a seminar for Group CEOs and employees who are personally responsible for implementing anti-corruption measures and setting an example to others. The seminar theme: "Prevention of Corruption. How to Set Goals and Measure Success?"

In 2018 the responsible employees (taking decisions on behalf of the Company, participating in procurement, etc.) of the holding company and subsidiary companies were organized anti-corruption events / trainings, during which they were instructed how to identify situations of conflicts of interests, conflicts of interests, how to avoid conflicts of interests.

In April 2018, a meeting among the heads of "Amber Grid" and those responsible for the Lithuanian-Polish gas interconnection project (GIPL) and the officials of the Special Investigation Service of the Republic of Lithuania on the transparency of the implementation of the GIPL project took place. During the meeting, the possible risks (threats) that could arise during the implementation of the project tenders and during the project implementation, as well as the preventive measures and possibilities of cooperation were discussed.

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.

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 introduce 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 are 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 minimizes the environmental impact, to handle the waste generated during the construction and to submit the supporting documents.

A programme for monitoring the environmental impact of the newly built overhead electricity line Kruonis HAE-Alytus are developed, according to which the monitoring will be carried out in 2019-2021.

In preparation for the reconstruction of 330 kV voltage transformer substations (Vilnius, Kaunas, Šiauliai, Alytus, Utena, Jurbarkas, Bitėnai), model simulations of the noise emission in the environment were carried out in the scope of their technical projects to assess the design and make sure that no noise suppression measures are necessary to be installed before the commencement of construction works.

When services are purchased, "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 which 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.

In December 2018, an external oversight audit of the Integrated Environmental Protection and Occupational Safety and Health Management System was conducted in "Amber Grid" during which 1 minor inconsistency with fire safety requirements was revealed (there were no inconsistencies revealed in 2017).

Measures to Protect the Environment and Employees' Safety

All employees of the company "Amber Grid" are continually informed and educated about social cooperation and partnership on environmental and occupational safety and health issues.

Implementing measures of environmental protection and employee safety:

In 2018, "Amber Grid" completed the reconstruction of Alytus and Jonava gas distribution stations. During the reconstruction, old technological equipment was dismantled and old buildings demolished. New type of container gas distribution stations with new technological equipment (filters, gas separators, gas heaters, regulators with start-stop function, safety valves, turbine and ultrasonic meters, shut-off devices, cost-effective condensing boilers, condensing tanks, flow computers, automation, odorizing equipment) were mounted in their place.

2018, the Panevėžys Gas Compressor Station underwent modernization of gas compressor units, during which the fuel gas injection system was modernized. Seven gas compressor units were equipped with electronic fuel gas inlet valves and an electronic fuel gas inlet system. The work performed has led to a significant reduction in emissions to the air - an average reduction of 60% in nitrogen oxides (NOx) emissions; Carbon monoxide (CO) emissions have fallen by an average of 20%. Due to the improved operations of the equipment, fuel gas consumption has reduced by around 20 percent.

At the end of 2018, under the initiative of Department of Work Safety and Health of "Amber Grid", passive on-call duty procedure of Operations Department was developed and implemented, which comprehensively regulates the procedures for passive on-call duty and helps to ensure continuous and safe operation of natural gas transmission system facilities.

In 2018, a plan for occupational safety and health and environmental culture education was implemented, which aimed at educating employees, promoting activity and thinking. The measures provided for in the plan focused on the importance of identifying the risks in employees' day-to-day work and learning how to avoid them. In April 2018, for the first time the Company organized the Safety Week. On this occasion, 172 employees, including management and middle management, were involved in the safety knowledge tests. For the second year in a row, the contest "See the Risk!" was organized in 2018. In November 2018, all the heads of the company were trained on safety and labour law issues.

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 2018, 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.

Implemented activities:

• By increasing the visibility of wires on the 123 km high-voltage line during the project, about 1,374 bird deaths per year were avoided.

• Areas, where the labelling of wires is provided, are determined by the LOS observers on the basis of information on the flight intensity of birds. According to the envisaged areas and taking into account the overhead lines' disconnection schedules, "Litgrid" specialists identified specific electricity transmission lines and their gaps, where they installed wire-labelling tools. Depending on the installation possibilities of such measures, it was decided to use the following 2 types: above water bodies and in hard-to-reach areas – "pendant" type reflectors (installed 1500 units marking 28 km of overhead lines) installed using special remote-controlled equipment, and in other areas – "spiral" type (7100 units marking 80 km of overhead lines), which are fixed by hands using lifting mechanisms.

• Installation of bird protection equipment on 110 kV voltage overhead lines' supports. For the protection of birds, mostly white storks, from the potential impact of an electric arc during their squatting at the most dangerous point of support – above the insulators, two measures were used: installation of "fork" type steel gadgets MK-1-1 (6000 units), preventing the landing and squatting, and mounting of a larger 310 mm diameter insulating plate (6000 units) in the upper part of the insulator-chain, which improves the isolation of the chain (prolonged breakthrough path, especially in the case of contaminated insulators).

• These two instruments not only increase the probability of preserving the lives of birds, but also help avoid a short-circuit between phase wire and support metal parts. The Company decided to fit the installation of bird protection measures, as well as other project works, to the planned repairing of overhead lines. Buying works in this way, smaller works are bought cheaper. The supports containing the "forks" and insulating plates were determined during the detection of defects in the overhead lines to be repaired.

• In order to increase the kestrel population included in the Red Book in Lithuania, 500 pieces of special nesting-boxes were installed for kestrels on 110 kV supports in locations selected by the ornithologists. Between 2015 and 2018, over 700 juveniles were reared in all cases of hatching.

The total amount of the project – EUR 1 565 261, 50% financed by the European Commission, 24.34% – by the Ministry of Environment of the Republic of Lithuania, and the remaining half was financed by "Litgrid".

In the future, when carrying out the environmental impact assessment in newly designed and reconstructed overhead lines, it is planned, in a coordinated manner with ornithologists, to continue to install measures for the expansion of visibility of wires in the sensitive areas for migratory birds.

Replaceable supports (about 200 units per year) will be equipped with the bird protection measures, i.e. "fork" type devices which prevent the landing of birds (storks) over the each chain of insulators, as well as larger diameter insulators installed in the upper part of the chain – so-called "plates", partially protecting isolators from contamination by faeces of birds. This significantly reduces the risk of short-circuit: during the four years since the project was implemented, the number of disconnections caused by birds decreased from 41 in 2014 to 3-5 in 2017 and 2018.

For a further five years, the transmission system operator will arrange the replacement of fallen, damaged or unsuitable for further use nesting-boxes at locations specified by ornithologists. Last year, between 30 and 40% of the national kestrel population hatched in these nesting-boxes mounted on the pylons.

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". 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.

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.

9.7 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 saw 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 2018.

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 2018.

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 2018.

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 Reward 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.

The purpose of a collective agreement is to ensure efficient operation of the Company and to represent the rights and legitimate interests of all employees of the Company. The agreement stipulates employment, wage, social, economic and professional conditions and guarantees that are not regulated by laws or other regulatory acts.

Trade union meetings and company management meetings are organized periodically to discuss issues relevant to the trade union.

Trade Union

At the end of 2018, the "Amber Grid" trade union united 225 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 2018, 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 2018, there were 96 members in the Trade Union of Electricity Network Employees, which is more than one third of the Company's employees.

EPSO-G supports the assembly of its employees to voluntary trade unions and cooperates with them, and develops a constructive social dialogue.

Collective Agreement

In 2018, after reaching an agreement with the employer, the "Amber Grid" trade union signed a new collective agreement that agrees on additional economic and social benefits. The general meeting of employees agreed that they would be applied equally to all employees of the Company without excluding members of the trade union.

The collective agreement is intended for ensuring efficient work of the Company and to represent 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 which 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.

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.

In 2018, a renewed collective agreement between "Litgrid" and the trade union of the newly established company was also signed. The document defines and ensures fair pay policy, job and rest balance options, and regulates social and economic relationships between employer and employee. The collective agreement also contains provisions on how the Company supports employees in the event of significant or painful life events.

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 agreed with the employees directly and later on with the Remuneration and Appointment Committee.

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 in 2018, 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.

You are welcome to watch the presentational video at: https://www.youtube.com/watch?v=ALtAO4xRYX0

"Litgrid" organizes 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 2018, the tour guests were school children form Vilnius schools, students from Kaunas Technical College, Vilnius College of Technology and Design, Vilnius Gediminas Technical University, foreign delegations, representatives of the State control and Lithuanian Armed Forces - it is especially important for them to know and understand the functioning of the transmission system as a strategic resource. In 2018, on average, there were 2 excursions every month.

Public Education

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.

A 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.

In 2018, "Amber Grid" launched a long-term project "Dialogue Culture and Cooperation" for the presentation of a gas pipeline connection between Lithuania and Poland (GIPL) to local communities. During the meetings, the GIPL project is presented, emphasizing its importance, goals and benefits. In the formation of a culture of dialogue, well-known public figures are invited to meet with the local community to discuss topics fostering curiosity and critical attitudes to various social phenomena. The first 19 meetings with communities were organized - in the municipalities, in the territories of which the main gas pipeline will be laid. 64 meetings are scheduled for 2019.

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.

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 50 thousand euros.

No support was granted by the companies of EPSO-G group in 2017-2018.

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.

Blood Donation

In 2018, 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 AB "Amber Grid" for active participation and for the dissemination of the ideas of gratuitous blood donation.

Environmental Management and Forest Planting

More than 90 employees of the Company, together with their family members, participated in the voluntary public campaign "We Are Doing" (in 2017, it involved 70 employees). For participation in

the campaign "We Are Doing" in 2018, the Company received appreciation from the organisers of the campaign.

The cleanup took place in 155 countries of the world. 30 national and regional parks were handled in Lithuania on that day. 40 employees of the Company joined this action to clean the Trakai Historical National Park and Kurtuvėnai Regional Park.

4000 pieces of trees were planted in April 2018 in Punia surroundings (Alytus district) by more than 50 employees of "Litgrid". It is a traditional annual initiative of "Litgrid", during which more than 11 thousand trees have already been planted.

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" infected" and colleagues from other companies – they were also glad to buy souvenirs by contributing personally to the Society's goals.

Photography Exhibition

In December, the children of Alytus Children's Day Center visited "Litgrid's" office – they opened their own photography exhibition, talked to employees, learned how to create jewellery, visited the System Management Center and learned how electricity travels via transmission networks and how to handle it safely.

Donated Balloons to Children

During the International Day for Protection of Children, the largest umbrella organization for child welfare in Lithuania "NVO vaikams konfederacija", like every year, organized a celebration "Child constellation", which invited together to create a happy childhood and thanked people who encourage and promote positive socialization. The Company's employees contributed to the celebration and bought 250 pieces of helium balloons that were released with children's dreams to the sky at the end of the celebration.

Action „Pinwheels of Favourable Wind"

Ten employees of the Company contributed to the volunteering action of the favourable wind accompanying the "little captains on a stormy ocean of sickness" and coloured the sticks of the "Pinwheels of Favourable Wind". All funds received from the sale of windmills are allocated to the charity and support fund "Rugutė". The fund provides the assistance for children with oncological diseases.

Activities Assessed

- Saulius Bilys, Director General of "Amber Grid", and Tomasz Stępień, Director General of the Polish Transmission System Operator GAZ-SYSTEM S.A., were announced as the People of Year of the Polish Energy and awarded by the Deputy Minister of Energy of Poland at a conference organized by the Lower Silesian Institute for Energy Studies (DISE). They received this award for the launch of the implementation of the Lithuanian-Polish Gas Transmission and Market Interconnection Project (GIPL).
- On 11 May 2018, the solution of the regional gas trading platform with an integrated trading model implemented by the exchange GET Baltic, belonging to EPSO-G Group, and its partners, at the National business awards ceremony was awarded as the Project of the Year in the energy sector. By implementing a unique project for the creation of a regional gas trading platform with an integrated trading model, GET Baltic has established trading platforms in Latvia and Estonia and has de facto become a regional Baltic natural gas exchange.
- On 1 March 2018, at the conference organized by "Verslo žinios" (Business News) "Litgrid" was announced a leader of the energy sector after assessing six indicators such as profit, income, their annual change, profitability and the average wages.

INDICATOR INDEX ACCORDING TO GRI

A list of generic report indicators

Indicator code according to GRI Standard	Description	Page
	Strategy and analysis	
GRI 102-14	Speech of the Chief Executive of the Company	page 64-66
	Description of the company	
GRI 102-1	Company name	page 67
GRI 102-2	Company activity, main brands and services	pages 71 – 79
GRI 102-3	Address of the company's head office	page 67
GRI 102-5	Property type and legal form	page 67
GRI 102-6	Markets in which the Company operates	pages 71 – 80
GRI 102-7	Company size	pages 102– 108
GRI 102-8	Number of employees	pages 132
G4-11	Percentage of all employees who are subject to the arrangements under the collective agreement	pages 129 – 134
GRI 102-11	Observance of precautionary principle	pages 110 – 113
GRI 102-12	External economic, environmental and social initiatives	pages 144-151
GRI 102-13	Membership in national and international organizations	pages 109
	Ethics and integrity	
GRI 102-16	The values, principles, standards and norms of the organization related to behavioural and ethical codes	Pages 80-82; pages 143- 144
	Company management	
GRI 102-18	Company management structure	pages 117
GRI 102-19	Delegated powers	pages 136
GRI 102-20	Attribution of the leading representatives of the Company and representation in the field of finances, environmental protection and social responsibility	pages 126 – 127
GRI 102-21	Responsibility in providing information/advice to the shareholders on the issues of finance, environmental protection and social responsibility	pages 136
	Stakeholders	
G4-24	Stakeholder list	pages 138 – 143
	Report parameters	
G4-28	Report period	page 67
G4-29	Date of the previous report	page 67

G4-30	Reporting frequency	page 67
G4-31	Contact person to answer the questions related to social responsibility	page 136
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 – 125

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 113
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 145
	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 148 - 151
	Social area		
Education and training	Programs for improving employee skills and life-long learning, ensuring continuity of worker capacity and helping to manage their careers (G4-LA10)	Partially	-
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 148
Local communities	Subdivisions involving the local communities by assessing the impact or development programs (G4-SO1)	Accomplished	The Progress Report on Social Responsibility, pages 154 – 157

FINANCIAL REPORTS

Statements of financial positions

ASSETS	Notes	Group At 31 December 2018	Company At 31 December 2018	Group At 31 December 2017	Company At 31 December 2017
Non-current assets					
Intangible assets	4	8 867	1	4 674	1
Property, plant and equipment	5	509 821	29	620 438	44
Investments in subsidiaries	6	675	318 042	675	344 132
Investments in associates	6	-	-	-	-
Deferred income tax assets	21	7 717	51	81	44
Amounts receivable after one year	9	998	-	998	-
Funds received for congestion management (long term part)	11	10 439	-	-	-
Available-for-sale financial assets	7	-	-	2 693	-
Financial assets at fair value through other comprehensive income	7	2 693	-	-	-
Total non-current assets		**541 210**	**318 123**	**629 559**	**344 221**
Current assets					
Inventories	8	3 883	-	3 017	-
Prepayments		880	8	637	9
Trade receivables	9	26 288	54	29 078	-
Other amounts receivable	10	69 660	12 903	86 207	6
Prepaid income tax		2 045	-	12	-
Other financial assets	11	31 440	-	13 841	-
Cash and cash equivalents	12	9 913	8 669	8 075	13
Total current assets		**144109**	**21 634**	**140 867**	**28**
Non-current assets held for sale	8	19	-	30	**-**
TOTAL ASSETS		**684 663**	**339 757**	**770 456**	**344 249**
EQUITY AND LIABILITIES					
Equity					
Share capital	13	22 483	22 483	22 483	22 483
Revaluation reserve	14	216	-	5 246	-
Reserve for change in fair value of financial assets	15	639	-	639	-
Legal reserve	15	16 522	2 248	16 682	2 248
Other reserves	15	61 776	50	61 198	-
Retained earnings (deficit)		72 663	150 022	117 758	136 438
Equity attributable to owners of the parent		**174 299**	**174 803**	**224 006**	**161 169**
Non-controlling interest		9 574	-	12 241	-
Total equity		**183 873**	**174 803**	**236 247**	**161 169**
Liabilities					
Non-current liabilities					
Grants	17	-	-	22	-
Non-current borrowings	18	154 605	5 120	175 366	7 680
Finance lease liabilities	19	599	-	820	-
Deferred income tax liabilities	21	-	-	7 659	-
Deferred income	31	10 832	-	8 065	-
Other non-current amounts payable and liabilities	20	158 965	156 574	170 941	169 856
Total non-current liabilities		**325 001**	**161 694**	**362 873**	**177 536**
Current liabilities					
Current portion of non-current borrowings	18	34 761	2 560	28 531	2 560
Current borrowings	18	6 889	-	49 187	2 321
Finance lease liabilities	19	221	-	443	-
Trade payables	22	28 132	31	24 692	35
Advance amounts received	23	11 028	-	1 053	-
Income tax liabilities		24	-	1 621	-
Other current amounts payable and liabilities	24	94 734	669	65 809	628
Total current liabilities		**175 789**	**3 260**	**171 336**	**5 544**
Total liabilities		**500 790**	**164 954**	**534 209**	**183 080**
TOTAL EQUITY AND LIABILITIES		**684 663**	**339 757**	**770 456**	**344 249**

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

Statements of comprehensive income

	Notes	Group 2018	Company 2018	Group 2017	Company 2017
Revenue					
Revenue and income from sale of electricity and related services	25	169 758	-	143 292	-
Revenue from natural gas transmission and related services	26	53 924	-	63 976	-
Other revenue	27	22 109	296	17 927	182
Total revenue		**245 791**	**296**	**225 195**	**182**
Other income	27	42	2 353	51	-
Operating expenses					
Expenses attributable to electricity and related services	25	(118 993)	-	(80 081)	-
Cost of natural gas		(10 418)	-	(7 947)	-
Depreciation and amortisation	4,5,17	(38 550)	(18)	(40 826)	(16)
Wages and salaries and related expenses		(25 709)	(1 365)	(23 550)	(1 305)
Repair and maintenance expenses		(6 964)	-	(8 768)	-
Telecommunications and IT maintenance expenses		(2 571)	(49)	(2 316)	(40)
Write-offs of property, plant and equipment (hereinafter "PP&E")	5	(1 036)	-	(1 212)	-
Impairment of PP&E/(reversal) (incl. negative revaluation of PP&E)		(88 670)	-	(35 578)	-
Impairment of investments		-	(26 090)	-	-
Other expenses		(25 260)	(579)	(25 329)	(600)
Total operating expenses		**(318 171)**	**(28 101)**	**(225 607)**	**(1 961)**
Operating profit/(loss)		**(72 338)**	**(25 452)**	**(361)**	**(1 779)**
Financing activities					
Finance income		130	27 238	250	38 029
Income from premium to the purchase price of LITGRID AB	2.27.4	13 319	13 300	497	497
Interest expenses		(2 749)	(1 156)	(3 106)	(1 406)
Other finance costs		(42)	-	(43)	-
Total result of financing activities		**10 658**	**39 382**	**(2 402)**	**37 120**
Share of profit/(loss) of associates and joint ventures	6	-	-	-	-
Profit (loss) before income tax		**(61 680)**	**13 930**	**(2 763)**	**35 341**
Income tax					
Current year income tax expenses	21	(3 272)	-	(6 352)	-
Deferred income tax (expenses)/income	21	17 232	386	6 319	12
Total income tax		**13 960**	**386**	**(33)**	**12**
Net profit (loss)		**(47 720)**	**14 316**	**(2 796)**	**35 353**
Other comprehensive income that will not be reclassified subsequently to profit or loss					
Gain/(loss) on revaluation of PP&E		(5 289)	-	428	-
Effect of deferred income tax		793	-	(64)	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss		**(4 496)**	-	364	-
Total comprehensive income/(expenses) for the year		**(52 216)**	**14 316**	**(2 432)**	**35 353**
Net profit/(loss) attributable to:					
Owners of the Parent		(46 056)	14 316	(2 751)	35 353
Non-controlling interest		(1 664)	-	(45)	-
		(47 720)	**14 316**	**(2 796)**	**35 353**
Total comprehensive income (loss) attributable to:					
Owners of the Parent		(50 440)	14 316	(2 396)	35 353
Non-controlling interest		(1 776)	-	(36)	-
		(52 216)	**14 316**	**(2 432)**	**35 353**

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

Statements of changes in equity

Group	Notes	Attributable to owners of the Group								
		Share capital	Revaluation reserve	Reserve for change in fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	Total
Balance at 1 January 2017		**22 483**	**5 468**	**639**	**16 620**	**61 178**	**120 522**	**226 910**	**13 503**	**240 413**
Comprehensive income										
Comprehensive income (loss) for the period		-	355	-	-	-	(2 751)	(2 396)	(36)	(2 432)
Depreciation of revaluation reserve and amounts written off	14	-	(577)	-	-	-	577	-	-	-
Total comprehensive income (loss) for the period		**-**	**(222)**	**-**	**-**	**-**	**(2 174)**	**(2 396)**	**(36)**	**(2 432)**
Transfer to retained earnings		-	-	-	-	-	-	-	-	-
Transfer to reserves		-	-	-	62	20	(82)	-	-	-
Dividends	16	-	-	-	-	-	(508)	(508)	(1 226)	(1 734)
Change in ownership interest in the subsidiary		-	-	-	-	-	-	-	-	-
Balance at 31 December 2017		**22 483**	**5 246**	**639**	**16 682**	**61 198**	**117 758**	**224 006**	**12 241**	**236 247**
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 (loss) for the period		-	(4 384)	-	-	-	(45 941)	(50 325)	(1 776)	(52 101)
Depreciation of revaluation reserve and amounts written off	14	-	(603)	-	-	-	603	-	-	-
Total comprehensive income (loss) for the period		-	**(4 987)**	**-**	**-**	**-**	**(45 338)**	**(50 325)**	**(1 776)**	**(52 101)**
Transfer to retained earnings		-	(43)	-	-	-	43	-	-	-
Transfer to reserves		-	-	-	(160)	578	(418)	-	-	-
Dividends	16	-	-	-	-	-	(682)	(682)	(941)	(1 623)
Impact of IFRS15 application	2.1(a)	-	-	-	-	-	1 415	1 415	50	1 465
Balance at 31 December 2018		22 483	216	639	16 522	61 776	**72 778**	**174 414**	**9 574**	**183 988**

Company	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2017	**22 483**	**2 248**	**-**	**101 593**	**126 324**
Comprehensive income (loss) for the period	-	-	-	35 353	35 353
Dividends	-	-	-	(508)	(508)
Transfer to reserves	-	-	-	-	-
Balance at 31 December 2017	**22 483**	**2 248**	**-**	**136 438**	**161 169**
Balance at 1 January 2018	**22 483**	**2 248**	**-**	**136 438**	**161 169**
Comprehensive income (loss) for the period	-	-	-	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**

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

Statements of cash flows

	Notes	Group 2018	Company 2018	Group 2017	Company 2017
Cash flows from (used in) operating activities					
Net profit (loss)		(46 255)	14 316	(2 796)	35 353
Adjustments for non-cash items:					
Depreciation and amortisation expenses	4,5	38 550	18	40 826	16
Revaluation of property, plant and equipment	5,17	88 667	-	35 578	-
(Reversal of)/impairment of assets		(3 066)	-	(792)	-
Share of profit of associates and joint ventures	6	-	-	-	-
Income tax expenses	21	(13 950)	(386)	33	(12)
Amortisation of deferred revenue	17	(125)	-	(41)	-
Impairment of financial assets		-	26 090	-	-
(Gain)/loss on disposal/write-off of property, plant and equipment	5	976	-	1 200	-
Bad debts		2 426	-	737	-
Elimination of results of financing and investing activities:					
Interest income		(27)	(18)	(9)	-
Interest expenses		2 769	1 156	3 139	1 406
Dividend income		(130)	(27 238)	(134)	(38 029)
Other finance (income)/costs		(13 270)	(13 282)	(594)	(497)
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		(2 660)	(428)	(2 022)	58
(Increase) decrease in inventories, prepayments and other current assets		(800)	1	2 210	-
Increase (decrease) in amounts payable, grants, deferred income and advance amounts received		22 163	409	(36 573)	(35 817)
Changes in other financial assets		(6 946)	-	2 322	-
Income tax (paid)		(6 163)	-	(7 171)	-
Net cash flows from (used in) operating activities		**62 159**	**638**	**35 913**	**(37 522)**
Cash flows from (used in) investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(43 483)	(3)	(34 263)	(6)
Proceeds from sale of property, plant and equipment and intangible assets		69	-	12	-
Loans granted		(30)	(12 517)	(120)	-
Grants received	17	32 456	-	12 014	-
Congestion management revenue	31	12 208	-	8 691	-
Interest received		22	12	4	-
Dividends received		130	27 238	134	38 029
Net cash flows from (used in) investing activities		**1 372**	**14 730**	**(13 528)**	**38 023**
Cash flows from financing activities					
Proceeds from borrowings		20 000	-	-	-
Repayments of borrowings		(34 531)	(2 560)	(27 086)	(2 560)
Finance lease payments		(443)	-	(160)	-
Overdraft		(42 298)	(2 321)	1 008	2 321
Interest paid		(2 842)	(1 149)	(3 496)	(1 566)
Dividends paid		(1 587)	(682)	(1 861)	(508)
Other cash flows from (used in) financing activities		8	-	567	497
Net cash flows from (used in) financing activities		**(61 693)**	**(6 712)**	**(31 028)**	**(1 816)**
Net increase (decrease) in cash and cash equivalents		**1 838**	**8 656**	**(8 643)**	**(1 315)**
Cash and cash equivalents at the beginning of the period	12	8 075	13	16 718	1 328
Cash and cash equivalents at the end of the period	12	**9 913**	**8 669**	**8 075**	**13**

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

1. General information

EPSO-G UAB is a private limited liability company incorporated in the Republic of Lithuania. Its registered office address is: A. Juozapavičiaus str. 13, LT- 09311, Vilnius, Lithuania. EPSO-G UAB (hereinafter "EPSO-G" or "the Company") is a profit-seeking entity with limited civil liability, which was registered on 25 July 2012 with the Register of Legal Entities administered by the state enterprise Centre of Registers. The Company code is 302826889, VAT payer's code is LT100007031415.

The main activity of the EPSO-G Group 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.

EPSO-G provides management holding services to subsidiaries and lower-tier subsidiaries. The purpose of the provision of management holding services is to increase the efficiency of operations of the 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 2018 and 2017, the Company's authorised share capital amounted to EUR 22,482,695. As at 31 December 2018 and 2017, 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 2018		At 31 December 2017	
	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 Group consists of EPSO-G and the subsidiaries controlled by it:

Company name	Registered office address	Effective shareholding (%)		Profile of activities
		At 31 December 2018	At 31 December 2017	
LITGRID AB	A. Juozapavičiaus str. 13, 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 str. 90, Vilnius, Lithuania	67.0	67.0	Energy resources exchange operator entitled to organise trade in biofuel products, and the administrator of PSO funds
TETAS UAB (controlled through LITGRID AB)	Senamiesčio str. 102B, Panevėžys, Lithuania	97.5	97.5	Design engineering, reconstruction, repair and maintenance of transformer substations and distribution stations
Litgrid Power Link Service (controlled through LITGRID AB)	A. Juozapavičiaus str. 13, Vilnius, Lithuania	97.5	97.5	Management and operation of electricity interconnection facilities
GET Baltic UAB (controlled through Amber Grid AB)	Savanorių ave. 28, Vilnius, Lithuania	96.6	96.6	Organisation of trading on natural gas exchange

The Company's investments in subsidiaries are described in more detail in Note 6.

The Group's investments in the associates and joint ventures are as follows:

Company name	Registered office address	The Group's shareholding, %		Profile of activities
		At 31 December 2018	At 31 December 2017	
Duomenų Logistikos Centras UAB	Žvejų str. 14, Vilnius, Lithuania	20	20	IT services
LitPol Link Sp.z.o.o	Warszawska 165, 05-520, Konstancin-Jeziorna , Warsaw, Poland	50	50	Execution and coordination of joint tasks related to the management of the existing interconnection Lithuania-Poland, planned expansion of the network and other cooperation fields

On 27 January 2017, the Board of LITGRID AB approved the organisation of the sale of the entire 20.36% ownership interest in Duomenų Logistikos Centras UAB held by LITGRID AB by the right of ownership together with the ownership interest held by Lietuvos Energija UAB. On 7 August 2017, the shareholders of Duomenų Logistikos Centras UAB, i.e. LITGRID AB and Lietuvos Energija UAB, signed the agreement on the sale and purchase of the company's shares with Telia Lietuva. On 13 June 2018, the Company's Board gave its consent to terminate the agreement on sale/purchase of 20.36% shares signed between Duomenų logistikos centras UAB and Telia Lietuva UAB and to resume the sale process of Duomenų logistikos centras UAB. As a result of active steps of the Company to sell the shares of the associate. This investment in the associate is included in current assets under the line item 'Other financial assets' (Note 11).

The Group's investments in associates and joint ventures are described in more detail in Note 6.

As at 31 December 2018, the Group had 1,005 employees (31 December 2017: 1,014). As at 31 December 2018, the Company had 22 employees (31 December 2017: 22).

The Company's management approved these financial statements on 17 April 2019. 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.

2. Summary of principal accounting policies

The principal accounting policies adopted in the preparation of the Company's and the Group's financial statements for the year ended 31 December 2018 are summarised below.

2.1 Basis of preparation

The Company's and the Group's financial statements for the year ended 31 December 2018 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 which is recorded at revalued amount, less accumulated depreciation and estimated impairment losses, and available-for-sale financial assets which are carried at fair value.

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

Due to the rounding effects of individual amounts to the nearest thousand of euros, the tabular amounts may not add up to the total figures. These rounding errors are not material in the financial statements.

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)

The following IFRSs and amendments thereto were adopted by the Company and the Group for the first time for the financial year ended 31 December 2018:

IFRS 9, ***Financial instruments***. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The application of the standard for the first time did not have any material impact on the Company's and the Group's financial statements, since historically the impairment loss of amounts receivable has been insignificant, and its cash and cash equivalents and other current financial assets are held with credit institutions with high credit rating. For 2 biggest entities included in the group (Litgrid and Amber Grid) the observed default frequency for the period of 2016-2018 is zero. Except for change from AFS to FVOCI, the standard had no impact on the classification of financial assets as well: loans and amounts receivable will continue to be classified as measured at amortised cost, financial assets at fair value through profit or loss will continue to be measured using the same method. The Group elected to classify available-for-sale financial assets to the category of at fair value through other comprehensive income. As the Company and the Group does not have hedging transactions, the application of the standard in this respect had no impact on the financial statements of the Company and the Group. The Company and the Group has only financial liabilities categorized as 'Other financial liabilities', therefore there is no impact on the accounting and assessment of the financial liabilities of the Company and the Group.

IFRS15, *Revenue from Contracts with Customers*

Amendments to IFRS15, *Revenue from Contracts with Customers*

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the commitment to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Company and the Group does not have any long-term contracts with multiple-elements, nor has it sale incentives, material contracting costs or material prepayments.

The Group had deferred revenue remaining in the statement of financial position that related to connections of new customers before implementation of IFRIC 18 (i.e. before 1 July 2009). The Group applied IFRS 15 using modified approach, which resulted in deferred revenue balance as of 31 December 2017 in amount of EUR 1,467 thousand transferred into retained earnings on 1 January 2018.

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in

profit or loss immediately. The Company and the Group did not have any impact on its financial statements since they do not conduct any share-based payment transactions.

Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. The amendment did not have any impact on the Company's and the Group's financial statements since they are not engaged in any insurance activities.

Annual improvements to IFRSs 2014–2016 Cycle

IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The standards'' improvements did not impact the financial statements of the Company and the Group, since the provisions of the improvements are not related with the activities.

Transfers of Investment Property - Amendments to IAS 40

The amendments clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The amendments to the statement did not impact the financial statements of the Company and the Group has not assessed the impact of the standard on its financial statements, as there were no cases when the assets would be transferred to investment assets or from it to another category of assets.

IFRIC 22*, Foreign Currency Transactions and Advance Consideration*

The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. IFRIC interpretation did not impact the financial statements of the Company and the Group, as there were no corresponding transactions in foreign currency.

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 (expected date of application for each of them is their relevant effective date):

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. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

At the date of the financial statements, the Company has concluded transport and real estate lease agreements. The Company's management assesses the impact of IFRS 16 on the financial statements of the Company.

The Group also makes payments to municipalities for use of government land, which hosts certain equipment of the Group. Generally, the Group obtains a right to use such land for 99 years with a possibility to extend the term. Amounts to be paid to the government are calculated as a product of a) the cadastral value of land which can be reassessed by municipalities every [3/5] years, and b) tax rate determined by municipalities. These payments generally do not reflect the market rate for rent of similar land. The Group is currently evaluating whether these agreements are in scope of IFRS 16 or whether they are effectively a form of land tax.

The Company's and Group's management assessed the impact of IFRS 16 on the financial statements of the Company and the Group. Tables below show estimated amounts (which are subject to change), also these amounts exclude any land lease payments to government or municipalities.

Group	**1 January 2019, in EUR thousands**	**Year ended 31 December 2019, in EUR thousands**
Right-of-use asset	2 482	
Lease liability – current portion	688	
Lease liability – non-current portion	1 794	
Cumulative impact recognized as an adjustment to the equity at the date of initial application	-	
Expected impact on profit (loss) statement:		
- Increase of depreciation		687
- Increase of interest expense		17
- Decrease of other expenses		(705)
Expected impact on statement of cash flows:		
- Increase of net cash flow from operating activities		705
- Decrease of net cash flow from financing activities		(705)

Company	**1 January 2019, in EUR thousands**	**Year ended 31 December 2019, in EUR thousands**
Right-of-use asset	300	
Lease liability – current portion	(95)	
Lease liability – non-current portion	(205)	
Cumulative impact recognized as an adjustment to the equity at the date of initial application	-	
Expected impact on profit (loss) statement:		
- Increase of depreciation		94
- Increase of interest expense		1
- Decrease of other expenses		(96)
Expected impact on statement of cash flows:		
- Increase of net cash flow from operating activities		96
- Decrease of net cash flow from financing activities		(96)

IFRIC 23, ***Uncertainty over Income Tax Treatments***

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. 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 effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using 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. The interpretation is not expected to have any impact on the financial statements of the Company and the Group, as there were no identifiable uncertainties of income tax treatment.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the DE recognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The amendment to the standard is not expected to have any impact on the financial statements of the Company and the Group, as there were no obligations with compensation payable.

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Company and the Group believes the amendments will have no significant impact on its financial statements.

IFRS 17*, Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. These amendments to the standard will have no impact on the Company's and the Group's financial statements because the Company and the Group is not engaged in any insurance activities.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Company and the Group has not assessed the impact of the amendment to the standard on its financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing

requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company and the Group has not assessed the impact of the improvements on its financial statements.

Plan amendment, curtailment or settlement – Amendments to IAS 19 (effective for annual periods beginning on or after 1 January 2019; yet not approved by the European Union).
The amendments clarify how to determine the cost of pensions after the amendment of the defined benefit plan. IAS 19 requires that, in case of the plan change – in the event of a plan amendment, curtailment or settlement, the net defined benefit obligation or asset is subject to reassessment. The amendments require the use of revised assumptions used for reassessment to determine the current service cost and net interest for the remaining period after the plan change. Before these amendments, IAS 19 did not specify how to determine these costs for the period after the plan change. As revised assumptions are required, these amendments are expected to provide useful information to users of the financial statements. The Company and the Group did not assess the impact of the standard amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; yet not approved by the European Union).

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance, especially liability definition and clarifications in important areas such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company and the Group did not assess the impact of the standard amendments on its financial statements.

Amendments to IFRS 3 – Definition of a Business (effective for annual periods beginning on or after 1 January 2020; yet not approved by the European Union).

The amendments clarify the definition of a business. A business has to be made up of resources and an essential process, with a significant impact on the ability to produce. The new guidelines set out a framework for assessing the availability of resources and the main process, including early stage start-ups. If production is not created, the condition of the existence of an organized workforce should be fulfilled in order a combination of activity and assets to be classified as a business. The definition of "output" is narrowed to mean goods and services provided to customers that generate investment income and other income, excluding profits in the form of lower costs and other economic benefits. It is also no longer required to assess whether market participants will be able to replace missing elements or integrate acquired activities and assets. The entity may conduct a concentration test. In the event that substantially all the fair value of the acquired joint asset would be concentrated in one asset (or group of similar assets), the acquired assets would not constitute a business. The Company and the Group did not assess the impact of the standard amendments on its financial statements.

Amendments to IAS 1 and IAS 8 – Definition of Material (effective for annual periods beginning on or after 1 January 2019; yet not approved by the European Union).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that were reflected so far in other IFRS. In addition, the interpretations provided in the definition have been clarified. Finally, the amendments ensure that the definition of material is consistently applied in all IFRSs. Information should be considered material if it could reasonably be expected that its omission, misstatement or overshadowing by unimportant / unessential information would have an impact on the decisions of key users of the general purpose financial statements based on those financial statements that present the financial information of the specific reporting entity. The Company and the Group did not assess the impact of the standard amendments on its financial statements.

2.2 Principles of consolidation

Subsidiaries are 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.

2.3 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. 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.

2.4 Assets held for sale and discontinued operations

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 as 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 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 which 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.

2.6 Company's investments in subsidiaries

In the parent company's financial statements, 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.

2.7 Investments in associates and joint ventures

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 venturers).

In the Group's 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 recognised 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 recognised, 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 the Group's ownership interest in an associate is recognized as profit or loss.

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.

2.8 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 recognised in the profit and loss account. Decreases in the carrying amount arising on the subsequent revaluation of property, plant and equipment that offset previous increases of the same asset are charged against revaluation reserve directly in equity, and 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. Upon the sale or write-off of an asset item any balance related to these assets is transferred from revaluation reserve 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 which 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.

Property, plant and equipment also includes the minimum quantity of natural gas contained in the gas pipelines (line pack) which is necessary to ensure a stable functioning of the transmission system (i.e. necessary to start the functioning of the transmission system) under the base conditions (pressure of 25 bar is ensured for system users for all exit points). This part of property, plant and equipment is not depreciated, because the Company will be able to sell such natural gas at the end of the useful life of the gas transmission pipeline, and accordingly, the value of such natural gas represents the residual value of the gas transmission pipeline.

Reserve inventories for emergency elimination that meet the criteria of non-current assets are classified as property, plant and equipment. The carrying amount of inventories written off during repair, technical maintenance and emergency liquidation are recorded in the income statement (if those relate to maintenance which is not capitalized as property, plant and equipment) or added to the carrying amount of assets under maintenance (if those relate to maintenance which is capitalized).

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 property, plant and equipment 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 recognised at cost. Intangible assets are recognised only when it is probable that future economic benefits associated with these assets will flow to the Company and the Group and the value of assets can be measured reliably. After initial recognition, intangible assets are carried at cost, less accumulated amortisation and impairment losses, if any (the Group/Company does not have intangible assets with indefinite useful lives).

Statutory servitudes (intangible assets)

The category of the Group's intangible assets includes 'Statutory servitudes' which comprise the Group's rights to use the land plots owned by third persons in which electric networks were established up to 10 July 2018 on the basis of statutory servitudes. The useful lives of intangible assets are indefinite, therefore, these assets are not subject to amortisation. The Group tests the intangible assets of statutory servitudes for potential impairment, by comparing their recoverable value with the carrying value at least once per year or when there are signs of impairment.

Depreciation and amortisation

Depreciation (amortisation) of property, plant and equipment and intangible assets, except land and construction in progress, is calculated using the straight-line method over estimated useful lives of the asset. The estimated useful lives, residual values and depreciation/amortisation 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	15–80
Structures and equipment	5–80
Plant and machinery	3–20
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 recognised in the profit or loss.

Subsequent repair costs are added to 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.

2.9 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).

2.10 Financial assets

From 1 January 2018, for the purposes of applying **IFRS 9 Financial Instruments**, the financial assets are classified 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 management regarding individual measures. The Group and the Company can apply more than one business model for managing its financial assets.

The business model applied to financial asset management is based not only on the assertion but rather 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 the 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:

<u>Financial assets at amortized cost</u>

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 Company (i.e. the total cash shortage) discounted at the original effective interest rate. The Group and the Company calculates 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 recognizes 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. The 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 of the debtor;

(b) breach of contract, such as overdue debt or down payment;

(c) 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 debit receivables and trade receivables when it loses the right to the cash flows of the financial assets specified in the contract.

When assessing whether the Group and 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, however 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, whereas all established or retained rights and obligations under transference are recognised separately as assets or obligations;
- if the Group and Company retain the control of the financial asset, they continue recognising it insofar as they control the financial asset.

2.11 Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value. Acquisition cost of inventories includes acquisition price and related taxes (not subsequently refunded by tax authorities), and incremental 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.

2.12 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.13 Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

Financial liabilities, including borrowings, are recognised initially at fair value, less transaction costs.

Subsequent to initial recognition, financial liabilities are carried at amortised cost using the effective interest rate method. Interest expense is recognised using the effective interest rate method as disclosed in note 2.10 of the financial statements.

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 derecognised 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 recognised in the statement of comprehensive income.

Trade payables

Trade payables represent the 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.

2.14 Dividend distribution

Dividend distribution to the Company's shareholders is recognised 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.

2.15 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 its subsidiaries, and the presentation currency of the Group's consolidated financial statements. All financial information presented in the euros has been rounded to the nearest thousand unless otherwise stated. Due to rounding effects, some of the tabular amounts may not add up.

Foreign currency transactions are recorded in the euros using the exchange rates of the euro against foreign currencies prevailing at the dates of transactions as established by the European Central Bank and the Bank of Lithuania. Monetary assets and liabilities are translated into the euros using the exchange rate prevailing at the date of preparation of financial statements. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised as the profit or loss of the reporting period.

2.16 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 EU 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.

Part of congestion management inflows which are used to finance investments, are accounted for as grants related to assets.

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.

2.17 Provisions

Provisions are recognised when the Group and the Company have a legal 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 on the basis of 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 recognised as a finance costs.

2.18 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 and the Company pay 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 recognised as expenses on an accrual basis and included in staff payroll expenses.

Variable part of remuneration

The Company and the Group recognise a liability and an expense for the variable part of remuneration where contractually obliged or where there is a past practice that has created a constructive obligation.

Post-employment benefits payable at retirement age

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.

2.19 Leases

Lease is recognised as financial lease, when all the risks and rewards of ownership of the leased item are transferred to the lessee. Operating lease is the lease that cannot be classified as finance lease. When the contract is signed, it is being assessed whether the contract meets the terms of a financial lease.

The Group and the Company as a lessor

Operating lease income is recognised on a straight-line basis over the lease term.

The Group and the Company as a lessee

Operating lease payments are recognised as expenses in the statement of comprehensive income on a straight-line basis over the lease term.

The provisions of the lease accounting referred to in this item are applied to the financial statements concluded before 31 December 2018. From 1 January 2019, the lease accounting will be performed in accordance with the provisions set forth in Note 2.1 (b) of this explanatory note.

2.20 Revenue and expense recognition

2.20.1. Revenue from contracts with customers

Revenue is recognised upon the satisfaction of performance obligations which occurs when control of the good or service transfers to the customers. Control can transfer over time or at a point in time. Revenue is recognized in an amount that reflects the consideration to which the Group and the Company expects to be entitled in exchange for those goods or services.

Revenue from electricity transmission, capacity reserve services and trade in balancing/regulating electricity

Revenue from electricity transmission and capacity reserve services is recognised over time based on the transmission services provided and reserved capacity as the customer receives control and consumes the benefits provided by the Group´s performance as the Group performs. Revenues are usually invoiced on a monthly basis, recognized net of VAT and discounts. Trading in balancing/regulating electricity is flowing only from the Group's main responsibility to maintain balance of the electricity network, and not to trade electricity on normal commercial terms.

Regulation of tariffs for electricity transmission and capacity reserves

The tariffs for the electricity transmission services are regulated by the National Control Commission for Prices and Energy (hereinafter "the Commission") by establishing a cap on the price for the transmission service. The specific prices and tariffs for the transmission services are established by the supplier of the service within the limits approved by the Commission.

The Group purchases capacity reserve services from electricity suppliers in accordance with the capacity reserve agreements with entities producing electricity, and subsequently renders these services to the distribution system operators and electricity consumers using a tariff established by the Commission. The Group recognises gross revenue as it acts as a principal in the provision of these services. Revenue is recognized over time on a monthly basis. Transaction price is the tariff set, no rebates or variable parts are applicable. There is no financing component.

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

The Group recognises fees received for connection of new consumers and producers to the electricity or natural gas network as income immediately upon the connection of a new consumer or producer. The price for electricity or natural gas payable in future by the newly connected consumer or producer for the services rendered /purchased by the Company/Group does not differ from that payable by other consumers or producers who had not paid such connection fees. The connection is considered a separate performance obligation.

As it was mentioned in Note 2.1, with the exception of one transaction described in the same note, the implemented IFRS 15 did not impact the recognition of the revenue coming from the connection of new customers and producers to electricity transmission network, as the connection is a separate performance obligation, distinct from the other services provided by the Company for the new customers and producers. The Company transmits the electricity generated by a new consumer without any recharges, rebates or other pricing adjustments., general tariffs are used.

Revenue from connection asset relocation are treated the same as revenues from new connections.

Before 1 July 2009, fees received by Lietuvos Energija AB for connection of new consumers and producers to the network were recognised as non-current assets by reducing the carrying amount of the asset concerned. In the statement of comprehensive income such fees were recognised over the useful life of the asset concerned by reducing depreciation expenses. Upon adoption of IFRIC 18, the accounting policy for connection fees has changed (as described above the fee for connection started to be recognized in full once connection provided) prospectively, so the connection fees related to period prior 1 July 2009 continued to be released to income statement over time. Transition to IFRS 15 does not allow for such prospective approach, as such the unreleased balance was released to retained earnings as at 1 January 2018.

Revenue from gas transmission services

Revenue from system users for natural gas transmission service is recognised on a monthly basis, net of VAT and discounts, 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. Revenue is recognised over time based on the transmission services provided as the customer receives control and consumes the benefits provided by the Group´s performance as the Group performs. 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 administration of the LNG terminal 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*, including subsequent amendments and supplements (the title was changed on 17 December 2015 under the Commission's Resolution No 03-653 of 18 December 2015), as approved by the Commission's Resolution No 03-294 of 9 October 2012.

In implementing the requirements of the mentioned legal acts the Group collects and administers the LNG terminal funds. 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. Transaction price is the fixed fee, no rebates or variable parts are applicable. There is no financing component.

Revenue from repair services

Income under individual contracts with customers, for instance for repair services, is recognised over time during the reporting period when respective services were granted with reference to the stage of completion of a certain transaction estimated on

the basis of actually granted services as well as to the proportion of total services to be provided (input method). The probable change in profitability is recognized in the statement of comprehensive income when such change is established. The projects are reviewed regularly and the provisions are established when it is determined that the project will result in a loss. Transaction price is the price stated explicitly in the contract, no rebates or variable parts are applicable. There is no financing component.

Revenue from construction contracts

Revenue from construction contracts is recognised under the percentage-of-completion method (input method). The stage of completion of a contract is measured by reference to the construction costs incurred up to the date of the preparation of the financial statements as a percentage of total estimated construction costs (input method). Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

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. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in the scope of contract work, claims and incentive payments are included in contract revenue to the extent they are agreed with the customer and can be measured reliably.

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

2.20.2 Other revenue

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

Recognition of income and expenses from PSO services

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 annual quantities of PSO service funds are established by the Commission. These funds are collected from electricity consumers, using the tariff for PSO services established by the Commission as a difference between PSO service funds collected and disbursed by the Group during the previous calendar year.

The Group recognises as revenue from PSO services the following:

- PSO service funds allocated by the Commission to the Group for the connection of power generation facilities, using wind, biomass, solar energy or hydro energy in the process of power generation, to transmission networks, for optimization, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electric power from producers using the renewable energy resources. The Group accounts for such revenue in the same way as connections of new customers to the grid. Since PSO funds for connecting new customers have to be approved by the Commission, the Group recognizes PSO part of connection revenue only following the Commission's approval;
- PSO service funds allocated by the Commission to the Group for balancing electricity produced from the renewable energy resources. 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;
- PSO service funds allocated by the Commission to the Group to cover administration costs of PSO service funds. Revenue is recognized on a monthly basis, as the fee for administration is fixed. Transaction price is the fixed fee, no rebates or variable parts are applicable. There is no financing component. See accounting policy below for this revenue stream.

All other PSO service funds collected by the Group are not recognised as income/expenses.

Accounting policy for PSO service funds and the LNG terminal funds when the Group acts as an administrator of funds

In performing the PSO and the LNG terminal-related 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 which 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 the items described in Note 2.20 and records the difference between collected and disbursed PSO service funds being administered within receivables (payables).

The Commission established that the PSO service funds and the LNG terminal funds that were not collected are subject to compensation in future. Accordingly, no impairment has been recognised for receivable PSO service funds and LNG terminal funds in the Group's financial statements.

Payment terms for major part of revenue (transmission of electricity and gas and their related services) is 15 days.

2.20.3 Other income

Interest income is recognised 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.

Congestion income

See note 2.21, part c) for recognition of congestion income in the statement of comprehensive income.

2.20.4 Expense recognition

Expenses are recognised in the statement of comprehensive income as incurred by the accrual method.

2.21 Congestion inflows/ deferred income

Congestion inflows arise from different electricity market prices in Lithuania, Sweden, Poland and Latvia as a result of insufficient capacity of electricity lines and do not represent revenue from contract with customers. 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 income 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 stipulated in the EU Regulation congestion inflows are recognised as:

a) income in the period during which the related expenses are incurred, when it is used for guaranteeing availability of the allocated capacity of the interconnections. In case of unplanned disconnection of the electricity interconnection and when the trade in the interconnection's capacities has already been completed at the electricity exchange (i.e. when they have already been allocated), 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.

b) when inflows are used for maintaining or increasing interconnection capacities – for the purpose of the financial statements, congestion inflows are recognised following the principles of accounting for grants, i.e. initially congestion inflows are 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 inflows are used for reducing the tariff – income is recognised in the period during which the Company generates lower revenue due to lower tariffs.

In the statement of financial position not used congestion management inflows are split between long term and short term liabilities (the latter part representing congestion management inflows planned to be utilized within 12 months).

2.22 Borrowing costs

Borrowing costs that are directly attributable to the production, getting ready for use or sale of an asset that necessarily takes a substantial period of time to produce, get ready for its intended use or sale, are capitalised as part of the cost of that asset until the asset is ready for use or sale in full. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

Other borrowing costs are recognised as expenses in the statement of comprehensive income during the period when they are incurred.

2.23 Income tax

Income tax expense for the period comprises current tax and deferred tax expenses.

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 2018 and 2017.

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 discontinues its activities due to which these losses were incurred, except when the Group does not continue its activities due to reasons independent of the Group 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. Starting from 1 January 2014, tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum of 70%.

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 realised 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.

Current income tax and deferred income tax

Current income tax and deferred income tax are recognized as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognized directly in equity or in other comprehensive income, in which case taxes are also recorded in equity and other comprehensive income respectively.

2.24 Contingencies

Contingent liabilities are not recognised 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.

2.25 Events after the reporting period

Events after the reporting period 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. Events after the reporting period that are not adjusting events are disclosed in notes to the financial statements, provided their effect is material.

2.26 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.

2.27 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:

2.27.1 Revaluation of property, plant and equipment of LITGRID AB

LITGRID AB performed the last revaluation of its property, plant and equipment as at 31 December 2014 and recognised impairment on the basis of valuation of its property, plant and equipment as at 31 December 2014. Having regard to regulatory amendments to legal acts of 2015, LITGRID AB established no need for additional revaluation or recognition of impairment as at 31 December 2015.

LITGRID AB, after the assessment that in 2016 and 2017 there were no legislative changes and / or events that could have had a significant impact on the value of the asset and following the impairment test, has found that the carrying amount of its property, plant and equipment on 31 December 2016 and 2017 was not materially different from the fair value at the end of the reporting period.

The National Control Commission for Prices and Energy (hereinafter referred to as the Commission), when calculating the actual cost of capital of the Company of 2016-2017 (depreciation costs and return on investment) did not apply Item 7.2.1 of the approved Methodology for setting the electricity transmission, distribution and public supply services and the public price cap approved by the Resolution No O3-509 of the Commission dated 21 September 2015 that "the modelled network element value under the LRAIC (long run average incremental costs) model was calculating by applying cost accounting method at current value, i.e. the asset is valued at current value, the asset is valued at its present recoverable amount" and the cost of capital for all assets used in the regulated activities was calculated at historical value (the statement No O5E-233 of 1 October 2018 of the Gas and Electricity Department of the Commission "Regarding the recalculation of the transmission service price cap for 2019 of LITGRID AB"). The Commission grounded its decision on the general principles of the necessary costs and economically reasonable price stipulated by the Energy Law and the Law on Electricity and stated that "a post-statutory legislation (in this case the Methodology) cannot deny the statutory requirements". However, when setting the transmission service price cap for 2019, the Commission did apply the LRAIC model and accounted for the value of assets optimized and depreciation costs at current value under the LRAIC model, while the remaining assets value and depreciation costs were recorded at historical value. The Commission believes that the LRAIC model is and will be applied in the long term, but can be revised and improved to better reflect the real needs and opportunities of investing in optimized network elements with the LRAIC model.

LITGRID AB states that the decision taken by the Commission materially represents a fundamental change in regulation and by forecasting that in 2018-2020 the Commission will apply the same method of estimating capital costs that it applied in 2016-2017, and considering the possible change in the application of the LRAIC model from the beginning of the new regulatory period in 2021, considers that this may have a significant impact on the Company's future cash flows and asset value.

The valuation corresponded to Level 3 of fair value measurement (Note 2.28). The Company estimated the fair value of the assets as at 31 December 2018 under the income method using the discounted cash flows calculation technique. The assets' value was calculated as the present value of net future cash flows.

LITGRID AB assessed its assets 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.

The value of assets was calculated as follows:

- Cash flows from the Company's operations in 2019-2025 were calculated.
- 2019-2025 cash flows decreased by cash flows of loans granted and income received and dividends;
- 2025 cash flow was decreased by the overturn of regulated activity of 2023-2025 discounted to 2025, which would have to be repaid in 2027;
- 2025 cash flow was decreased by the investments to assets elements optimised by LRAIC model by 2026-2035 cash flow discounted to 2025;
- 2025 was increased by the working capital of the congestion revenues by 2026-2030 cash flow discounted to 2025;
- Adjusted cash flows for 2018-2025 were aggregated;
- Discounted terminal value (beyond 2025) was added;
- Value of non-current intangible assets was deducted.

The discounted terminal value was calculated as follows:

- Assuming that 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 2025 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 2018.

Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) of LTGRID AB equal to 4.02%.

The outcome of the fair value estimation performed in respect of property, plant and equipment as at 31 December 2018 amounted to EUR 297,878 thousand. The estimated value of the assets fell behind the carrying amount, thereby LITGRID AB recognised impairment of EUR 56,270 thousand in its financial statements.

The tables below present sensitivity of the outcome of asset valuation to the share of value of assets optimized via the LRAIC model, to changes in the discount rate, change in return on investment in 2021-2025 and to the amount of congestion revenue:

Share of value of assets optimized via LRAIC model, % of estimated value	Value of assets, EUR thousand
70%	280,005
80%	285,962
90%	291,919
100%	**297,878**
110%	303,837

Change in discount rate (agreeably with terminal value recalculating the rate of return on investments recalculated), %	Value of assets, EUR thousand
-1,0%	315,275
-0,5%	306,281
0,0%	**297,878**
0,5%	289,926
1,0%	282,341

Change in return on investment in 2021-2025, %	Value of assets, EUR thousand
-1,0%	285,142
-0,5%	291,509
0,0%	**297,878**
0,5%	304,245
1,0%	310,616

Share of congestion revenue, % of forecast revenue	Value of assets, EUR thousand
0%	280,147
25%	283,682
50%	288,000
100%	**297,878**
125%	313,129

LITGRID AB estimated the fair value of the assets as at 31 December 2017 under the income method using the discounted cash flows calculation technique. The value of assets was estimated as the present value of net future cash flows. The valuation corresponded to Level 3 of fair value measurement (Note 2.28).

LITGRID AB assessed its assets 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.

The value of assets was calculated as follows:

- Cash flows from operations in 2018-2025 were calculated;
- These cash flows were adjusted by cash flows related to the grants received for the Nordbalt project, because, in the financial accounting of the Company, the value of the assets related to the Nordbalt project at the valuation date had already been reduced by the amount of accrued but not yet received grants, as well as by cash flows related to the compensation of PSO expenses of connection of electricity producers using renewable energy sources (hereinafter "RES-E producers"), because the connection of RES-E producers was conducted and assets were accounted for in 2015–2016;
- Adjusted cash flows for 2018–2025 were aggregated;
- Discounted going concern value (beyond 2025) was added;
- Value of intangible assets was deducted.

Net cash flows generated by the assets were discounted using a 4.38% discount rate (after-tax WACC) determined by LITGRID AB.

The outcome of the fair value estimation performed in respect of property, plant and equipment as at 31 December 2017 amounted to EUR 371,794 thousand. The estimated value of the assets exceeded the carrying amount (EUR 366,646 thousand), thereby leading to no impairment, and the difference between the estimated value of the assets and the carrying amount was equal to 1.4%. Having taken into account the sensitivity of assumptions, LITGRID AB will not account for the result of valuation. The tables below present sensitivity of the outcome of asset valuation to the share of value of assets optimized via LRAIC model, to changes in the discount rate, and to the amount of congestion revenue:

Share of value of assets optimized via LRAIC model during 2021-2025, % of estimated value	Value of assets, EUR thousand
25%	332,463
50%	345,573
75%	358,684
100%	371,794
125%	384,904

Change in discount rate (with the rate of return on investments recalculated beyond 2021), %	Value of assets, EUR thousand
-2.0%	394,710
-1.0%	382,936
0.0%	371,794
0.5%	366,443
1.0%	361,233

Share of congestion revenue, % of forecast revenue	Value of assets, EUR thousand
0%	367,838
25%	368,859
50%	369,837
100%	371,794
125%	372,781

2.27.2 Revaluation of property, plant and equipment of Amber Grid AB

In view of the accounting principles applied in respect of property, plant and equipment by the EPSO-G UAB group, starting from 31 December 2017, property, plant and equipment was started being recorded at the revalued amount instead of recognising these assets at cost. Due to the specific character of assets used in the activities of Amber Grid AB, the fair value of property, plant and equipment was estimated under the income method by using the discounted cash flow approach to calculate the value. The management of Amber Grid AB performed the measurement of the fair value of property, plant and equipment by the help of specialists of Amber Grid AB and external consultants where their involvement was considered necessary. The fair value of the cash generating unit, i.e. the total property, plant and equipment of Amber Grid AB, was estimated. As at 31 December 2017, Amber Grid accounted for loss on revaluation of property, plant and equipment equal to EUR 35,507 thousand. The loss on revaluation of property, plant and equipment was mainly caused by changes in the management's assumptions:

- The profit resulting from operational efficiency of Amber Grid AB that is exceeding the return on investments is not expected to be retained. In the future it will be returned to the users of system services (through the reduction of tariffs for system services);

- Adjustments were made with respect to the projected return on investments for the new regulatory period of 2019–2023, as well as to subsequent continuous cash flows;
- Adjustments were made with respect to the assumption according to which a regulated return on investments will be established for transit services in the future following the same principles as those applied to transmission services.

A projected change (decrease) in the regulated rate of return on investments in the new regulatory period for natural gas transmission services prices applicable from 2019 was estimated when calculating future cash flows. The rate of return on investments for this period was projected based on the provisions of the Methodology for Setting the Rate of Return on Investments (hereinafter "the Methodology") approved by the Commission's Resolution No 03-510 of 22 September 2015. Taking into consideration the fact that at the present moment it is not possible to exactly forecast indicators that will be used under the Methodology for the determination of the rate of return on investments beyond 2022, the rate of return on investments was treated to be equal to a currently effective discount rate before taxes for the purpose of calculating the discounted going concern value.

Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 5.11%, which was calculated by Amber Grid AB.

Loss on revaluation of property, plant and equipment amounting to EUR 35,507 thousand was proportionally allocated to assets the carrying value of which is higher than the regulated assets base, as, according to the management, such excess of value of the assets will not generate future cash flows given the current regulatory environment.

The recoverable amount of the non-current assets of Amber Grid AB is mostly affected by the discount rate, the rate of return on assets set by the Commission, as well as changes in the regulatory environment.

The table below provides the quantitative information on the key significant non-observable market data used for the measurement of the fair value of property, plant, and equipment within Level 3 of the fair value hierarchy.

Fair value of property, plant and equipment under evaluation as at 31 December 2017*	**Non-observable market data**	**Data used for evaluation purposes**	**Sensitivity interval of data in use**	**Relationship between data used and fair value**
272,986	After-tax discount rate	5.1%	Between 4.85% and 5.35%	The higher the discount rate, the lower the fair value
	The rate of return on investments for the 2019–2022 regulatory period	3.9%	Between 3.8% and 4.5%	The higher the rate of return on investments, the higher the fair value
	Rate of return on investments after 2022	6%	Between 5.7% and 6.3%	The higher the rate of return on investments, the higher the fair value
	Growth rate of continuous cash flow	1%	Between 0% and 2%	The higher the growth rate of continuous cash flow, the higher the fair value

** The value of those items of property, plant and equipment that were evaluated using the income method.*

Amber Grid AB performed a sensitivity analysis of valuation result to these key assumptions by making adjustments thereto, with all other variables held constant.

Sensitivity to changes in discount rate, percentage points:

Change in discount rate	Value of PP&E valued using the income method	Effect on profit before tax	Effect on the statement of comprehensive income/revaluation reserve before tax
+0.25%	233,251	(39,734)	-
-0.25%	242,021	(30,965)	-

According to Amber Grid AB, 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 Company, 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 2019-2022, percentage points:

Change in return on investments during 2019–2022	Value of PP&E valued using the income method	Effect on profit before tax	Effect on the statement of comprehensive income/revaluation reserve before tax
+0.6%	240,425	(32,560)	-
-0.1%	236,988	(35,998)	-

Return on investments for the new price regulation period will be established by the Commission in accordance with the provisions of the Methodology. The potential rate of return on investments was projected with adequate prudency, i.e. basically a minimum rate of return on investments was estimated when calculating future cash flows, therefore, the range of sensitivity to changes was uneven, which brings to an assumption that the rate on investments might increase by 0.6 percentage points following the increase in interest rates on loans. At the end of each year, the Commission will make adjustments to the rate of return on investments.

Sensitivity to changes in return on investments as regards continuous cash flows, percentage points:

Change in return on investments with regard to continuous cash flows	Value of PP&E valued using the income method	Effect on profit before tax	Effect on the statement of comprehensive income/revaluation reserve before tax
+0.3%	247,984	(25,001)	-
-0.3%	226,973	(46,012)	-

While discounting cash flows after 2022, 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.

Sensitivity to changes in stable growth rate, percentage points:

Change in stable growth rate	Value of PP&E valued using the income method	Effect on profit before tax	Effect on the statement of comprehensive income/revaluation reserve before tax
+1%	304,996	-	32,011
-1%	196,379	(76,607)	-

Uncertainties related to the assumptions on the determination of stable growth rate will reduce after 2021 (after the completion of the gas interconnection between Lithuania and Poland, the formation of the single regional gas market) or during the development of general changes in economy.

When preparing the financial statements of 2018 and seeking to establish whether any new indications of impairment of property, plant and equipment emerged, Amber Grid AB has assessed the internal and external indicators of possible impairment as well as whether the events that took place in 2018 along with the future events may alter the assumptions applied for the establishment of fair value of the property, plant and equipment performed at the end of 2017. Under the Company's evaluation, certain changes in the regulatory environment and future cash flows have emerged, resulting in asset impairment test - assessment of the recoverable amount of property, plant and equipment by the methodology of value in use (discounted cash flow).

The key assumptions used in the impairment test as at 31 December 2018:

a) net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 3.99%, which was calculated by the Company. The discount rate was calculated using market long-term borrowing and equity's price.

b) a projected change (decrease) in the regulated rate of return on investments was estimated when calculating future cash flows from 2019 – the assessment of the rate of return on investments was based on the Commission's rate of return on investments established in 2019 equal to 3.33%, making the assumption that for the subsequent year of a new price regulation period the return will change only to the extent that it is possible under the Methodology for Setting the Rate of Return on

Investments (hereinafter - the Methodology) approved by the Commission – it will grow as a result of the projected borrowed capital's price increase in the Company.
c) the impact of possible changes of gas transmission scopes on calculations was estimated directly without assessing the flow growth rate in the discounted cash flow continuity value calculation;
d) due to the AB "Amber Grid" profit resulting from the performance efficiency that exceeds the return of investment as of 2017 – 2018, it is not expected to reserve it and it will be returned to the system users in the future (thus reducing the cost of services)..

The impairment of property, plant and equipment was estimated amounting to EUR 37,686 thousand, which was recognised in profit (loss) statement as impairment costs of property, plant and equipment.

Loss on revaluation of property, plant and equipment amounting to EUR 37,686 thousand was proportionally allocated to all transmission pipelines and their technological equipment assets unit.

The recoverable amount of the Company's non-current assets is mostly affected by changes in the discount rate, rate of return on assets set by the National Commission for Energy Control and Prices (the Commission) and changes in the regulatory environment.
The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurement:

Fair value as at 31 December 2018 *	**Unobservable inputs**	**Estimate for the inputs**	**Range of possible estimated inputs for sensitivity**	**Relationship of unobservable inputs to fair value**
194,528	Post tax discount rate	4.0%	3.5% - 4.5%	The higher the discount rate, the lower the fair value
	Rate of return on regulated assets during regulation period 2019 - 2025	3.3%/3.5%	2.8% - 4.0%	The higher the return rate, the higher the fair value
	Rate of return on regulated assets beyond 2025	4.7%	4.2% - 5.2%	The higher the return rate, the higher the fair value

** Value of those non-financial assets that were included under valuation model*

The Company performed a sensitivity analysis of valuation result to these key assumptions by making adjustments thereto, with all other variables held constant.

Sensitivity to changes in discount rate by percentage points:

Change in discount rate	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+0,5%	189,660	(42,554)	-
-0,5%	199,347	(32,867)	-

In the Company's opinion, its discount rate might change if the inputs for calculating WACC (weighted average cost of capital) changes. The 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 Company's management, these uncertainties will remain in the long term, even though adjustments will be made to WACC inputs at the end of each year.

Sensitivity to changes in return on investments during 2019–2025 by percentage points:

Change in rate of return on investments (regulated assets) during regulation period 2019 - 2025	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+0,5%	197,902	(34,312)	-
-0,5%	191,153	(41,061)	-

Return on investments for the new price regulation period will be established by the National Commission for Energy Control and Prices in accordance with the provisions of the Methodology. The potential rate of return on investments was projected with adequate prudency, i.e. when calculating future cash flows only changes in the Company's loan structure were estimated. At the end of each year, the National Commission for Energy Control and Prices will make adjustments to the rate of return on investments.

Sensitivity to changes in return on investments with regard to perpetuity cash flows by percentage points:

Change in return on investments with regard to perpetuity cash flows	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+0,5%	210,812	(21,402)	-
-0,5%	178,244	(53,971)	-

While discounting cash flows beyond 2026, 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.

2.27.3 Impairment of investments

The shares of subsidiaries, associates and joint venture are not offered for public trade, and therefore, the Company relied on indirectly observable inputs in the market for similar transactions or applied discounted future cash flows to assess their potential recoverable amount based on the financial forecasts covering the period of a number of years.

As of 31 December 2018, following analysis of impairment indicators, the Company estimated recoverable amount of shares in LITGRID AB and recognized impairment of EUR 26,090 thousand. Recoverable amount was estimated using book value method, as the difference between subsidiary's book values (that in turn approximate fair values) of assets and liabilities, thus arriving at fair value of net assets at the moment of valuation.

2.27.4 Valuation of investment in LITGRID AB and contingent consideration adjustment liability

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) to the newly established private limited liability company EPSO-G in return for consideration based on the market value of shares determined by independent valuers.
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 Lietuvos Energija UAB to ensure that all the decisions necessary for unbundling of LITGRID AB will be made. In September 2012, an agreement was signed between Lietuvos Energija UAB 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 Lietuvos Energija UAB 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 valuer, 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". In the opinion of the management, there were several substantial changes in the principles of determining the tariffs:

1) Commission performed audits covering the period 2011-2013, which identified that Litgrid earned excess profit, which caused reduction of the tariff during 2014-2017 period and lower return for new shareholder - EPSO-G.
2) Commission retrospectively calculated regulatory asset base using historical costs for 2016 and noted that same principle will be applied until new regulatory period starting in 2021. Regulatory asset base for period 2016-2020 will be calculated using historical costs. Changes in calculation principles of asset base caused lower return for new shareholder.
3) Independent valuer did not include new strategic projects (power links with Poland and Sweden) in valuation of the share price. Investements in the projects were not included in FCFF and in calculation of regulatory asset base. Same principles should be applied for the calculation of basic price and price premium. Regulatary asset base should not include strategic projects when calculating price premium as the costs of project implementation were experienced while Litgrid was owned by EPSO-G.

The Company considers all the arguments very persuasive and calculated negative price premium – EUR 27 075 thousand. Lietuvos Energija UAB do not agree with provided calculations and there is open dispute with counterparty. Management of EPSO-G decided to evaluate price premium conservative and include only arguments 1 and 2 that were supported by third party – Commission (Commission has provided explanations about excess profit and principles of regulatory asset base calculation in written). The Management considers that price premium should be between EUR 17 961 thousand and EUR 27 075 thousand.

In view of these assumptions, the Company assessed conservatively 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.

2.27.5 Congestion inflows

In accordance with the accounting principles described in Note 2.21 congestion inflows are recognised depending on the purpose for which such revenue is used. These purposes are stipulated in Regulation (EC) No 714/2009 of the European Parliament and of the Council. Based on the Company's decision deferred congestion revenue as at 31 December 2018 will be used for investments in the interconnections in the upcoming periods. In 2018, the Company incurred expenses in the amount of EUR 812 thousand (2017: EUR 1,445) thousand for the purpose of guaranteeing availability of the allocated capacity and recognised the same amount of congestion revenue in the statement of comprehensive income (also see Note 31).

2.27.6 Provisions for servitude compensations

The amendments as of 1 November 2017 to the Law on Electricity of the Republic of Lithuania, under which the repayment of servitudes 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. Based on estimates of the Group, total undiscounted payout amount could reach EUR 10-14 million. However, based on similar previous cases, as well as on actual number and amounts of compensations filed to the Group in August 2018 – January 2019, the best estimate of the expected amount is lower. Consequently, 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%.

2.28 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 Company/Group.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are 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 determines 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 Company/Group has 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 2018 and 2017 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 the available-for-sale financial assets (Notes 2.10 and 7) and property, plant and equipment (Notes 2.8, 2.26 and 5).

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 2018 and 2017 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 2018 and 2017.

3. Correction of comparative figures

No material corrections of comparative figures occurred in 2018.

4. Property, plant and equipment

Group	Goodwill*	Patents and licences	Computer software	Other intangible assets	Statutory servitudes*	Total
Net book amount at 31 December 2016	**-**	**220**	**1 878**	**40**	**-**	**2 138**
Additions	-	76	2 734	-	-	2 810
Reclassification between groups	-	-	8	-	-	8
Reclassification from property, plant and equipment (hereinafter "PP&E")	-	188	580	-	-	768
Amortisation charge	-	(159)	(875)	(16)	-	(1 050)
Net book amount at 31 December 2017	**-**	**325**	**4 325**	**24**	**-**	**4 674**
Net book amount at 31 December 2017						
Cost	-	828	7 601	109	-	8 538
Accumulated amortisation and impairment	-	(503)	(3 276)	(85)	-	(3 864)
Net book amount	**-**	**325**	**4 325**	**24**	**-**	**4 674**
Net book amount at 31 December 2017	**-**	**325**	**4 325**	**24**	**-**	**4 674**
Additions	61	-	3 286	-	2 300	5 647
Prepayments for PP&E	-	-	-	-	-	-
Write-offs	-	-	(8)	-	-	(8)
Reclassification from property, plant and equipment (hereinafter "PP&E")	-	-	(93)	-	-	(93)
Reclassification between groups	-	110	(110)	-	-	-
Amortisation charge	-	(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						
Cost	61	550	9 359	31	2 300	12 301
Accumulated amortisation and impairment	-	(280)	(3 131)	(23)	-	(3 434)
Net book amount	**61**	**270**	**6 228**	**8**	**2 300**	**8 867**

* The Group accounted for the recognised goodwill of EUR 61 thousand of the subsidiary Tetas UAB in additions of the intangible assets resulting from the acquired part of company (business) from Energetikos paslaugų ir rangos organizacija UAB – laboratory activities. The laboratory services include the detection of faults in the power grid and the inspection of the eliminated faults, testing of distribution and transmission grid equipment: metrological inspection of transformers, power transformer measurements, transformer oil tests.

The laboratory activities were acquired together with the assets and the employees attributed to the activities, and related obligations thereof. The goodwill arose after the acquisition cost of a part of a business outmeasured the value of the assets and liabilities taken over. The Group has plans to obtain long-term economic benefits from the acquired business of the laboratory by independently providing services to external customers and reducing the cost of other services provided by the Group.

** The Group in 'Statutory servitudes' accounted for the right to use the land lots of the third parties based on servitudes with equipped electrical networks and equipment. 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 Company and the Group recognised the intangible assets and provisions of EUR 2,300 thousand assessed 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%.

The useful life of the intangible asset is unlimited, therefore the asset is not amortized. The Company and the Group revise the possible impairment of intangible assets of statutory servitudes by comparing its recoverable amount with the carrying amount at least annually, or in cases where there is an indication of impairment.

5. Property, plant and equipment

Group	Land	Buildings	Plant and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2016	**659**	**17 332**	**633 002**	**1 206**	**12 988**	**18 528**	**683 715**
Additions	-	-	247	1 671	854	35 493	38 265
Prepayments for PP&E	-	-	-	-	-	(450)	(450)
Revaluation	-	(189)	(35 193)	198	35	-	(35 149)
Write-offs	-	(36)	(1 223)	-	(31)	-	(1 290)
Transfer to/from inventories	-	-	-	-	(104)	-	(104)
Reclassified to non-current assets held for sale	-	(14)	-	-	-	-	(14)
Transfer to PP&E	-	-	-	-		(768)	(768)
Reclassification between groups	-	174	12 385	-	1 320	(13 879)	-
Set-off of grants with non-current assets	-	-	(1 281)	-	-	(22 710)	(23 991)
Depreciation charge	-	(859)	(34 813)	(480)	(3 624)	-	(39 776)
Net book amount at 31 December 2017 (adjusted)	**659**	**16 408**	**573 124**	**2 595**	**11 438**	**16 214**	**620 438**
At 31 December 2017							
Cost	659	18 304	636 736	3 421	18 882	16 214	694 216
Accumulated depreciation	-	(1 896)	(63 612)	(826)	(7 444)	-	(73 778)
Net book amount	**659**	**16 408**	**573 124**	**2 595**	**11 438**	**16 214**	**620 438**
Net book amount at 31 December 2017	**659**	**16 408**	**573 124**	**2 595**	**11 438**	**16 214**	**620 438**
Additions	-	-	11 48	683	853	24 064	26 765
Prepayments for PP&E	-	-	-	-	-	2 017	2 017
Revaluation	(14)	(394)	(93 388)	-	(160)	-	(93 956)
Sales	-				(18)		(18)
Write-offs	-	(13)	(1 115)	-	(8)	-	(1 136)
Transfer to/from inventories	-	-	-	-	(131)	-	(131)
Reclassified to non-current assets held for sale	-	-	-	-	-	-	-
Transfer to PP&E	-	-	-	-	-	93	93
Reclassification between groups	-	335	15 377	-	1 842	(17 554)	-
Set-off of grants with non-current assets	-	-	-	-	-	(7 054)	(7 054)
Depreciation charge	-	(816)	(32 692)	(596)	(3 093)	-	(37 197)

Net book amount at 31 December 2018	**645**	**15 537**	**452 454**	**2 682**	**10 723**	**17 780**	**509 821**
At 31 December 2018							
Cost	645	16 120	473 442	4 104	12 890	17 780	524 981
Accumulated depreciation	-	(583)	(10 988)	(1 422)	(2 167)	-	(15 160)
Net book amount	**645**	**15 537**	**452 454**	**2 682**	**10 723**	**17 780**	**509 821**

Effect of downward revaluation was accounted for in the statement of comprehensive income (EUR 88,670 thousand) as well as through other comprehensive income (EUR 5,289 thousand).

Write-offs mainly represent derecognition of replaced parts of the assets during reconstruction.

In 2018, the Group capitalised part of its borrowing costs. In 2018, the total amount of capitalised borrowing costs was EUR 71 thousand (2017: EUR 192 thousand).

As at 31 December 2018, the Group had the agreements for the acquisition of non-current assets amounting to EUR 100,640 thousand (31 December 2017: EUR 30,937 thousand) that are not recognised in these financial statements.

In 2017, the Group performed revaluation of property, plant and equipment and determined its fair value corresponding to level 3 of the fair value measurement hierarchy. The assumptions used in determining the fair value of property, plant and equipment are described in more detail in Note 2.27.

Property, plant, and equipment is intially stated at acquisition cost, less grants received/receivable for the acquisition of property, property, plant, and equipment. Grants comprise financing from the EU Structural Funds, funds related to the connection of new consumers (producers) to the electricity transmission network (until 1 July 2009, as defined in the applicable accounting policies), and funds related to congestion inflows (see note 2.21 for details).

Company	Land	Buildings	Structures and equipment	Plant and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2016	**-**	**-**	**-**	**-**	**-**	**54**	**-**	**54**
Additions	-	-	-	-	-	6	-	6
Depreciation charge	-	-	-	-	-	(16)	-	(16)
Net book amount at 31 December 2017	**-**	**-**	**-**	**-**	**-**	**44**	**-**	**44**
At 31 December 2017								
Cost	**-**	**-**	**-**	**-**	**-**	68	**-**	**68**
Accumulated depreciation	-	-	-	-	-	(24)	**-**	(24)
Net book amount	**-**	**-**	**-**	**-**	**-**	**44**	**-**	**44**
Net book amount at 31 December 2017	**-**	**-**	**-**	**-**	**-**	**44**	**-**	**44**
Additions	-	-	-	-	-	3	-	3
Depreciation charge	-	-	-	-	-	(18)	-	(18)
Additions	**-**	**-**	**-**	**-**	**-**	**29**	**-**	**29**
At 31 December 2018								
Cost	**-**	**-**	**-**	**-**	**-**	71	**-**	**71**
Accumulated depreciation	**-**	**-**	**-**	**-**	**-**	(42)	**-**	(42)
Net book amount	**-**	**-**	**-**	**-**	**-**	**29**	**-**	**29**

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 2018 are as follows:

Group company	Investment cost	Impairment	Carrying amount	Ownership interest (%)
LITGRID AB	191,125	26,090	217,215	97.5
Amber Grid AB	126,529	-	126,529	96.6
BALTPOOL UAB	388		388	67.0
Total	**318,042**	**26,090**	**344,132**	

Companies of the Group in which the Company had a shareholding interest at 31 December 2017 are as follows:

Group company	Investment cost	Impairment	Carrying amount	Ownership interest (%)
LITGRID AB	217,215	-	217,215	97.5
Amber Grid AB	126,529	-	126,529	96.6
BALTPOOL UAB	388		388	67.0
Total	**344,132**	**-**	**344,132**	

The table below presents the financial information of subsidiaries holding significant minority interest:

LITGRID AB

Summarised statement of financial position	**At 31 December 2018**	**At 31 December 2017**
Property, plant and equipment	307 047	376 028
Other non-current assets	27 507	7 717
Current assets	25 934	47 348
Grants	-	22
Financial liabilities	120 870	149 746
Other non-current liabilities	12 710	13 363
Other current liabilities	31 071	21 823
Total equity	**195 837**	**246 139**
Attributable to:		
Owners of the Company	190 946	239 992
Minority interest	4 891	6 147

Summarised income statement	**2018**	**2017**
Revenue	171 949	144 357
Expenses	(215 803)	(133 001)
Financing costs, net	(1 078)	(1 111)
Profit before income tax	**(44 932)**	**10 245**
Income tax	6 842	(2 521)
Net profit (loss)	**(38 090)**	**7 724**
Minority interest	**(951)**	**193**

Summarised statement of cash flows	**2018**	**2017**
Net cash flows from (used in) operating activities	24 306	45 128
Net cash flows from (used in) investing activities	13 482	(10 708)
Net cash flows from (used in) financing activities	(37 825)	(34 594)
Net (decrease) increase in cash flows	**(37)**	**(174)**

Amber Grid AB

Summarised statement of financial position	**At 31 December 2018**	**At 31 December 2017**
Property, plant and equipment	200 028	241 973
Other non-current assets	7 089	2 681
Current assets	28 299	35 544
Grants	-	-
Financial liabilities	80 124	77 222
Other non-current liabilities	448	3376
Other current liabilities	23 248	27 579
Total equity	**131 596**	**172 021**
Attributable to:		
Owners of the Company	127 093	166 135
Minority interest	4 503	5 886

Summarised income statement	2018	2017
Revenue	54 290	64 322
Expenses	(79 978)	(76 038)
Financing costs, net	(323)	(339)
Profit before income tax	**(26 011)**	**(12 055)**
Income tax	4 419	2 194
Net profit (loss)	**(21 592)**	**(9 861)**
Minority interest	**(739)**	**(337)**

Summarised statement of cash flows	2018	2017
Net cash flows from (used in) operating activities	23 306	34 835
Net cash flows from (used in) investing activities	(12 221)	(4 250)
Net cash flows from (used in) financing activities	(17 777)	(37 825)
Net (decrease) increase in cash flows	**(6 692)**	**(7 240)**

BALTPOOL UAB

Summarised statement of financial position	At 31 December 2018	At 31 December 2017
Property, plant and equipment	23	18
Other non-current assets	18	19
Current assets	65 134	51 540
Financial liabilities	-	12 210
Other non-current liabilities	12	-
Other current liabilities	64 553	38 775
Total equity	**609**	**592**
Attributable to:		
Owners of the Company	408	397
Minority interest	201	195

Summarised income statement	2018	2017
Revenue	903	736
Expenses	(686)	(548)
Profit before income tax	217	**187**
Income tax expense	(37)	(30)
Net profit (loss)	**180**	**157**
Minority interest	**59**	**52**

Summarised statement of cash flows	2018	2017
Net cash flows from (used in) operating activities	12 307	(4 809)
Net cash flows from (used in) investing activities	(28)	(23)
Net cash flows from (used in) financing activities	(12 372)	4 846
Net (decrease) increase in cash flows	**(93)**	**14**

Investments in associates and joint ventures

Movement in the account of investments in associates and joint ventures is given below:

As described in Note 1, on 27 January 2017, the Board approved of the organisation of the sale of 20.36% ownership interest in Duomenų Logistikos Centras UAB held by LITGRID AB by the right of ownership together with the ownership interest held by Lietuvos Energija UAB. After the failure of the transaction to be concluded, on 13 June 2018, the Company's Board gave its consent to terminate the agreement on sale/purchase of 20.36% shares signed between Duomenų logistikos centras UAB and Telia Lietuva UAB and to resume the sale process of Duomenų logistikos centras UAB. As a result of active steps of the Company to sell the shares of the associate, in these financial statements the Group's investment in the associate was reclassified to held-for-sale financial assets and is included in current assets under the line item 'Other financial assets' (Note 11).

On 28 September 2016, the Extraordinary Meeting of Shareholders of LitPol Link SP.z.o.o. decided to cease the activities of LitPol Link until Polskie Sieci Elektroenergetyczne S.A. and LITGRID AB passed a decision to carry out the joint project, but for not longer than 24 months. The impairment of the Group's investment in LitPol Link Sp.z.o.o. as at 31 December 2017 and 2016 amounted to EUR 295 thousand.

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	-	-

The financial position and results of operations of the associate and the joint venture as at 31 December 2017 and for the year then ended:

	Assets	Liabilities	Sales revenue	Net profit (loss)
Duomenų logistikos centras UAB	5 577	672	3 836	436
LitPol Link Sp.z.o.o.	114	1	-	(6)

7. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (2017: assets were classified as available-for-sale) consisted of the shares of the following entities:

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
NordPool Spot (2%)	2,693	-	2,693	-
Carrying amount	**2,693**	**-**	**2,693**	**-**

On 19 April 2018, Nord Pool AS shareholders - Nordic and Baltic Transmission System Operators (TSOs) have decided to reorganize the Company by separating the functions of the European Market Coupling Operator AS and the electricity exchange operator (Nord Pool AS) by transferring them to individual legal entities and creating a corporate group structure. From 19 April 2018, Litgrid owns 2% (306 shares) shares of the management company Nord Pool Holding AS, which 100% manages Nord Pool AS, 100% European Market Coupling Operator AS. During the aforementioned reorganization, the Company retained the benefits of the investments to the financial assets available for sale and the risk of managing in the same volume, therefore the financial statements did not record the transfer and acquisition of financial assets.

As at 31 December 2018 and 2017, the Company measured the shares of NordPool at fair value determined using the discounted cash flow method. The Company used a discount rate of 7.5% as at 31 December 2018 and 2017. There were no changes in the fair value as at 31 December 2018 and 2017.

8. Inventories and non-current assets held for sale

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Raw materials, spare parts, other consumables, and assets held for sale	2 042	-	1 925	-
Natural gas	2 444	-	1 814	-
Assets held for sale	19	-	30	-
Less: write-down allowance	(603)	-	(722)	-
Carrying amount	**3 902**	**-**	**3 047**	**-**

As at 31 December 2018, the carrying amount of the Group's inventories stated at net realisable value was EUR 992 thousand (31 December 2017: EUR 993 thousand). The inventories recognised as expenses amounted to EUR 21,159 thousand (31 December 2017: EUR 18,627 thousand).

Movements in write-down allowance for inventories in 2018 and 2017 are indicated below:

	Group 2018	Company 2018	Group 2017	Company 2017
Carrying amount as at 1 January	722	-	653	-
Change in write-down allowance	(119)	-	69	-
Carrying amount at 31 December	**603**	**-**	**722**	**-**

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

9. Trade receivables

Trade receivables comprise as follows:

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Receivables from transmission of electricity	18 513	-	20 538	-
Receivables from transmission and transit of gas	6 076	-	7 499	-
Receivables for contractual works and other services	4 221	-	5 267	-
Other trade receivables	1 349	-	2 313	-
Less: impairment of trade receivables	(3 871)	-	(6 539)	-
Carrying amount	**26 288**	**-**	**29 078**	**-**

The fair value of current trade receivables approximate their carrying amount.

In 2018, the Group recognised an additional reversal of impairment of EUR 564 thousand (2017: reversal of impairment of EUR 173 thousand) for individually assessed doubtful receivables related to debts for the purchased energy and debts of the clients of Amber Grid AB amounting to EUR 87 thousand (2017: EUR 41 thousand). The Group also accounted for write-off of impairment of EUR 2,426 thousand (2017: EUR 737 thousand) in relation to bad debts. Bad debts are written off the balance sheet after they are recognized as fully irrecoverable, usually following a formal liquidation of the customer (legal entity) resulting from finalization of the bankruptcy procedures.

The amount receivable after one year, which amounted to EUR 998 thousand, comprised the payment for the connection of Intergas UAB due until 31 December 2021. The fulfilment of obligations is secured by the issued bank guarantee.

The ageing analysis of trade receivables not impaired is given below:

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Not past due	25 862	-	27 788	-
Overdue up to 30 days	365	-	1 137	-
Overdue from 30 to 60 days	-	-	20	-
Overdue from 60 to 90 days	6	-	77	-
Overdue more than 90 days	55	-	56	-
Total	**26 288**	**-**	**29 078**	**-**

10. Other amounts receivable

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Administered PSO funds receivable	51 003	-	45 852	-
Administered LNG Terminal funds receivable	14 942	-	14 186	-
PSO funds receivable	-	-	-	-
VAT receivable from the state budget	3	-	7	6
Grants receivable	1 715	-	24 292	-
Other accrued income	493	-	644	-
Loan receivables from subsidiaries	150	12 517	120	-
Other receivables	1 377	386	1 115	-
Less: impairment of other receivables	(23)	-	(9)	-
Carrying amount	**69 660**	**12 903**	**86 207**	**6**

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

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

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Not past due	31 763	12 903	52 089	6
Overdue up to 30 days	18 191	-	2 592	-
Overdue from 30 to 60 days	16 606	-	1 211	-
60 to 90 days	1 865	-	356	-
More than 90 days	1 235	-	29 959	-
Total	**69 660**	**12 903**	**86 207**	**6**

11. Other financial assets

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Administered LNG Terminal funds	6 998	-	-	
Administered LNG Terminal funds receivable	56	-	91	-
Funds deposited for guarantees and deposits	1 769	-	1 877	-
Funds received for congestion management*	4 922	-	6 107	-
Available-for-sale financial assets	752	-	752	-
Monetary contributions of participants of the exchange	16 943	-	5 014	-
Carrying amount	**31 440**	**-**	**13 841**	**-**

* The long-term share of the balance of the unused funds of the congestion management revenue amounted to EUR 10,439 thousand as at 31 December 2018 and in the statement of financial position it is accounted for in long term assets. The short-term share of the funds of the congestion management revenue (aimed to use within 12 months) amounted to EUR 4,922 thousand as at 31 December 2018.

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 1, held-for-sale financial assets consist of 20.36% of shares of Duomenų Logistikos Centras UAB.

As at 31 December 2018 and 2017, the carrying amount of other financial assets approximates their fair value.

12. Cash and cash equivalents

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Cash at bank	9 913	8 669	8 075	13
Carrying amount	**9 913**	**8 669**	**8 075**	**13**

The carrying amount of cash and cash equivalents approximates the fair value.

13. Share capital

As at 31 December 2018 and 2017, 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 2018 and 31 December 2076. 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.

14. 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 2016	**6 433**	**(965)**	**5 468**
Depreciation of revaluation reserve	(614)	91	(523)
Write-offs of property, plant and equipment	(63)	8	(55)
Change in ownership interest in the subsidiary	417	(61)	356
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**

15. 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 2018, the legal reserve was fully formed.

Reserve for change in fair value of financial assets

Reserve of changes in fair value of financial assets arises from revaluation of financial assets resulting in increase in value. In accordance with the Lithuanian legislation, this reserve can be used to increase the share capital. However, this reserve cannot be used to reduce losses.

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 the decision was made to approve the proposed profit appropriation and to transfer EUR 50 thousand from retained earnings to other reserves.

16. Dividends

During the Ordinary General Meeting of Shareholders of EPSO-G UAB held on 24 April 2018, the decision was made in relation to the payment of dividends in the amount of EUR 682 thousand.

On 9 November 2016, the Lithuanian Government passed Resolution No 1116 whereby it was established that EPSO-G UAB will 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.

17. Grants

Grants comprise grants for the acquisition of non-current assets. Movements in grants in 2018 and 2017 were as follows:

	Group
Balance at 31 December 2016	**38**
Grants received during the period	13 835
Congestion revenue	10 163
Transferred to property, plant and equipment	(23 991)
Grants used for the compensation of expenses	(23)
Balance at 31 December 2017	**22**
Grants received during the period	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**

18. Borrowings

Borrowings of the Group/Company were as follows:

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Non-current borrowings				
Bank borrowings	154 605	5 120	175 366	7 680
Current borrowings				
Current portion of non-current borrowings	34 761	2 560	28 531	2 560
Overdraft	6 889	-	49 187	2 321
Total borrowings	**196 255**	**7 680**	**253 084**	**12 561**

Non-current borrowings grouped by maturity profile:

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Between 1 and 2 years	30 403	2 560	40 761	2 560
From 2 to 5 years	73 932	5 120	65 762	5 120
More than 5 years	50 270	-	68 843	-
Total	**154 605**	**7 680**	**175 366**	**7 680**

As at 31 December 2018 and 2017, no significant assets were pledged by the Group/Company.

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

As at 31 December 2018, the weighted average interest rate on the Group's and the Company's borrowings was 0.77% and 0.52%, respectively (31 December 2017: 0.79% and 0.52%, respectively).

As at 31 December 2018, the Group's unwithdrawn balance of loans and overdrafts amounted to EUR 22,638 thousand (31 December 2017: EUR 22,638 thousand).

On 1 March 2017, the Company signed the agreement with SEB Bankas AB according to which an overdraft of EUR 4,000 thousand was granted to the Company by 1 March 2019.

Reconciliation of net debt balances and cash flows from financing activities of 2018 and 2017:

Group	Cash	Borrowings	Financial lease liabilities	Total
Net debt as at 31 December 2017	**8 075**	**(253 084)**	**(1 263)**	**(246 272)**
Additions	-	(20 000)	443	(19 557)
(Decrease) in cash and cash equivalents	1 838	2 560	-	4 362
Change in overdraft	-	42 298	-	42 298
Loan repaid	-	31 971	-	31 971
Net debt as at 31 December 2018	**9 913**	**(196 255)**	**(820)**	**(187 198)**

Company	Cash	Borrowings	Total
Net debt as at 31 December 2017	**13**	**(12 561)**	**(12 548)**
(Decrease) in cash and cash equivalents	8 656	2 560	11 216
Change in overdraft	-	2 321	2 321
Loan repaid	-	-	-
Net debt as at 31 December 2018	**8 669**	**(7 680)**	**989**

19. Finance lease liabilities

Group	At 31 December 2018		At 31 December 2017	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Financial lease payments:				
Within the first year	234	221	462	443
Within the second- fifth years	615	599	849	820
Minimum finance lease payments	**849**	**820**	**1 311**	**1 263**
Less: future finance charge	(29)	-	(48)	-
Present value of minimum finance lease payments	**820**	**820**	**1 263**	**1 263**

In 2017, the Group company TETAS UAB acquired motor vehicles under finance lease with the net book value of EUR 1,194 as at 31 December 2018 (2017: EUR 1,332).

20. Other non-current amounts payable and liabilities

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Amounts payable for the shares of LITGRID AB	156 574	156 574	169 856	169 856
Advance amounts received from connection of new consumers	609	-	609	-
Provisions for pension benefit obligations to employees	664	-	471	-
Guarantee provisions	6	-	5	-
Provisions for servitude compensation	1100	-	-	-
Other	12	-	-	-
Carrying amount	**158 965**	**156 574**	**170 941**	**169 856**

Under the agreement for sale/purchase of shares signed on 27 September 2012 with Lietuvos Energija UAB, the outstanding amount of the price for the shares of LITGRID AB without adjustment to the final price (as described in Note 2.27) was equal to EUR 156,574 thousand as at 31 December 2018 (2017: EUR 169,856 thousand). Accrued interest payable of EUR 282 thousand as at 31 December 2018 (31 December 2017: EUR 276 thousand) was recorded within 'Other current amounts payable and liabilities'.

Provisions for pension benefit obligations to employees represent amounts payable calculated according to the Lithuanian laws (Note 2.18).

As set out in Note 4, on 31 December 2018, the Company and the Group recognised the intangible assets and provisions of EUR 2,300 thousand assessed on the basis of available information on servitudes used and expected compensation amount. Current share of provisions of servitude obligations is accounted for in current liabilities 'Other amounts payable and current liabilities' (Note 4).

21. Current income tax and deferred income tax

Income tax expenses comprise as follows:

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Current income tax	3 272	-	6 352	-
Deferred income tax (benefit)	(17 232)	(386)	(6 319)	(12)
Income tax expenses (benefit) for the reporting period	**(13 960)**	**(386)**	**33**	**(12)**

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	PP&E revaluation (impairment)	Impairment of assets	Accrued expenses/ income	Other	Total
At 31 December 2016	**18 124**	**20 982**	**1 595**	**2 885**	**43 586**
Recognised in profit and loss	(1 542)	4 161	(167)	(55)	2 397
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**

Deferred income tax liabilities	Revaluation of PP&E (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Effect of capitalisation of interest	Total
At 31 December 2016	**(27 014)**	**(28 158)**	**(1 984)**	**(264)**	**(57 420)**
Recognised in profit and loss	2 368	1 415	156	(16)	3 923
Recognised in other comprehensive income	(64)	-	-	-	(64)
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)**

Net deferred income tax assets at 31 December 2017	**81**
Net deferred income tax assets at 31 December 2018	**7,717**
Net deferred income tax liability at 31 December 2017	**(7,659)**
Net deferred income tax liability at 31 December 2018	**0**

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 2018, the Company took advantage of the income tax relief and reduced the income tax expenses for the year 2018 by the total amount of EUR 1,653 thousand (2017: EUR 1,955 thousand).

As at 31 December 2017, the Company had accumulated tax losses amounting to EUR 4,038 thousand (2017: EUR 19,685 thousand) on which no deferred income tax was recognised as the Company's management does not expect to earn taxable profit in the upcoming year. Tax losses can be carried forward for unlimited period.

On 29 June 2018, the Board of EPSO-G UAB adopted the decision to conclude agreements between EPSO-G UAB and the subsidiaries LITGRID AB and Amber Grid AB regarding the transfer of tax losses. Under these agreements, the subsidiaries paid EPSO-G UAB 15 per cent of the amount of the transferred tax losses: LITGRID AB paid EUR 680 thousand for the year 2014 and EUR 680 thousand for the year 2015, Amber Grid AB paid EUR 563 thousand for the year 2016 and EUR 430 thousand for the year 2017. These transactions affected EPSO-G UAB revenue. Tax loss transfer transactions are beneficial to the Group as a whole, as they provide a legal basis for tax benefits. In the opinion of EPSO-G UAB audit committee as of 18 June 2018, the transaction is fair with regard to all shareholders of LITGRID AB and Amber Grid AB, the transfer of tax losses is carried out in accordance with the procedure established by the Law on Corporate Income Tax.

On 26 June 2019, the Board of the LITGRID AB adopted the decision to conclude agreements between the company EPSO-G UAB and LITGRID AB regarding the remunerated transfer of tax losses. The amount of remunerated transferred tax losses from EPSO-G UAB is 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 As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Profit (loss) before income tax	**(61 680)**	**13 930**	**(2 763)**	**35 341**
Income tax calculated at a rate of 15%	(9 252)	2 090	(414)	5 301
Investment relief effect	(517)	-	(383)	-
Unrecognised deferred income tax on tax losses	(6)	6	390	433
Tax effect of non-taxable income and non-deductible expenses	(798)	(2 482)	425	(5 746)
Previous year adjustments	(1 381)	-	15	-
Utilization of previously unrecognized tax losses	(2 006)			
Income tax expense (benefit) recognised in profit or loss of the statement of comprehensive income	**(13 960)**	**(386)**	**33**	**(12)**

22. Trade payables

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Amounts payable for electricity	11 587	-	6 705	-
Amounts payable for natural gas	1 561	-	522	-
Amounts payable for contractual works, services	7 269	31	6 319	35
Amounts payable for property, plant and equipment and inventories	7 704	-	11 101	-
Amounts payable for electricity transit	-	-	-	-
Other trade payables	11	-	45	-
Carrying amount	**28 132**	**31**	**24 692**	**35**

The fair value of trade payables approximates their carrying amounts.

23. Advance amounts received

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Prepayments received from stock exchange participants	10 087	-	-	-
Advances received from new customers*	712	-	328	-
Other advance amounts received	229	-	725	-
Carrying amount	**11 028**	**-**	**1 053**	**-**

* 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.

24. Other current amounts payable and liabilities

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Administered PSO funds payable	9 466	-	15 238	-
Difference between PSO service funds collected and disbursed	-	-	116	-
Payable administered LNG Terminal funds	12 311	-	11 356	-
Accrued administered LNG Terminal funds*	2 684	-	2 924	-
Current portion of the amount payable for shares of LITGRID AB	-	-	-	-
Advance amounts received from connection of new consumers*	-	-	-	-

Accrued expenses relating to vacation reserve	1 922	67	1 622	60
VAT payable	2 297	2	2 110	-
Real estate tax payable	965	-	942	-
Dividends payable	556	-	520	-
Interest payable	348	283	335	276
Accrued other expenses	47 911	14	19 376	16
Accrued liabilities for electricity	-	-	-	-
Guarantee to secure fulfilment of obligations **	7 517	-	-	-
Provisions for servitude compensation	1 200	-	-	-
Congestion management revenue	4 922			
Other payables and current liabilities	975	-	2 670	-
Carrying amount	**94 734**	**669**	**59 319**	**628**

* 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.

As set out in Note 4, on 31 December 2018 the Company and the Group recognized the intangible assets and provisions of EUR 2,300 thousand assessed on the basis of available information on servitudes used and expected compensation amount. Non-current share of provisions of servitude obligations is accounted for in non-current liabilities 'Other non-current amounts payable and liabilities' (Note 20).

The fair value of current other amounts payable approximates their carrying amounts.

25. Revenue, income and expenses attributable to electricity and related services

Revenue and income from sale of electricity and relates services comprised as follows:

	Group 2018	Company 2018	Group 2017	Company 2017
Revenue from contract with customers				
Electricity transmission services	66 508	-	68 269	-
Trade in balancing/regulating electricity	26 441	-	17 779	-
Capacity reserve services	59 058	-	42 530	-
Revenue from other sale of electricity and related services	5 199	-	4 063	-
Revenue from connection of new customers	4 278	-	719	-
Revenue from the administration of guarantees of origin	48	-	-	-
Other revenue				
Revenue from PSO services	7 414	-	8 487	-
Other income				
Congestion revenue	812	-	1 445	-
Total	**169 758**	**-**	**143 292**	**-**

Total revenue from contract with customers in 2018 amounted to EUR 161,532 thousand (2017: EUR 133,360 thousand). In 2018, revenue from electricity transmission services decreased by 2.6% up to EUR 66.5 million compared to 2017. Revenue growth was caused by a higher volume of electricity transmitted, as the actual price for electricity transmission was 7.2% lower compared to 2017.

Revenue from sale of balancing/regulating electricity increased 49% to EUR 26.4 million. This revenue increased mainly due to increase in the volume of balancing/regulating electricity sold resulting from the higher demand for balancing electricity suppliers as well as demand for ensurance of the allocated capacity (the electricity volume traded on the power exchange) of the electricity interconnections with Sweden and Poland.

Revenue from system services grew by 39% to EUR 59.1 million. Such growth was mainly caused by a 35% higher tariff for system services from 1 January 2018, as established by the Commission the volume of the system services that grew by 4%, and the declared power exceeded by the network users (stated in agreements), where the double system services price is paid.

Expenses attributable to electricity comprised as follows:

	Group	
	2018	2017
Electricity expenses for compensation of technological losses	22 639	15 674
Expenses for system services	59 781	40 391
Expenses for PSO services (balancing of generation using renewable energy sources)	7 300	8 409
Expenses for balancing/regulating electricity	26 006	12 714
Expenses for the participation in the ITC mechanism of the European Network of Transmission System Operators for Electricity (ENTSO-e)	2 455	1 448
Expenses for guaranteeing the availability of allocated capacities of the interconnections	812	1 445
Total	**118 993**	**80 081**

In 2018, electricity expenses increased by 48% compared to 2017. Balancing (regulating) electricity costs increased by 105% to EUR 26 million. The system service costs increased by 48% to EUR 59.8 million. Costs of compensating for electricity purchase technological losses in the transmission grid increased by 44% to EUR 22,6 million.

26. Revenue from natural gas transmission and related services

	Group 2018	Company 2018	Group 2017	Company 2017
Income from natural gas transmission in the territory of Lithuania	44 092	-	57 012	-
Income from balancing services in the transmission system	9 832	-	6 964	-
Total revenue from contract with customers	**53 924**	**-**	**63 976**	**-**

27. Other revenue and other income

	Group 2018	Company 2018	Group 2017	Company 2017
Other revenue				
Repairs and other services	18 603	-	15 906	-
Lease of assets	562	-	709	-
Engineering works	369	-	280	-
LNG terminal administration funds	125	-	114	-
Other revenue	2 448	296	927	181
Other income				
Tax loss transfer	-	2 353	-	-
Grants recognised as income	44	-	42	-
Tax loss transfer	-		-	-
Total	**22 151**	**2 649**	**17 978**	**181**

In the table above, repairs and other services as well as engineering works are revenue from construction contracts with customers.

Tax loss transfer is the tax losses of the Company calculated for the period and transferred to subsidiaries for a consideration. Transfer is possible based on relevant laws and regulations applicable to corporate income tax in Lithuania.

28. Related-party transactions

The Company's/Group's related parties in 2018 and 2017 were as follows:

- the Ministry of Energy of the Republic of Lithuania (controlling shareholder of the Company);
- the Company's subsidiaries;
- the Company's associates and joint ventures;
- the Company's management.
- all state-controlled companies or those under significant influence.

Transactions with related parties are carried out on an arm's length basis in line with the tariffs approved under relevant legal acts or in accordance with the requirements of the Law on Public Procurement. As set in IFRSs, the Group/Company did not disclose information on transactions with other entities controlled by the state conducted in line with the tariffs approved under relevant legal acts or in accordance with the requirements of the Law on Public Procurement, except for Lietuvos Energija UAB with which the Group/Company has individually significant transactions.

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 party	Finance income	Finance costs	Amounts payable	Amounts receivable	Purchases	Sales
Lietuvos energija, UAB group companies	-	1 124	176 237	40 741	202 993	336 948
Other companies controlled by the state	-	-	9 739	605	63 278	3 965
Associates of the Group	62	-	35	27	185	295
Total	**62**	**1 124**	**186 011**	**41 373**	**266 456**	**341 208**

* Payable incl. the estimated price premium.

2018 UAB EPSO-G provided management holding services to its subsidiaries for EUR 295 thousand (2017 – EUR 195 thousand).

The Group's transactions conducted with related parties in 2017 and balances arising from these transactions as at 31 December 2017 were as follows:

Related party	Finance income	Finance costs	Amounts payable	Amounts receivable	Purchases	Sales
Lietuvos energija, UAB group companies	-	1 336	193 806	37 424	217 381	320 627
Other companies controlled by the state	-	-	9 430	739	66 921	4 339
Associates of the Group	-	12	53	33	240	580
Total	**-**	**1 348**	**203 289**	**38 196**	**284 542**	**325 546**

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 party	Finance income	Finance costs	Amounts payable	Amounts receivable	Purchases	Sales
Lietuvos energija, UAB group companies	-	1 102	156 856*	12 957	-	-
Other companies controlled by the state	-	-	-	-	-	-
Subsidiaries of the Group	27 256	-	-	-	-	295
Total	**27 256**	**1 336**	**174 811**	**12 957**	**-**	**295**

* Payable incl. the estimated price premium.

The Company's transactions conducted with related parties in 2017 and balances arising from these transactions as at 31 December 2017 were as follows:

Related party	Finance income	Finance costs	Amounts payable	Amounts receivable	Purchases	Sales
Lietuvos energija, UAB group companies	-	1 336	170 132*	-	-	-
Other companies controlled by the state						
Associates of the Group	38 029	-	-	-	-	181
Total	**38 029**	**1 336**	**170 132**	**-**	**-**	**181**

Compensation to key management personnel

	Group 2018	Company 2018	Group 2017	Company 2017
Employment-related payments	1 744	333	1 726	378
Whereof: Termination benefits	35	-	55	24
Number of key management personnel (average annual)	29	5	27	5

Key management personnel consists of heads of administration and their deputies (directors of departments).

29. Financial risk management

The Group and the Company are exposed to financial risks in their operations. In managing these risks, the Group companies seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance. The Company abides by the budget management policy and the financial risk management policy of the EPSO-G UAB group entities, as approved by the Board of EPSO-G UAB.

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

Financial assets	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Trade receivables	26 660	54	29 150	-
Other receivables	69 657	12 903	86 200	-
Other financial assets	31 333	-	13 841	-
Cash and cash equivalents	9 877	8 669	8 075	13
2018: Financial assets at amortized cost (2017: Loans and receivables)	**137 527**	**21 626**	**137 266**	**13**
Other financial assets				
2018: Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets)	2 693	-	2 693	-
Total financial assets	**140 220**	**21 626**	**139 959**	**13**

Financial liabilities	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Liability for acquisition of LITGRID AB	156 574	156 574	169 856	169 856
Borrowings	208 772	7 680	253 084	12 561
Finance lease liabilities	820	-	1 263	-
Trade payables	27 665	31	24 692	35
Other amounts payable and liabilities	59 857	81	36 872	76
Total	**453 688**	**164 366**	**485 767**	**182 528**

Credit risk

As at 31 December 2018 and 31 December 2017, credit risk was related to the following items:

	Group As at 31 December 2018	Company As at 31 December 2018	Group As at 31 December 2017	Company As at 31 December 2017
Financial assets at amortized cost	102 555	21 626	105 760	13

The Group has a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, amounts receivables from which accounted for approximately 77% as at 31 December 2018 (31 December 2017: 66%) of the Group's total trade receivables (financial assets). As at 31 December 2018, amounts payable by the major customer, distribution network operator Energijos skirstymo operatorius AB, accounted for 54% (31 December 2017: 30%) of the Group's total receivables (financial assets). Receivable administered PSO and LNG Terminal funds from *Other amounts receivable* are not included in calculation of credit risk. If these funds were not collected, the Group would not incur any loss because the Group is not a beneficiary, but an administrator.

The Group and the Company invest their free liquid funds only in low risk money market and debt instruments, i.e. time deposits, bonds of creditworthy financial institutions, and government securities. When making investments the priority objective is to ensure the security of funds and in pursue of this objective to maximise return on investments. Investments are made only in debt financial instruments of financial institutions or governments with not lower than A- rating according to Fitch Rating agency (or equivalent rating of other rating agencies). The tables below provide the ratings of the banks where the Group and the Company hold their cash and cash equivalents (Note 12) and other financial assets (Note 11):

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

* The ratings assigned to the parent banks as at 31 December 2018.

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/Company's trade and other receivables see Notes 9 and 10.

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 2018, therefore its exposure to liquidity risk is not significant. As at 31 December 2018, the Group's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 0.90 and 0.87, respectively (31 December 2017: 0.82 and 0.80, respectively). The Company's current and quick ratios as at 31 December 2018 were 6.64 and 6.64, respectively (31 December 2017: 0.01 and 0.01, 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 loan 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 year 2 and year 5	After 5 years
At 31 December 2018				
Trade and other amounts payable	42 858	2 264	157 933	-
Borrowings	8 427	49 412	107217	68 645
At 31 December 2017				
Trade and other payables	39 398	1 492	178 947	-
Borrowings	2 877	61 834	114 515	70 920

Company	Up to 3 months	Between 4 months and 1 year	Between year 2 and year 5	After 5 years
At 31 December 2018				
Trade and other amounts payable	307	1 566	157 334	-
Borrowings	10	2 584	5 147	-
At 31 December 2017				
Trade and other amounts payable	305	826	178 127	-
Borrowings	13	2 594	11 741	-

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 402 thousand impact on the Group's profit before tax as at 31 December 2018 (2017: EUR 460 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 2018, the Company did not take any measures to mitigate the natural gas price risk.

30. 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, time 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).

31. Deferred income

	Group	
	At 31 December 2018	At 31 December 2017
Deferred revenue at the beginning of the period	**8 065**	**9 501**
Congestion management revenue received during the period	8 018	10 206
Reclassified to property, plant and equipment	(2 939)	(10 163)
Congestion management revenue recognised as income during the period	(811)	(1 445)
Utilised during the period (excl. congestion management revenue)	(34)	(34)
Transfer of balance to retained profit (loss)	(1 467)	
Deferred revenue at the end of the period	**10 832**	**8 065**

The principles of receipt and use of the congestion management revenue are set out in Note 2.21. As at 31 December 2018 the unused balance of the congestion management revenue amounted to EUR 15,754 thousand, the projected use is specified in Note 3 of this Explanatory Note.

The Group in its statement of cash flows accounted for the difference between the congestion management revenue received during the period and compensated disconnection costs as revenue from investing activities, with regard to their prospective use for investment financing: in 2018 – EUR 12,208 thousand (2017: EUR 8,691 thousand).

32. Contingent liabilities

Litigations

LITGRID AB group litigations

On 26 January 2016, a claim was received from Tetas UAB with the request to recognise the Company's set-off of EUR 249,707.73 default interest in total charged against amounts payable to contractor Tetas UAB for delay in the implementation of the reconstruction works of 110/35/10 kV Mariai transformer substation as null and void and to award from the Company this amount owed, interest on late payment, procedural interest, litigation expenses amounting to EUR 12,734.10.
On 30 October 2017, the court of first instance dismissed the claim and recognised LITGRI AB's set-off as legitimate and grounded. On 30 November 2017, Tetas UAB filed an appeal. On 8 November 2018, the Court of Appeal of Lithuania decided to leave the decision of the court of the first instance dated 30 October 2017 unchanged, i.e. to declare the set-off of LITGRID AB legal and reasonable. The company has restored the provision of EUR 201 thousand made in earlier periods.

On 6 March 2017, A.Žilinskis ir Ko UAB filed a claim against the Company with request to recognise the set-off of a homogeneous counter-claim as null and void and to award payment for construction works and interest on late payment. The claim amount was equal to EUR 1,021,804.16. The court of first instance satisfied the claim in full. The court awarded to A. Žilinskis ir Ko UAB as follows: amount of EUR 953,175.53 for the construction works, amount of EUR 68,628.63 for interest on late payment, 8% annual interest on amount awarded in relation to the civil case payable from the date of its initiation (9 March 2017) to the date the court decision has been executed in full, as well as litigation expenses of EUR 13,262.61. Litgrid AB filed an appeal. On 4 December 2018, the decision was adopted by the Court of Appeal of Lithuanian, under which the decision of Vilnius Regional Court was changed: the court awarded LITGRID AB to pay the claimant A. Žilinskis ir Ko UAB the debt amounting to EUR 236,599.63 and amount of EUR 1,010.57 for interest on late payment. The court dismissed the other part of the claim.
The Company, in the execution of the judgement, transferred EUR 240,904.20 to A. Žilinskis ir Ko UAB and restored the provision amounting to EUR 900,286.36 made in earlier periods.

On 26 May 2017, A.Žilinskis ir Ko UAB filed a claim against the Company to award payment for additional construction works. The amount of the claim – EUR 157,833.7. The claimant argued that it had completed the additional construction works, unpaid yet by the Company. The court of first instance satisfied the claim in full. In favour of the A. Žilinskis ir Ko UAB, it awarded EUR 157,833.77 for the completed additional construction works, 8 (eight) per cent annual interest on amount awarded (EUR 157,833.77 EUR) payable from the date of the

case initiation (31 May 2017) to the date the court decision is executed in full, stamp duty of EUR 2,053 as well as litigation expenses of EUR 6,833.11. LITGRID AB filed an appeal.
On 14 November 2018, the Court of Appeal of Lithuanian left the decision of the court of first instance unchanged. The Company, in the execution of the judgement, payed A. Žilinskis ir Ko UAB the awarded amount.

Other disputes

On 22 April 2016, LITGRID AB filed a claim to Kaunas Regional Court in relation to the payment for electricity transmission services provided by LITGRID AB. Under the agreement for electricity transmission services No 432-2010-032E/305F/SUT-59-10 dated 1 July 2010 (updated as from 1 January 2013), Achema AB failed to make payments of EUR 86,323.72 (incl. VAT) for the services provided during January-February 2016. On 24 March 2017, the Court satisfied the Company's claim in full: ordered Achema AB to pay EUR 87,590.92 of the debt, plus 6% procedural interest thereon for the period from the date of initiation of court proceedings to a complete execution of the court order, plus litigation costs of EUR 1,567.73 in favour of LITGRID AB. Achema AB filed an appeal.
The Court of Appeal of Lithuania under the ruling of 8 March 2018 decided to renew the case hearing substantially and addressed the Supreme Administrative Court of Lithuania (hereinafter – SACL) with the request to inspect whether the provision of Item 1 of Annex to NCCPE Resolution No 03-696 of 30 December (Procedures for application of prices for electricity transmission services approved under the decision No 12.1 of the Board of LITGRID AB dated 23 December 2015 (protocol No 69), that "under these procedures the prices of electricity transmission services applied by the electricity transmission system operator LITGRID AB, the procedure for their application and essential conditions established from 1 January 2016" do not contradict Article 69 (9) of the Law on Electricity of the Republic of Lithuania. Under the decision of SACL of 20 September 2018 in other administrative case No eI-13-822/822 (the Court of Appeal of Lithuania vs. NCCPE) it was decided to acknowledge that the provision of Item 1 of Annex to NCCPE Resolution No 03-696 of 30 December 2015 contradicts Article 69 (9) of the Law on Electricity (version of the law in force as of 30 December 2015) providing for the entry into force of newly announced prices and tariffs no earlier than 2 months after their publication.
On 13 December 2018, Kaunas Regional Court adopted the decision under which the decision of Kaunas Regional Court dated 24 March 2017 was annulled, the claim of LITGRID AB was dismissed and litigation costs of EUR 6,725.54 in favour of Achema AB were awarded.

On 13 May 2016, the claim of Achema AB was filed against the defendants LITGRID AB and TETAS UAB, under which it is requested to compensate for the loss of EUR 2,326,964.40 emerged after electricity supply disruption in the ammonia department of Achema AB. On 17 February 2017, a judgement was passed regarding the dismissal of the claim in relation to unearned revenue of EUR 1,759,864.34. In the case of 9 March 2017 the performance of an examination was assigned, the case was suspended. On 22 September 2017, a forensic examination report was received. The conclusions of the court's assigned forensic examination were unfavourable for the Company, however experts questioned during the court hearing approved that electricity supply disruption in the ammonia department of Achema AB occurred partly due to the fault of the Company itself. The case hearing is further proceeded at the court of first instance. The next court hearing which will deal with the substance of the case is scheduled for 12 March 2019.
Projected outcome: The outcome at this stage of the case is not clear, therefore the provision in amount of EUR 567,100.06 was recognised.

On 3 September 2017, the Company filed a complaint to Vilnius Regional Administrative Court against the administrative statements passed by the Public Procurement Office and Lithuanian Business Support Agency in relation to the procurement of 'Construction of 110kV electricity transmission line Kretinga-Benaičiai WP' carried out by the Company during 2014-2015. The object of the procurement is financed in part from the EU investments. While approaching to the end of performance of the procurement agreement, the Public Procurement Office carried out an assessment at the request of the Lithuanian Business Support Agency and concluded on 3 August 2017 that LITGRID's assessment of an exceptionally low price of the supplier which was awarded the contract was inappropriate, and that LITGRID failed to comply with the principles of rational use of resources, transparency and equality. Consequently, following the provision of the above-mentioned conclusions, on 24 August 2017 the Lithuanian Business Support Agency passed a decision, whereby it established that LITGRID infringed the procedures of public procurement and imposed a financial sanction of 25% from eligible project funds or EUR 486,927.25 (financing from the EU funds was reduced by EUR 243,463.62). The Company disagreed with the Public Procurement Office's conclusion and the
Lithuanian Business Support Agency's decision and appealed against them to court with request to repeal them and suspend their validity (including the prohibition of deduction by Public Procurement Office the financial sanction estimated in the decision from the Company's submitted appeals according to the related project).The court accepted the appeal, but refused to apply any enforcement measures and did not suspend the validity of administrative statements filed in respect of the Company. The Lithuanian Business Support Agency and Public Procurement Office disagreed with the appeal and submitted their commentaries to the court. On 18 January 2018, Vilnius Regional Administrative Court ruled to dismiss the claim. The appeal has been filed, currently, the case is heard by the 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. Legal proceedings are currently held with respect to

overdue amounts receivable. Both cases were adjourned until the enactment of the final ruling at the General Court of the European Union.

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.

Vilnius Regional Court has been hearing the case under Kauno termofikacijos elektrinė UAB (hereinafter – KTE), the plaintiff's, claim as of 5 April 2018, based on which KTE requires to acknowledge that the defendant, the Company, has no right of claim of EUR 133 thousand to KTE for exceeding natural gas consumption capacities in 2017 and requests the Court to oblige the Company to recalculate the additional component amount for exceeding the natural gas consumption capacities in 2017. The Company objects to KTE's lodged claims and correspondingly has submitted a statement of defence at Vilnius Regional Court with a requirement to dismiss the appeal as unfounded. Vilnius Regional Court scheduled the court hearing on 25 July 2018. Under the decision of Vilnius Regional Court dated 18 August 2018, the court dismissed the appeal of KTE as unfounded and ordered to bear the costs incurred for the procedure on the behalf of the Company. On 12 September 2018, KTE has brought an appeal to the Lithuanian Court of Appeal against the above-mentioned court decision. On 8 October 2018, the Company lodged its defence to KTE's appeal. The hearing date of KTE's appeal has not been scheduled yet.

Amber Grid AB addressed the District Court of the City of Vilnius regarding the issue of the court order for the debtor Geros dujos UAB with the request to adjudge EUR 31 thousand, out of which EUR 3 thousand - for transmission services, EUR 11 thousand - for balancing services and EUR 17 thousand for the additional natural gas supply security component along with the natural gas transmission service and EUR 0.5 thousand of interest of the total amount outstanding. On 18 December 2018, the court adopted the court's order. At present, the court order's entry into force is pending.

BALTPOOL UAB litigations

Litigations ended in 2017 which might have impact on the Company's rights and obligations

Vilnius Regional Court filed the appeal of the claimant, the agricultural cooperative Pynauja, against the decision of Vilnius City District Court as of 13 November 2018, by which the claim regarding the initial wood auction contribution (EUR 2,571. 36), the award of the fine and the recognition of the decision of BALTPOOL UAB as unlawful was dismissed. The Company participates in the case as co-defenders with the State Forest Enterprise. The Company does not agree with the appeal and declares that the appellate court should reject the appeal and leave the decision of Vilnius District Court decision unchanged.

In 2018, the Company was involved in the following legal proceedings, the resolutions of which, regardless of the absence of property claims presented towards the Company, might have indirect impact on the Company's rights and obligations, as well as financial position.

Other litigations in which the Company was involved during 2017

The Company's activities include the administration of PSO funds. In this respect, BALTPOOL UAB is involved as a third party in ongoing administrative litigations arising from and/or related to the validity of legal acts that define the payment of PSO funds.

Vilnius Regional Administrative Court is hearing an administrative case under the Vilnius Regional Prosecutor's public prosecutor's statement on the elimination of electricity production permits issued by the State Energy Inspectorate (hereinafter -SEI) and on refund of PSO funds unreasonably paid to the defendants PHE LT UAB, KJ 220 UAB, PPR Investicijos UAB. Taking into account the scope of competence of the PSO funds administrator and the essence of the dispute, the position of BALTPOOL UAB is neutral.

In 2018, the Company was involved as a third party in the following administrative cases in which the claimants Achema AB, Lifosa AB, and Orlen Lietuva AB (hereinafter collectively "the Claimants") question the lawfulness of the respective resolutions of the Commission establishing PSO funds and prices for respective calendar years and request to repeal the respective points of these resolutions. The main reason behind the Claimants' claims is that, *inter alia*, the disputed resolutions of the Commission implement the PSO scheme, which, according to the Claimants, is to be considered as unlawful state aid. In these cases, BALTPOOL UAB supports the position of the defendant – the Commission – and the third party – the Ministry of Energy. BALTPOOL UAB is involved in the case as a third party, moreover, the claims do not involve issues on the indemnification for damages/award of losses, therefore, even in the event of an unfavourable court decision, the court decision would have no direct negative impact on the Company's rights, obligations and financial position. An unfavourable decision to the Commission might result in a negative impact on the budget of PSO funds.

The Lithuanian Supreme Administrative Court (hereinafter – LSAC) is under the appeal procedure investigating administrative case No A-1465-525/2018 on the basis of the Claimants' claims regarding the repealing of points 1.2–1.4, 1.7, 2, and 3 of the Commission's Resolution No O3-442 *On the establishment of PSO funds and prices for 2014* (with subsequent amendments and supplements) (hereinafter "PSO case of 2014") of 11 October 2013. The Company, which supports the positions of the defendant and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. Of all the cases on the repealing of the Commission's resolutions establishing PSO prices and funds for respective calendar years that are being investigated under the administrative procedure, this case is the most progressed in terms of legal proceedings, taking into account that it is being investigated under the appeals procedure

(on 9 February 2016, Vilnius Regional Administrative Court (hereinafter – VRAC) rejected the Claimants' claims as unfounded), and that in this case LSAC, by the resolution of 7 December 2017, applied to the CJEU with a request to pass a preliminary ruling on whether the system of measures related to the allocation of PSO funds and the funding (compensation) thereof (PSO scheme), which was valid in 2014, or a part of that system, as established in the respective legal acts of the Republic of Lithuania, is to be regarded as state aid (state aid scheme) for the purposes of the application of Article 107(1) of the TFEU. On 6 November 2018, oral hearing of the case No C-706/17 Achema e.a. at the CJEU took place. On 17 January 2019, the opinion of Advocate-General was delivered. The administrative case has been adjourned until the preliminary ruling of the CJEU.

Vilnius Regional Administrative Court is investigating administrative case No eI-19-596/2018 on the basis of the Claimants' claims regarding the repealing of points 1-3 of the Commission's Resolution No O3-840 *On the establishment of PSO funds and prices for 2015* (with subsequent amendments and supplements) of 17 October 2014. The Company, which supports the positions of the defendant and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. The case has been adjourned by VRAC until the enactment of final rulings in the PSO case of 2014 and the PSO case of 2013.

Vilnius Regional Administrative Court is investigating administrative case No eI-119-244/2018 on the basis of the Claimants' claims regarding the repealing of points of the Commission's Resolution No O3-347 *On the establishment of PSO funds and price for 2017* (with subsequent amendments and supplements) of 31 October 2016. The Company, which supports the positions of the defendant and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. By the ruling of VRAC of 6 September 2017, the case has been adjourned until the completion of the investigation of the PSO case of 2014.

Vilnius Regional Administrative Court is investigating administrative case No eI-1032-535/2018 on the basis of the Claimants' claim regarding the repealing of points 1-3 of the Commission's Resolution No O3E-472 *On the establishment of PSO funds and price for 2018* (with subsequent amendments and supplements) of 30 October 2017. Responses were filed to the Claimants' claims. The Company, which supports the positions of the defendant and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. The case was scheduled for hearing on 27 February 2018, 10 o'clock. By the ruling of VRAC of 27 February 2018, the case has been adjourned until the enactment of the procedural ruling in the PSO case of 2014.

Vilnius Regional Administrative Court is investigating administrative case No eI-1263-473/2019 on the basis of the Claimants' claim regarding the repealing of respective points of the Commission's Resolution No O3E-3598 *On the establishment of PSO funds and price for 2019* of 26 October 2019. Responses were filed to the Claimants' claims. The Company, which supports the positions of the defendant, i.e. the Commission, and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. By the ruling of VRAC of 28 January 2019, the case has been adjourned until the enactment of the procedural ruling in the PSO case of 2014.

Vilnius Regional Administrative Court is investigating administrative case No I-144-815/2018 on the basis of the claim of Achema AB against the State of Lithuania (represented by the Ministry of Energy and the Commission) regarding the award of damages in the amount of EUR 2,702,912 (concerning the execution of obligations related to the payment of PSO funds) and procedural interest of 5% in 2011. BALTPOOL UAB is involved in the case as the third party. BALTPOOL UAB, which supports the position of the defendant in the case, does not agree with the claim. The case has been adjourned until the completion of the investigation of the PSO case of 2014. No property claims were presented towards the Company in this case.

BALTPOOL UAB is also as a third party involved in administrative case No eA-2807-451/201 heard at Vilnius Supreme Administrative Court on the basis of the appeal of Kauno Termofikacijos Elektrinė AB (hereinafter "KTE") regarding Vilnius Regional Administrative Court's ruling of 17 September 2019 to dismiss KTE's appeal regarding the Commission's Resolution No O3-442 *On the payment of PSO funds to Kauno Termofikacijos Elektrinė AB* of 29 September 2017, which, upon the non-planned inspection of the activities of KTE performed by the Commission, established that KTE was not eligible to receive PSO funds in the amounts of EUR 26,285 and EUR 718,704 and by which BALTPOOL UAB was obligated to not transfer the mentioned amounts while carrying out the transactions to KTE for the PSO granted in 2015. The Company, which supports the position of the defendant in the case, i.e. the Commission, does not agree with the claim. No property claims were presented towards the Company in this case. The hearing has not been appointed yet at the Supreme Administrative Court of Lithuania. The court's ruling will have no impact on the Company's financial position. In the event of a favourable decision to KTE, PSO funds would be paid to KTE from the budget of PSO funds.

Civil case No e2-14-545/2019 is investigated at Vilnius City District Court on the basis of the claim of Vilniaus Energija UAB against BALTPOOL UAB regarding the recognition of the provisions of the PSO funds payment agreement as null and void *ab initio* and the obligation to pay PSO funds to ensure the coverage of minimal necessary costs. The Company does not agree with the claim. By the ruling of Vilnius City District Court of 23 February 2017, the case has been adjourned until the enactment of the procedural ruling of Vilnius Regional Administrative Court in administrative case No I-1531-789/2017 (concerning the repealing of the Commission's Resolution No O3-318 *On the establishment of the components of the thermal energy basic price for Vilniaus Energija UAB* as of 14 October 2016 (BALTPOOL UAB is not involved in the case)). In the event of a favourable decision to Vilniaus Energija UAB, minimal necessary costs would be covered from the budget of PSO funds.

Vilnius City District Court is investigating civil case No e2-243-918/2019 on the basis of the claim of Renerga UAB against defendants Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB on the award of interest on late payment (the claim amounts to EUR 9,745.66). The Company is involved in the case as the third party without independent claim. The Company does not agree with the

claim. No property claims were presented towards the Company in this case. The case has been adjourned until the preliminary ruling of the CJEU in case No C-238/17. The renewed hearing of the case No C-238/17 was scheduled for oral hearing at the CJEU on 25 March 2019. The court's ruling will have no impact on the Company's financial position.

The ruling of the Chamber of Civil Case of the Lithuanian Court of Appel dated 28 June 2017, under which the ruling of Vilnius Regional Court of 1 September 2016 (civil case No 2-2587-656/2016), whereby the court rejected the claim of the claimant Achema AB against the defendant LITGRID AB (the procedural rights and obligations of the defendant were on 1 December 2016 taken over by BALTPOOL UAB) on the recognition of the transaction (the electricity transmission service agreement of 1 July 2010, by which, *inter alia*, the claimant was obligated to pay PSO funds for the quantity of the electricity consumed) as null and void and the application of the restitution (the award of the PSO funds paid by Achema AB in the amount of EUR 889,619.56 for the benefit of the claimant) was left unchanged. By the ruling of 21 February 2018 passed on in this case the case hearing was suspended until the Lithuanian Supreme Administrative Court examines administrative case No A-1465-525/2018 (judicial process No 3-61-3-06606-2013-7), where the national court referred the matter to the Court of Justice of the European Union for a preliminary ruling on the interpretation and application of the state aid regulations (CJEU case C 706/17 Achema e. a.).

The aforementioned Claimants, i.e. Lifosa AB, Orlen Lietuva AB, and Achema AB, are taking an active part in administrative litigations, by contesting against the obligation of the Claimants to pay out PSO funds. Civil cases on the award of PSO funds payable from the Claimants, which were initiated in accordance with the case-law of ordinary courts, have been adjourned until the completion of the investigation of respective cases at administrative courts.

1 October 2015, the function of collecting PSO funds from entities connected to the transmission network was passed on to the Company. Respectively, the Company took over the rights and obligations of LITGRID AB towards the accumulated PSO funds amounts payable by entities connected to the transmission network and filed a request to the court on the replacement of the claimant, by transferring the claimant's rights and obligations, previously held by LITGRID AB, to the Company. The following civil cases have been adjourned until the completion of the investigation of the PSO case of 2014 under administrative procedure. The claims of BALTPOOL UAB of 2018 on the replacement of the claimant in the following cases will be heard by renewing the investigation of respective cases in substance:

1. Civil case No 2-217-230/2019, investigated at Kaunas Regional Court on the basis of the claim filed by LITGRID AB against the defendant Achema AB on the award of PSO funds amounts payable; on 23 November 2018, the court adopted the decision to renew the case hearing, replaced the claimant to BALTPOOL UAB, however in the other part – with the grounds for suspension still present – the case remained suspended.

2. Civil case No 2-216-601/2016, investigated at Kaunas Regional Court on the basis of the claim filed by LITGRID AB against the defendant Lifosa AB on the award of PSO funds amounts payable;

3. Civil case No 2-107-440/2016, investigated at Šiauliai Regional Court on the basis of the claim filed by LITGRID AB against the defendant Orlen Lietuva AB on the award of PSO funds amounts payable.

The Company did not have any other significant off-balance sheet or contingent liabilities as at 31 December 2018A.

33. Events after the end of the reporting period

On 27 February 2019, the Company entered into a cash pool agreement with AB "Amber Grid". The agreement sets forth the maximum borrowing limit for AB "Amber Grid" – up to EUR 15,000 thousand and the lending limit for the UAB "EPSO-G" – up to EUR 10,000 thousand. The maximum duration of the agreement is 3 years.

On 6 March 2019, the Company entered into a cash pool agreement with UAB "TETAS". The agreement sets forth the maximum borrowing limit for UAB "TETAS" – up to EUR 1,400 thousand and the lending limit for the UAB "EPSO-G" – up to EUR 1,000 thousand. The maximum duration of the agreement is 3 years.

On 6 March 2019, the Company entered into a cash pool agreement with UAB GET Baltic. The agreement sets forth the maximum borrowing limit for UAB GET Baltic– up to EUR 1,050 thousand and the lending limit for the UAB "EPSO-G" – up to EUR 1,000 thousand. The maximum duration of the agreement is 3 years

34. Loans granted

On 27 September 2018, EPSO-G UAB entered into a mutual loan agreement with LITGRID AB. This agreement sets a maximum loan limit of EPSO-G UAB - up to EUR 23 million and LITGRID AB loan limit - up to EUR 20 million. Loan balance as at 31 December 2018 – EUR 12,517 thousand.

35. Services rendered by the audit firm

Neither the Group nor the Company received other non-audit services from the audit company in 2018.

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ANNEX I

UAB EPSO-G Notice of Compliance with the Corporate Governance Code for the Companies Listed on AB NASDAQ OMX

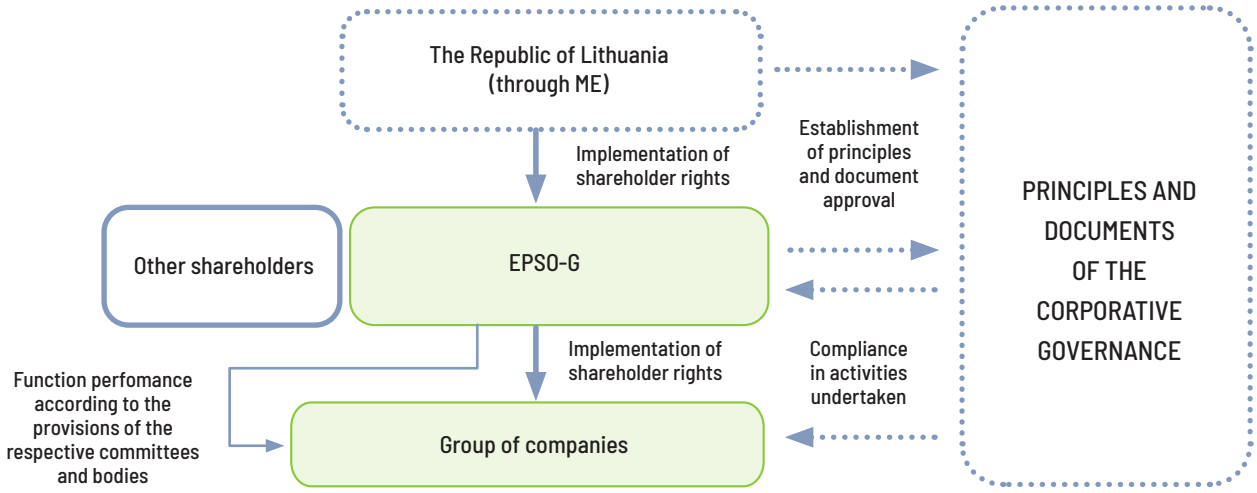
UAB EPSO-G (hereinafter referred to as the "Company" or EPSO-G), acting in accordance with the Description of the guidelines ensuring the transparency of activities of state-owned enterprises approved by the Resolution No 1052 of the Government of the Republic of Lithuania dated 14 July 2010 and the 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 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 Nasdaq Vilnius is materially ensured through information disclosable in the annual report and the extensive information disclosure on the EPSO-G website to submit the information to stakeholders in an accessible and comprehensible format.

1. Free-form summary of the corporate governance statement

EPSO-G is the parent company of EPSO-G group of companies (hereinafter referred to as the "Group"), the sole shareholder of which is the State of Lithuania. 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 sole shareholder of the parent company UAB EPSO-G – the Ministry of Energy (ME) and the policy of the corporate governance of UAB EPSO-G group of companies determine corporate governance structure, governance model. All the above documents are made publicly available on the Company's website and on the website of EPSO-G.

Principal scheme of the implementation of corporate governance of EPSO-G.



Corporate governance structure:

- General Meeting of Shareholders;
- The Board (five members, out of which two are independent members, other 2 members 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);
- Chief Executive Officer.

A corporate governance reform was carried out in 2018:

- Obligation imposed on the Board of the Company to be in charge of the supervisory functions;
- The Board of Supervisors operating at the Group level was dissolved;
- Executive members resigned from the Board of the Company – members nominated by the Ministry of Energy were appointed instead.

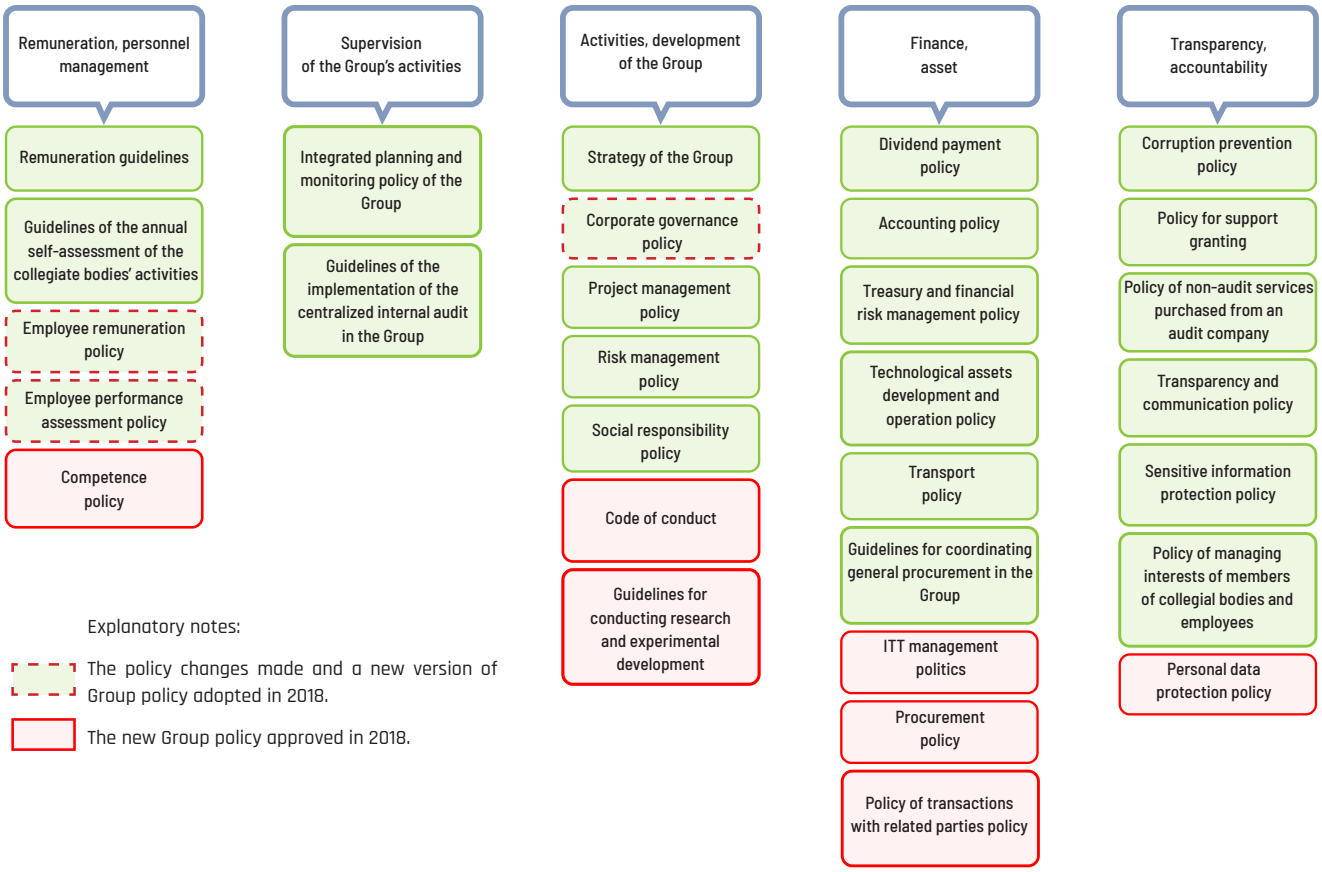
After the completed corporate governance reform, the Company employs the corporative governance model mostly used in the Northern European countries (Finland, Sweden, Norway, Denmark), when one collegial body is formed, accountable to the General Meeting of Shareholders (single-stage governance model). The organisational and management structure has become simpler, more efficient and further complies with the highest standards of governance. With the executive members absent from the Board, a high transparency level of decision taking is ensured, while the number of interest conflicts is reduced. As the Board performs the supervisory function, such model creates better precondition for executing the control due to the greater engagement of the Board and available information.

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 mostly consists of independent members. The internal audit shall also be accountable to the Audit Committee, which also mostly consists of independent members. 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:



In the government statement of the state-owned enterprises, it is stated that the Group is implementing and complying with the principles of good governance. The Group is awarded the highest A+ rating. The standards of transparency, formed collegial bodies and the strategy are carried out at the highest scores.

2. Structured table:

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	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 has 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 per 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.	IRRELEVANT	The Company has the sole shareholder. The company is not listed on the 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.	IRRELEVANT	The Company has the sole shareholder. The company is not listed on the 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.	IRRELEVANT	The Company has the sole shareholder. The company is not listed on the 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 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.	IRRELEVANT	The Company has the sole shareholder. The company is not listed on the 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.	IRRELEVANT	The Company has the sole shareholder. The company is not listed on the 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.	IRRELEVANT	The Company has the sole shareholder. The company is not listed on the exchange.

Principle 2: Supervisory board **1.1. 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.**		
1.1.1. 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.	IRRELEVANT	The Supervisory Board is not formed in the Company.
1.1.2. 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.	IRRELEVANT	-
1.1.3. 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.	IRRELEVANT	-
1.1.4. 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.	IRRELEVANT	-
1.1.5. 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.	IRRELEVANT	-
1.1.6. 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.	IRRELEVANT	-
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.	IRRELEVANT	-
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.	IRRELEVANT	-
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.	IRRELEVANT	-
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.	IRRELEVANT	-
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.	IRRELEVANT	-
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.	IRRELEVANT	-

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.	IRRELEVANT	-
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	Article 39 of the Articles of Association of the Company defines that the Board approves the documents of the group of companies (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 of companies. 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 require that the candidate submitted documents supporting this compliance and/or contact competent authorities for obtaining necessary information about the candidate.
3.2. Formation of the management board		
1.1.1. 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 Code of Management, 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.
1.1.2. 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/NO	The specified information is published and updated on the Company's website. This information is not repeated additionally in the Annual Report while detailed information on the chairman of the Board, CEO and the chief accountant is subject to submission.
1.1.3. 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.
1.1.4. 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.

1.1.5. 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.
1.1.6. 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. Each year, the Board members perform an assessment of his/her activities, the results of which are submitted to the shareholders and the Remuneration and Appointment Committee. The Board's participation in the meetings is set out in the Annual Report.
1.1.7. 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.
1.1.8. 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 may, by its decision, determine that the members of the Board must be remunerated.
1.1.9. 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 renew their declarations of interests. 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 Company applies the policy for managing the conflict of interests of the members, executives and employees of collegiate management and supervision bodies of UAB EPSO-G group of companies. 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..

1.1.10. 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 Remuneration and Appointment Committee and the Audit Committee acting at the level of UAB EPSO-G group of companies evaluate annually the decisions taken by the Board and submit recommendations for performance improvement. 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.**		
1.1. 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.	IRRELEVANT	The Supervisory Board is not formed in the Company.
1.2. 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).
1.3. 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 meeting.

1.4. 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.	IRRELEVANT	The Supervisory Board is not formed in the Company.
Principle 5: Appointment, remuneration and audit committees **1.1. 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.**		
1.1.1. 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 has the Remuneration and Appointment Committee formed by the Board of UAB EPSO-G, which operates in accordance with the rules of procedures approved by the body that forms it, and the Audit Committee formed by the sole shareholder UAB EPSO-G operating at the Group level and acting in compliance with the rules of procedures approved by the body that forms it. Given that the issues of remuneration and appointment are closely related and experts with the same qualifications are required to deal with these issues, it was decided to form a single Remuneration and Appointment Committee.
1.1.2. 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	
1.1.3. 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.	IRRELEVANT	Please refer to Comment under Item 5.1.1.
1.1.4. 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	Chapters 7.8 and 7.9 of the Articles of Association of UAB EPSO-G regulate the formation and competence of committees within UAB EPSO-G group of companies. The aforementioned Articles of Association stipulate that the Remuneration and Appointment Committee and the Audit Committee shall consist of not less than 3 members. The Remuneration and Appointment Committee ensures that there is at least 1 independent member and at least 2 independent members in the Audit Committee in the group of 3 members. Not all members of the Remuneration and Appointment Committee and the Audit Committee are appointed from the Board of EPSO-G. One member to each of the Committees is appointed on the basis of competence when performing the external selection of an independent member of the Committee.

1.1.5. 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	The authorization for the Committees are formed in the Articles of Association of UAB EPSO-G and under the decision of the body forming the Committee – the Rules of Procedures of the Remuneration and Appointment Committee are approved by the decision of the Board of UAB EPSO-G, while the Rules of Procedures of the Audit Committee are approved by the decision of the sole shareholder UAB EPSO-G, as it is consented by the Requirements for Members of the Audit Committee approved by the Bank of Lithuania (Article 5). The Rules of Procedures of the Committees are published on the EPSO-G website. Information about the structure of committees, activities, etc. is presented in the Consolidated Group's Annual Report.
1.1.6. 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 Supervisory Board and 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 relevant, as there are no employees of the Company in the Board.

1.3. 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.
1.4. 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 and the Company's Board, the main functions of which are the following: - supervises the 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 and complaints handling; - evaluates transactions with related parties.
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.		
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	Please refer to Comment under Item 5.4.3. The Audit Committee organizes a meeting with auditors to discuss the audit work plan.
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 Audit Committee ensures the functioning of the complaints system and complaints handling.
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 UAB EPSO-G. In addition, the Committee submits consolidated report for the General Meeting of Shareholders and the Board of UAB 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.
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.**		
1.1. 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. The Remuneration Policy is publicly available.

1.2. 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.
1.3. 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, which depends on the results of the Company.
1.4. 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.
1.5. 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.	IRRELEVANT	The financial incentive scheme is not applied in the Company.
1.6. 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.
1.7. 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.**		
1.1. 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.
1.2. 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.
1.3. 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.
1.4. 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.**		
1.1. 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.

1.1.1. operating and financial results of the company;	YES	-
1.1.2. objectives and non-financial information of the company;	YES	-
1.1.3. 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	-
1.1.4. 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	-
1.1.5. 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	-
1.1.6. potential key risk factors, the company's risk management and supervision policy;	YES	-
1.1.7. the company's transactions with related parties;	YES	-
1.1.8. 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	-
1.1.9. structure and strategy of corporate governance;	YES	-
1.1.10. 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	-
1.1. 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.

1.2. 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.
1.3. 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.	IRRELEVANT	The Company has the sole shareholder and its equity or debt securities are not traded in public trading.
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.**		
1.1. 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.
1.2. 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.
1.3. 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 provides non-audit services in accordance with the policy approved by the Audit Committee of UAB EPSO-G on the procurement of non-audit services of UAB EPSO-G group of companies from an audit firm or other firm that is a part of the network of the audit firm. The provision of non-audit services is supervised by the Audit Committee operating at the Group level, which, as mentioned in Item 10.2, is actively involved in the selection process of an auditor. Thus, the Audit Committee, when submitting a recommendation to the Board on the auditor, has all the necessary information on auditors.

1 For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

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.

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).

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.

ANNEX II

INFORMATION ON COMPLIANCE WITH TRANSPARENCY GUIDELINES

EPSO-G group of companies complies with the Resolution No 1052 of the Government of the Republic of Lithuania as of 14 July 2010 on the Approval of the Description of the Guidelines for Ensuring the Transparency of State-Owned Enterprise Activities (hereinafter – the Transparency Guidelines). The Transparency Guidelines are subject to mandatory application by EPSO-G UAB, as EPSO-G UAB is a state-owned enterprise (hereinafter – SOE). To implement the compliance with the Transparency Guidelines in EPSO-G UAB group of companies, the policy of transparency and communication of the activities of EPSO-G UAB group of companies was adopted at the Group's level with a detailed regard to requirements set out in the Transparency Guidelines and their established application for the companies of EPSO-G UAB group of companies.

The implementation of the Transparency Guidelines by EPSO-G UAB is materially ensured through information disclosable in the annual report and ant the disclosure of the information on EPSO-G UAB website aiming to submit the information for stakeholders in an accessible and understandable format.

Structured information on the implementation of the Transparency Guidelines by EPSO-G UAB:

I. Transparency Guidelines	
Information subject to publication on the website:	
- Objectives and tasks of the Company set by the Ministry of Energy;	In progress
- Financial results;	In progress
- Performance results;	In progress
- Current number of employees;	In progress
- Annual wage fund;	In progress
- Monthly salary of executives and their deputies;	In progress
- Purchases and investments completed in the financial year, still in progress and planned;	In progress
- Information published on the website before April 30 on special responsibilities still in progress, annual financial statements reports issued by an independent auditor.	In progress
Other requirements subject to publication / implementation in the annual report and the set of financial statements:	
- The accounting shall be administered according to the International Financial Reporting Standards.	In progress
- The set of annual financial statements shall be audited in conformity with international auditing standards.	In progress
- The annual report shall be published on the website before April 30.	In progress
- The annual report of the Company shall include:	
- Operational strategy and objectives (financial and non-financial), in case it is not a commercial secret of SOE (if SOE's operational strategy and objectives contain information treated as a commercial secret, a shortened version of the operational strategy and objectives excluding this information is specified (submitted);	In progress
- Compliance of the achieved operational results with the operational objectives of SOE;	In progress
- Major events of the reporting period essential for the activities of SOE ;	In progress
- Information on the market of the rendered services or manufactured production, in case it is not a commercial secret of SOE;	In progress
- Major clients and their major groups, in case it is not SOE's commercial secret. SOE discloses the segment information, the major clients shall be listed according to separate segments;	In progress
- Investments of the reporting period, the largest investment projects being performed or planned;	In progress
- The general annual wage fund, the average monthly salary according to a position and (or) departments;	In progress
- Social, environment protection initiatives and policy in progress;	In progress
- Information on the compliance with the provisions of the Transparency Guidelines: the way they are being implemented, the provisions that are failed to be complied with and reasoning are indicted;	In progress

- Major financial criteria describing the activity (profitability, liquidity, efficiency of the assets use), their fluctuation within 3 years;	In progress
- Management bodies;	In progress
- Information on the performed audit of the annual financial statements (the auditing entity, remuneration for the auditing);	In progress
- Other important information emerged before the publication date of the annual report affecting the activities of the state-owned enterprise;	In progress
- Information and statements subject to disclosure by listed companies in accordance with of the Law on Financial Reporting of the Republic of Lithuania and the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius in the annual report;	In progress
- Dividend policy;	In progress
- Information on the implementation of the operational strategy and objectives (financial and non-financial).	In progress
The Ministry of Energy together with the annual report shall be submitted the following:	
- Information on last year's salaries of the executives of the Company,	In progress
- Assessment indicators of the performance results applicable for the establishment of a variable component of the monthly salary of the executives, performance of these indicators, the variable component of the monthly salary established for the executives (in euros and a fixed component of the monthly salary established for the executives, %) and paid out variable component of the monthly salary (in euros and a fixed component of the monthly salary established for the executives, %).	In progress
Interim report	
- 1st and 2nd category state-owned enterprises shall draw up an interim report for six months, which shall be published on their websites before August 31. The interim report briefly presents the most important information on the indicators describing the operations of the state-owned enterprise and their changes in comparison with the last periods.	In progress
- A set of interim financial statements for the six months, published on the website before August 31, shall be drawn up.	In progress

Article 10 of the Transparency Guidelines provides that SOE shall follow the provisions of the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius (hereinafter – the Code of Governance)1 regarding the disclosure of information, other provisions detailing the principles set out in the Code of Governance with regard to public disclosure of information. With regard to the above, we hereby provide the structured information on the information disclosure requirements set out in the Code of Governance.

I. The implementation of the requirements of the Code of Governance regarding the information disclosure	
The Company's governance system should ensure that the information on all substantial Company's issues, including the financial situation, operations and the Company's governance, be disclosed in a timely and accurate manner.	In progress
Information should be disclosed in a way that the shareholders or investors are not discriminated with regard to the method of receipt of information as well as its extent. The information should be disclosable for all and simultaneously.	In progress, except for the provisions that are irrelevant as EPSO-G UAB has the sole shareholder.
In case the auditing company was remunerated by the Company for non-audit services, the Company should disclose the fact publicly. This information should also be available for disposition of the Company's Supervisory Board, and in case it is not formed in the Company – for the disposition of the Board of the Company when considering the suggestion of the candidacy of an auditing company for the General Meeting of Shareholders.	In progress
Without prejudice to the Company's confidential information and commercial secrecy procedures, as well as the requirements of the legislation governing the processing of personal data, the Company's public disclosures should include, but should not be limited to:	In progress
- The Company activities and financial results;	In progress
- Objectives of the Company activities and non-financial information;	In progress
- Persons owning or holding a block of shares or directly and / or indirectly and / or together with the related persons controlling it, and the structure of the group of companies and their interrelationship by indicating the final beneficiary;	In progress

1 On 15 January 2019, Nasdaq Vilnius AB at the Board Meeting, the Minutes No 19-63, approved "The Corporate Governance Code for the Companies Listed on NASDAQ Vilnius"

- Members of the Company's supervisory and management bodies, who are considered to be independent, the head of the Company, their owned shares or votes in the Company and their participation in the management of other companies, their competence, remuneration. When disclosing the above information, we recommend providing information about the professional experience, qualifications and potential conflicts of interest of the members of the Company's supervisory and management bodies, the head of the Company that could affect their decisions. It is also recommended to disclose the remuneration received from the Company or other income of the members of the Company's supervisory and management bodies, the head of the Company, as it is regulated in more detail in Principle 7 of the Code of Governance.	In progress
- Reports by the existing committees on their composition, the number of meetings and member attendance at meetings in the previous year, as well as on the lines of their main activities and performance results;	In progress
- Potentially foreseen risk factors, the Company's risk management and supervision policy;	In progress
- The Company's transactions with related parties;	In progress
- Key issues related to employees and other stakeholders (for example, human resources policy, employee involvement in the Company's governance, promotion using the Company shares or stock options, relationships with creditors, suppliers, local community etc.);	In progress
- The Company's governance structure and strategy;	In progress
- Social responsibility policy, anti-corruption initiatives and tools, important ongoing or planned investment projects.	In progress
It is recommended that the documents prepared for the General Meeting of Shareholders be published in advance not only in Lithuanian, but also in English and / or other foreign languages. It is also recommended to publicly publish the minutes of the General Meeting of Shareholders after its signing and (or) the decisions made not only in Lithuanian but also in English and / or other foreign languages. It is recommended that this information be published on the Company's website. Publicly available documents may not be published in full scope if their publication could harm the Company or reveal the commercial secrets of the Company.	Is not in progress, as EPSO-G has the sole shareholder aware of the decisions.
The remuneration policy published on the Company's website.	In progress
The Company should publish on the Company's website information on the implementation of the remuneration policy, which mainly should focus on the remuneration policies of collegial bodies and managers for the upcoming and, where appropriate, subsequent financial years. It should also review in what way the remuneration policy was being implemented in the previous financial year. The information of such nature should not contain information of commercial value. Special attention should be paid to the fundamental changes in the Company's remuneration policy as compared to the previous financial year.	In progress
Publication of the Summary of the Governance Report of the Companies and in the Governance Report (structured table) on how the Company complies with the Code of Governance. In order to enable the Company to provide a portion of information about its governance in a free form and to highlight the most important issues, the Company in the Summary of the Governance Report of the Companies should provide essential information about the management procedures effectual in the Company (for example, this may include information on the joint management scheme, internal control and risk management systems, shareholders' rights, management and supervisory bodies and their committees, administration or other key issues related to the management of the Company). The Company should clearly, accurately and comprehensibly report in the Governance Report on the specific Corporate Governance Code recommendations it has deviated from, and in case of any deviation it should be clarified as it is set out in Part 2 of disclosure form of the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius.	In progress

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