# THE ANNUAL REPORT OF EPSO-G GROUP

2016

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Financial Statements were approved on 7 April 2017

Rolandas Zukas
CEO of EPSO-G

Ilona Vaitkuvienė
Chief Financier

## STATEMENT OF THE CHAIRMAN OF THE BOARD

Dear shareholders, partners, employees and all stakeholders,

I am honoured to present the activity report of the group of electricity transmission and exchange enterprises EPSO-G for 2016.

To the EPSO-G enterprise group, 2016 was the year of building an integrated enterprise group, shaping management bodies, strategic planning and developing a solid foundation to achieve the most important energy objectives of Lithuania with the aim of ensuring timely implementation of strategic projects as well as transparent and effective management of state-owned property offering the maximum benefit to society and the country's economy.

A new corporate governance model has been developed for the entire group. It is essential to note that, when shaping collegial management bodies of the enterprise group, we managed to attract 10 top-level independent professionals. Independent members were elected to act as chairs of the Supervisory Board and of the Board of EPSO-G, UAB. This shows that we are on the modern path of depoliticised management, increased professionalism, independence and efficiency, which is very important for state-controlled enterprises.

Strategy of the entire EPSO-G group drawn up at the end of 2016 has crystallised the group's values, shaped its shared vision, mission, strategic orientations and objectives.

Our goal for 2017 is to build a solid foundation for the activities of the enterprise group as an entity. We will update the group's strategy paying particular attention to the strategic objectives of the group-controlled enterprises as well as changes in the geopolitical, economic, technological and social environment. We will also continue to develop and improve corporate governance processes, implement effective operational guidelines and shape policies that ensure transparency.

The key goal for 2017 in the electricity sector is to prepare properly for the synchronization with the continental European networks.

To effectively exploit the country's well-developed gas infrastructure and competitive advantage offered by LNG terminal, EPSO-G enterprise group will cooperate with other Baltic countries and continue to develop regional gas market until the end of 2019, and expand activities of the gas exchange operator GET Baltic.

In 2017, previously planned work will be continued so that the Polish–Lithuanian gas link project is completed by the end of 2021. Once this project is completed, the Baltic countries will become part of the unified EU gas market.

In 2017, in the field of trade of energy resources, specifically biofuel, the group will seek to share knowledge and solutions developed by the efficient exchange operator BALTPOOL with other countries in the region.

We will seek that every employee of the group feels as if they are part of the group rather than individual enterprise, and that the shareholders as well as all stakeholders witness transparent and responsible operations of the group aimed at efficiency and sustainable added value.

Pursuit of these objectives will be based on responsible and effective work of a professional and advanced management team as well as all employees of the enterprise group.

Yours sincerely,
**Rytis Ambrazevičius**
Chairman of the Board

## STATEMENT OF THE CHIEF EXECUTIVE OFFICER

2016 was highly constructive year for our group of electricity transmission and exchange enterprises: energy consumption was growing with the growing Lithuanian economy. Electricity grid connection between Lithuania and Sweden paved the way for a new flow of cheaper electricity to Lithuania and the neighbouring countries. LNG terminal has created genuine competition against the main supplier from the East. Open biofuel trading platform has become the most important space for fair competition.

All of this had a positive impact on the income and financial results of EPSO-G enterprise group and, most importantly, on lower energy prices to the residents and businesses in both Lithuania and the neighbouring countries. I am proud that due to targeted activities all enterprises directly controlled by the group were generating profit, and return on equity of the group was the highest among state-owned energy enterprises.

Stable financial situation is important to us in the building of a solid foundation for the achievement of the energy objectives of Lithuania, ensuring timely implementation of strategic projects as well as effective and transparent management of state-owned property in accordance with good governance standards.

We are entrusted with the task to ensure the security and reliability of the Lithuanian energy system through its integration in the European energy system, and to create long-term benefits for our main shareholders, i.e. the state and consumers, offering continuous supply and best prices.

Behind these words lies duty, responsibility, trust and expectations that must be fulfilled with our real actions.

I would like to sincerely thank the employees, partners and shareholders for the work already done. As to our future, development in the energy sector, primarily means personal power to grow and make changes through the implementation of projects important to the Lithuanian people and the national economy.

Yours respectfully,
**Rolandas Zukas**
CEO of EPSO-G

# CONSOLIDATED ANNUAL REPORT

## FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in EUR thousands unless otherwise stated)

# THE 2016 CONSOLIDATED ANNUAL REPORT OF THE EPSO-G GROUP

## I. General information about the Group of companies

The consolidated annual report covers the 12-month period ended 31 December 2016.

Main data of the parent company:

| | |
|---|---|
| Company name | UAB „EPSO-G" |
| Legal form | Private limited liability company |
| Date and place of registration | 25 July 2012, the Lithuanian Register of Legal Entities |
| Company code | 302826889 |
| Registered office address | A. Juozapavičiaus g. 13, LT-09311 Vilnius |
| Address for correspondence | Gedimino pr. 20, LT-01103 Vilnius |
| Telephone | +370 665 20038 |
| Email | info@epsog.lt |
| Website | www.epsog.lt |
| Authorised share 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 |

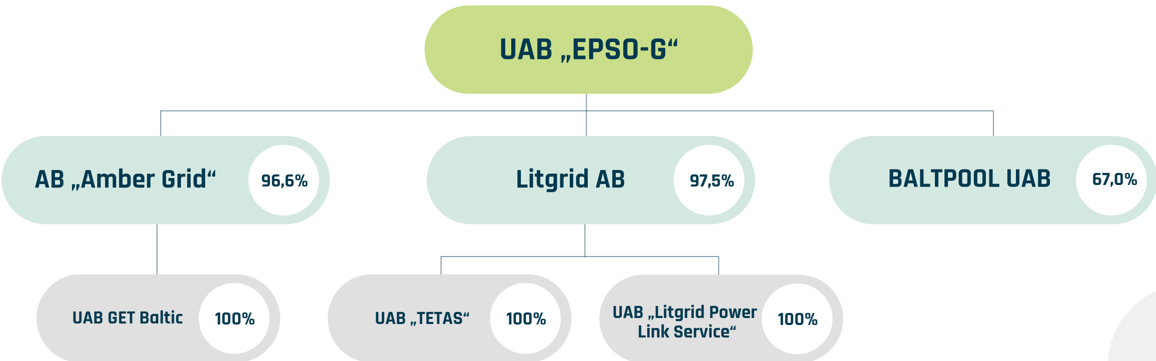
As at 31 December 2016, the EPSO-G group ("the EPSO-G Group" or "the Group") consisted of the parent company EPSO-G UAB ("EPSO-G" or "the Company"), three companies directly controlled by the EPSO-G Group (LITGRID AB ("Litgrid"), Amber Grid AB ("Amber Grid") and BALTPOOL UAB ("Baltpool")) and three indirectly controlled companies (TETAS UAB ("Tetas"), Litgrid Power Link Service UAB ("PLS") and GET Baltic UAB ("Get Baltic")).

On 5 February 2016, EPSO-G signed the agreement on the acquisition of shares of Baltpool UAB from Litgrid as of 1 March 2016.

As from 29 April 2016, the new name of Tinklo Priežiūros Centras UAB is Litgrid Power Link Service UAB. The new international name expresses the company's strategic objective – to become a recognised supplier of maintenance services for high-voltage direct current technologies in the Baltic Sea region.

On 23 December 2016, Amber Grid acquired from Gasum Oy 34% of shares of Get Baltic and as of that moment Amber Grid became the sole shareholder of Get Baltic.

The structure of the EPSO-G Group at the end of the reporting period:



(All amounts in EUR thousands unless otherwise stated)

The companies of the EPSO-G Group and profile of their activities:

| Company name | LITGRID AB | Amber Grid AB | BALTPOOL UAB | LITGRID Power Link Service UAB | TETAS UAB | GET Baltic UAB |
|---|---|---|---|---|---|---|
| Legal form | Public limited liability company | Public limited liability company | Private limited liability company | Private limited liability company | Private limited liability company | Private limited liability company |
| Date and place of registration | 16 Nov 2010, the Lithuanian Register of Legal Entities | 11 Jun 2013, the Lithuanian Register of Legal Entities | 10 Dec 2009, the Lithuanian Register of Legal Entities | 24 Feb 2014, the Lithuanian Register of Legal Entities | 8 Dec 2005, the Lithuanian Register of Legal Entities | 13 Sep 2012, the Lithuanian Register of Legal Entities |
| Company code | 302564383 | 303090867 | 302464881 | 303249180 | 300513148 | 302861178 |
| Registered office address | A. Juozapavičiaus g. 13, LT-09311 Vilnius | Savanorių pr. 28, LT-03116 Vilnius | A. Juozapavičiaus g. 9-3, LT-09311, Vilnius | A. Juozapavičiaus g. 13, LT-09311, Vilnius | Senamiesčio g. 102B, LT-35116, Panevėžys | Savanorių pr. 28, LT-03116 Vilnius |
| Telephone | +370 5 278 2777 | +370 5 236 0855 | +370 5 278 2762 | +370 5 278 2766 | +370 45 504 670 | +370 5 236 0000 |
| Fax | +370 5 272 3986 | +370 5 236 0850 | +370 5 278 2707 | +370 5 272 3986 | +370 45 504 684 | +370 5 236 0001 |
| Email | 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 |
| Profile of activities | Electricity transmission system operator | Natural gas transmission system operator | Energy resources exchange operator | Management and operation of electricity interconnections | Specialised services such as technical maintenance, repair and installation of transformer substations, distribution stations, testing works, engineering of energy facilities | Natural gas exchange operator |
| Effective ownership interest held by EPSO-G | 97.5% | 96.6% | 67.0% | 97.5% | 97.5% | 96.6% |

## Major events of 2016

Major events at the EPSO-G Group:

**February**

On 5 February 2016, EPSO-G signed the agreement on the acquisition of 67% of shares of Baltpool from Litgrid with effect from 1 March 2016; the remaining ownership interest is held by Klaipėdos Nafta AB.

**April**

On 26 April 2016, the ordinary general meeting of shareholders of Amber Grid was held at which the Board was elected: Rimvydas Štilinis (Infrastructure Director, EPSO-G), Nemunas Biknius (Strategy and Development Director, EPSO-G), Saulius Bilys (CEO, Amber Grid), Vytautas Ruolia (Commercial Director, Amber Grid), Nerijus Datkūnas (independent member of the Board, state enterprise Šiaulių Regiono Keliai; member of the Board of the Association of Financial Analysts). Based on the Board's decision dated 24 May 2016 Nemunas Biknius was elected as the Chairman of the Board (for the Board's term of office).

On 26 April 2016, the ordinary general meeting of shareholders of Amber Grid was held at which the proposed profit appropriation for 2015 was approved stipulating the payment of dividends amounting to EUR 15,978 thousand.

On 26 April 2016, the ordinary general meeting of shareholders of Litgrid was held at which the proposed profit appropriation for 2015 was approved stipulating the payment of dividends amounting to EUR 4,589 thousand.

On 26 April 2016, the ordinary general meeting of shareholders of Baltpool was held at which the proposed profit appropriation for 2015 was approved stipulating the payment of dividends amounting to EUR 28 thousand. On 26 April 2016, the ordinary general meeting of shareholders of EPSO-G was held at which the proposed profit appropriation for 2015 was approved stipulating the payment of dividends amounting to EUR 425 thousand.

On 29 April 2016, Tinklo Priežiūros Centras was renamed to Litgrid Power Link Service UAB.

**May**

On 9 May 2016, Rolandas Masilevičius resigned from the position of a member of the Board of Litgrid.

On 11 May 2016, the Supervisory Council of EPSO-G was elected for the term of four years and its composition is as follows: Audrius Misevičius (Advisor to the Prime Minister of the Republic of Lithuania for social issues), Inga Černiuk (Chancellor of the Ministry of Energy of the Republic of Lithuania), Agnė Amelija Kairytė (Head of the Legal Department of the Ministry of Energy of the Republic of Lithuania), Raimondas Rapkevičius (Board member, Deputy CEO, Finance Director of General Financing UAB), Viktorija Trimbel (independent member of the Board of Lietuvos Radijo ir Televizijos Centras AB, Managing Partner of Quantum Capital UAB).

On 30 May 2016, the long-term credit agreement signed with SEB Bankas AB came into force under which EPSO-G received a loan of EUR 12,800 thousand designated for a partial refinancing of the loan received from Lietuvos Energija UAB (this loan was granted to finance the acquisition of Amber Grid). On 31 May 2016, EPSO-G repaid a loan of EUR 24,500 thousand to Lietuvos Energija UAB prior to its contractual maturity (the amount due arose as a result of the acquisition of the controlling block of shares of Amber Grid).

**June**

On 10 June 2016, the sitting of the Supervisory Council of EPSO-G was held at which Viktorija Trimbel, an independent member of the Supervisory Council, was elected as the Chair of the Supervisory Council.

On 10 June 2016, the sitting of the Supervisory Council of EPSO-G was held at which the Remuneration and Appointment Committee accountable to the Supervisory Council was formed. The latter Committee is composed of two members of the Supervisory Council: Agnės Amelijos Kairytės ir Viktorijos Trimbel.

**July**

On 29 July 2016, the extraordinary general meeting of shareholders of Litgrid was held at which the Board of Litgrid was revoked in corpore from 29 July 2016 and the new Board composed of five members was elected for the term of four years starting from 29 July 2016. The composition of the Board is as follows: Rimvydas Štilinis (Infrastructure Director, EPSO-G), Nemunas Biknius (Strategy and Development Director, EPSO-G), Daivis Virbickas (CEO, Litgrid), Vidmantas Grušas (Transmission Network Department Director, Litgrid) and Domas Sidaravičius (CEO, Board member, ERGO Invest SIA). Based on the Board's decision dated 2 September 2016 Rimvydas Štilinis was elected as the Chairman of the Board.

**August**

On 25 August 2016, the sitting of the Supervisory Council of EPSO-G was held at which the Remuneration and Appointment Committee was formed. The independent member was elected – Jolita Lauciuvienė (Director of PERSONALO SPRENDIMAI VERSLUI UAB). On 6 September 2016, the sitting of the Remuneration and Appointment Committee was held at which Viktorija Trimbel was elected as its Chair.

**September**

On 7 September 2016, the general meeting of shareholders of Get Baltic was held at which the Board composed of three members was elected. Jūratė Marcinkonienė (Regulation and Planning Director, EPSO-G), Danas Janulionis (Head of Strategic Planning and External Relations Department, Amber Grid) and Jouni Haikarainen (Senior Vice-President of the Natural Gas Department, Gasum Oy) were elected as the Board members.

On 12 September 2016, the general meeting of shareholders of EPSO-G was held at which the Audit Committee composed of three members and accountable to the Supervisory Council was formed. The members of the Supervisory Council Raimondas Rapkevičius, Audrius Misevičius and independent member Gediminas Šiušas (Accounting Director of Western Union Processing Lithuania UAB) were elected as the members of the Audit Committee.

Based on the decision of the sole shareholder of Tetas dated 23 September 2016 three members were elected to the company's Board for the remaining term of office: Tomas Urmanavičius (Head of Financial Control, EPSO-G), Mindaugas Vinkus (Head of Organisational Development, EPSO-G) and Edvardas Tarasevičius (CEO, PLS). The Board also has an independent Board member and the Chairman of the Board Darius Masionis (Director, CIE LT Forge UAB) and independent Board member Lina Morkūnaitė (Director, Konekesko Lietuva UAB).

On 26 September 2016, in view of the notification of the Ministry of Energy of the Republic of Poland on the extension of the deadline for the implementation of the project on the gas interconnection between Poland and Lithuania (GIPL) in the territory of the Republic of Poland, the Government of the Republic of Lithuania decided to extend the deadline for the implementation of the GIPL project in the territory of the Republic of Lithuania until 31 December 2021.

**October**

Upon the transfer of the ownership in LITGAS UAB held by Klaipėdos Nafta AB to Lietuvos Energija UAB on 3 October 2016 Resolution No 03-242 of the National Control Commission for Prices and Energy of 10 April 2015 was implemented whereby Amber Grid was designated as an operator of the transmission system on the condition that the Ministry of Energy of the Republic of Lithuania will carry out actions in respect of the transfer of shares of LITGAS UAB held by Klaipėdos Nafta AB to the entity that is not directly or indirectly controlled by the Ministry of Energy of the Republic of Lithuania.

On 21 October 2016, the extraordinary general meeting of shareholders of Baltpool was held at which the Board was elected. The following Board members were elected: Nemunas Biknius (Strategy and Development Director, EPSO-G), Tomas Urmanavičius (Head of Financial Control, EPSO-G), Renata Navikaitė (Head of the Regulated Activity Division of the LNG Terminal Department of Klaipėdos Nafta, AB) and Vytautas Ruolia (Commercial Director, Amber Grid).

On 21 October 2016, the Company concluded the agreement with Lietuvos Energija UAB under which in implementing the provisions of the agreement between the Ministers of Energy and Finance of the Republic of Lithuania the risk level of EPSO-G was repeatedly assessed and the interest rate consistent with the market conditions was established for the amount due resulting from the acquisition of the controlling block of shares of Litgrid.

**November**

On 9 November 2016, the Government of the Republic of Lithuania adopted the Resolution On dividends paid by EPSO-G UAB for the state-owned shares whereby the Ministry of Energy of the Republic of Lithuania was instructed to adopt the decision on an annual basis for the 2016-2021 financial years on the appropriation of 0.5% of profit to be appropriated of EPSO-G for a respective financial year, if the company meets the requirements laid down in subparagraph 2.1 of Resolution of the Government of the Republic of Lithuania No 20 of 14 January 1997 On dividends for the state-owned shares of the companies and profit contributions of the state companies.

On 10 November 2016, the Supervisory Council of EPSO-G elected the company's Board for the term of four years, which is composed of five members. The Board will have the following independent members: Gediminas Almantas (CEO, state enterprise Lietuvos Oro Uostai), Valdas Vitkauskas (Senior Banker at the European Reconstruction and Development Bank) and Rytis Ambrazevičius (President of the Association Baltic Institute of Corporate Governance).

**December**

On 5 December 2016, the sitting of the Board of EPSO-G was held at which Rytis Ambrazevičius, independent member of the Board, was elected as the Chairman of the Board.

On 23 December 2016, Amber Grid acquired from Gasum Oy 34% of shares of Get Baltic and as of that moment Amber Grid became the sole shareholder of Get Baltic. The transaction will allow Amber Grid achieving its strategic objective – creation of a competitive natural gas market in the region. After the sale of shares by Gasom Oy the composition of the Board of Get Baltic changed, the Board member Jouni Pekka Haikarinen was replaced by Gytis Fominas (Finance Department Director, Amber Grid).

## III Operational strategy and objectives

The EPSO-G Group is a state-owned group of companies. The rights and obligations of the Group's shareholders are implemented by the Ministry of Energy of the Republic of Lithuania. The principal objective of the Group's activities is to ensure an uninterrupted, stable electricity transmission via high-voltage networks and natural gas transportation via high-pressure pipelines and to engage in the management, maintenance and development of these transmission systems.

EPSO-G, the parent company of the Group, is responsible for the management of the blocks of shares of the Lithuanian transmission system operators for electricity and gas. In its operations the Company aims to transparently manage and coordinate the Group's operations, enhance efficiency, safeguard a stable and uninterrupted provision of transmission services by the Group companies, focuses on the expansion of socially responsible infrastructure, increase of the socially responsible long-term value for shareholders and a timely implementation of the strategic projects of the Group companies.

Litgrid, the Lithuanian electricity transmission system operator, ensures the stability of operation of the country's electric power system, operates electricity transmissions and creates conditions for competition in an open electricity market. Litgrid is responsible for the integration of the Lithuanian electric power system with the European electricity infrastructure and the single market for electricity.

Amber Grid, the gas transmission system operator, is responsible for the transmission of natural gas and maintenance of the gas mains as well as a safe and reliable operation of the gas transmission system and its expansion. Amber Grid is also responsible for the implementation of the strategic projects aimed at integrating the gas markets of the Baltic countries with the single EU gas market, diversifying gas supply sources and enhancing the security of gas supply.

Baltpool, the energy resources exchange operator, is responsible for the operation of the energy resources exchange and the administration of PSO service funds.

During the reporting year the first operational strategy of the EPSO-G Group of companies for the five-year period was prepared, the development directions and financial objectives were established.

## IV Main infrastructure projects

In 2016, the EPSO-G Group continued strategic infrastructure projects aimed at integrating Lithuania with the regional energy resources markets:

**Electricity interconnection LitPol Link**

From the beginning of 2016 the electricity interconnection LitPol Link operates in a normal mode. The most important and complicated facility of the new electricity interconnection is the current converter station. By converting the alternating current to direct current and again to alternating current this station ensures electricity transmission between the electricity systems of Lithuania and Poland that operate in different synchronous areas.

Investments in the LitPol Link interconnection totalled EUR 109 million in the territory of Lithuania. In July 2015, the European Commission approved the allocation of EUR 27 million for the implementation of the LitPol Link project in the territory of Lithuania. The EU support received for the investments in LitPol Link totalled EUR 31 million.

**Electricity interconnection NordBalt**

In June 2016, the trail operation of the interconnection NordBalt was completed and the interconnection was put into normal operation. One of the longest submarine power cables in the world substantially increases the security of electricity supply to Lithuania and the Baltic countries. Investments in NordBalt electricity interconnection in Lithuania totalled EUR 221 million, whereof EUR 65.5 million were received from the EU. The effect of the new interconnections NordBalt and LitPol Link on the market exceeded expectations. In 2016, Lithuania and Latvia were the only countries in the region in which the average market price of electricity decreased as the new interconnections allowed diversifying the electricity import sources. As a result, in 2016 the average electricity price at the Nord Pool power exchange Lithuania bidding area was the lowest on record and equal to 36.5 EUR/MWh. In the reporting year the electricity price on the market was 13% lower compared to 2015 and declined by one fourth compared to 2014 and 2013.

In 2016, LitPol Link's and NordBalt's availability for the market reached 96% and 78% during the year.

**Klaipėda-Kiemėnai gas transmission pipeline**

The Klaipėda-Kiemėnai gas transmission pipeline (KKP) was put into operation in December 2015. This project created conditions for a full utilisation of the capacities of the LNG Terminal in Klaipėda and safeguarding the security and reliability of the operation of the natural gas system. During 2016, the system users benefited from a successfully developed infrastructure of the alternative gas supply. Due to competitive prices of LNG, 60% of natural gas transmitted to Lithuanian users and users of other Baltic countries through the system of Amber Gird was imported through the LNG Terminal in Klaipėda.

Investments in the project reached EUR 57.9 million, whereof EUR 28.5 million were financed by Amber Grid, EUR 27.6 million by the European Union and EUR 1.8 million by the Latvian transmission system operator. The representatives of the European Commission recognised this project as being an excellent one due to shorter than projected implementation terms and good management of the budget.

**Gas interconnection between Poland and Lithuania**

The project is aimed at integrating the gas markets of the Baltic countries with the single EU gas market, diversifying gas supply sources and enhancing the security of gas supply. Amber Grid implements the gas pipeline project in the territory of Lithuania and the implementation of the project in Poland is carried out by the Polish gas transmission system operator GAZ- SYSTEM S.A. In 2016, the preparation of the documents on the territory planning, the special plan and the technical design for the GIPL project was continued; the signing of the agreements with the owners of land plots on the establishment of easements was performed; the public procurements for contracted works and pipelines were announced; the project's special plan was approved.

The total expected GIPL project value amounts to EUR 558 million, whereof EUR 422 million in the territory of Poland and EUR 136 million in the territory of Lithuania. The EU financial support was used for the implementation of the project. According to the cross-border cost allocation decision of the European Agency for the Cooperation of Energy Regulators, a part of the project infrastructure costs in the territory of Poland 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 using funds of Amber Grid and GAZ-SYSTEM S.A. In view of the extension of the deadline for the implementation of the project in the territory of the Republic of Poland, the Government of the Republic of Lithuania extended the deadline for the implementation of the GIPL project until 31 December 2021.

**Reorientation of the electricity system for a synchronous work with the networks of continental Europe**

Under the law passed by the Parliament of the Republic of Lithuania in 2012 the strategic objective was set to reorient the country's electricity system for a synchronous work with the networks of continental Europe. A full-fledged integration of the Lithuanian energy system to the European electricity infrastructure and the single electricity market by guaranteeing the independence of the system's management is one of the strategic objectives of Litgrid in the implementation of which the understanding, agreement and a consistent coordination of national and international interests play a very important role.

The Joint Research Centre of the European Commission carried out the benchmark study on the scenarios relating to the synchronisation of the Baltic countries with the networks of the EU countries, the results of which are expected to be approved in the first half of 2017. When a final decision on the synchronisation is passed, the European Network of Transmission System Operators for Electricity (ENTSO-E) would provide technical connection conditions after the implementation of which the Baltic countries could synchronise its networks with the Western Europe until 2025. The project value may range from EUR 435 to 1,071 million for the Baltic countries depending on the detailed scenarios. This project is included in the European Commission's list of projects of common European interest.

(All amounts in EUR thousands unless otherwise stated)

In 2017, two significant electricity transmission units in Vilnius and in the North East region of Lithuania will be prepared for reconstruction. At the same time preparations will be made for testing the independent operation of the electricity systems of the Baltic countries. Aiming to evaluate technical possibilities and costs of the isolated operation of the Baltic countries, in 2017 the research study on the isolated operation of the Baltic countries will be carried out and in 2018 one of the most important steps towards synchronisation will be taken by the electricity systems of the Baltic countries – by ceasing links with the neighbouring energy systems for a short time three Baltic countries will become an independent energy system during the testing.

## V. Operating and financial indicators

Key operating indicators of the EPSO-G Group:

| | 2016 | 2015 | Change | |
|---|---|---|---|---|
| | | | +/- | % |
| Electricity | | | | |
| Quantity of electricity transmitted, GWh | 9,729 | 9,220 | 509 | 5.5% |
| Quantity of electricity not delivered due to interruptions (ENS), MWh * | 1,03 | 4,54 | | |
| Average interruption time (AIT), minutes * | 0.04 | 0.22 | | |
| Natural gas | | | | |
| Volume of gas transported to the internal exit point, GWh | 23,336 | 26,183 | -2,847 | -10.9% |
| Volume of gas transported to the nearby transmission systems, GWh** | 23,985 | 22,808 | 1,177 | 5.2% |

* Only due to reasons falling within the responsibility of the operator and unidentified reasons.

** Transmission systems of Latvia and the Kaliningrad Region of the Russian Federation.

The quantity of electricity transmitted increased by 5.5% in 2016 compared to 2015 against the background of economic growth and higher electricity consumption. The quantity of electricity transmitted to consumers of the distribution network operator Energijos Skirstymo Operatorius AB was equal to 8,842 GWh, which is 5.1% more than a year ago, whereas the quantity of electricity transmitted to other consumers connected to the transmission network increased by 9.9% compared to 2015 and was equal to 886 GWh.

In 2016, the total volume of natural gas transported to Lithuanian consumers to the gas distribution or directly connected consumer systems was equal to 23,336 GWh. The volume of natural gas transmitted decreased by 10.9% compared to 2015 when 26,183 GWh of natural gas were transmitted. A lower gas transmission volume mainly resulted from decline in gas consumption in the production of fertilisers and electricity. The volume transmitted to fertilisers companies was equal to 12,436 GWh or 11.9% lower compared to 2015. The natural gas volume transmitted to supply companies increased 40.8% up to 5,509 GWh. The volume transported to energy companies dropped to 5,076 GWh (6,984 GWh in 2015), the volume transmitted to industrial companies was equal to 315 GWh or 73.2% less than a year ago.

The volume of natural gas transmitted to the system users to Latvia via the transmission system through the Kiemėnai Gas Metering Station was equal to 474 GWh (1,029 GWh in 2015). The volume of natural gas transmitted to the Kaliningrad Region of the Russian Federation was equal to 23,511 GWh (21,779 GWh in 2015).

Key financial indicators of the EPSO-G Group:

| Financial indicators, in EUR thousands | 2016 | 2015 | 2014* |
|---|---|---|---|
| Revenue | 234,522 | 156,342 | 147,105 |
| Operating expenses | -189,639 | -140,252 | -270,945 |
| EBITDA[1] | 90,496 | 55,980 | 49,577 |
| Net profit | 39,074 | 12,226 | -13,291 |
| Assets | 1,093,424 | 1,152,123 | 901,073 |
| Equity | 240,413 | 201,966 | 191,530 |
| Net debt[2] | 468,238 | 567,989 | 410,007 |
| Financial ratios | | | |
| EBITDA margin[3] | 38.6% | 35.8% | 33.7% |
| Return on equity (ROE)[4] | 17.7% | 6.2% | -6.3% |
| Net debt to equity ratio | 1.9 | 2.8 | 2.1 |
| Net debt to EBITDA ratio | 5.2 | 10.1 | 8.3 |
| Equity to assets ratio | 22.0% | 17.5% | 21.3% |
| Current liquidity[5] | 0.9 | 0.8 | 0.8 |

* Amber Grid was included in the accounting records of the Group from July 2014

1) EBITDA = profit (loss) before tax + interest expenses - interest income + depreciation and amortisation expenses + impairment expenses + write-offs of property, plant and equipment + revaluation of property, plant and equipment + premium to the purchase price of LG

2) Net debt = non-current borrowings + current borrowings + liability to Lietuvos Energija for the acquisition of shares of Litgrid - short-term investments - term deposits - cash and cash equivalents

3) EBITDA margin = EBITDA / Revenue

4) Return on equity = net profit / (equity at the beginning of the period + equity at the end of the period) / 2

5) Current liquidity = Total current assets / Total current liabilities

**Revenue**

In 2016, revenue of the EPSO-G Group increased by 50.0% compared to 2015 and amounted to EUR 234.5 million.

Revenue from transmission of electricity increased by 34.8% up to EUR 68.0 million compared to 2015 and accounted for 29.0% of the Group's total revenue. Revenue growth was largely caused by a higher volume of electricity transmitted and a higher tariff for the electricity transmission service. Income from natural gas transmission amounted to EUR 59.9 million (natural gas transmission to Lithuanian consumers amounted to EUR 49.7 million and transportation to Latvia and the Kaliningrad Region generated income of EUR 10.1 million) and increased 20.1% compared to 2015 representing 25.5% of the Group's total revenue. The main reasons for the increase of this revenue were higher volumes of transit and higher than projected sales of short-term transmission capacities.

Revenue from sale of system electricity services increased 3.6 times up to EUR 33.9 million. Such growth was caused by a 3.8 time higher tariff for system services established by the National Control Commission for Prices and Energy from 1 January 2016 (as from 1 August 2016 the tariff for system services was reduced by 22.7%). Revenue from sale of balancing/regulating electricity increased by 51.5% up to EUR 22.1 million. This revenue grew mainly due to a 56.5% increase in the volume of balancing/regulating electricity sold.

After the launch of the international interconnections between Lithuania and Poland and between Lithuania and Sweden, congestion revenue received amounted to EUR 11.4 million in 2016. Congestion revenue arises from different electricity market prices in Lithuania, Sweden, Poland and Latvia as a result of insufficient capacity of electricity lines. Pursuant to 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. Litgrid recognises only a part of cash inflows received as congestion revenue, i.e. only those used for guaranteeing the allocated capacity of the interconnections. The remaining revenue is accounted for as deferred revenue. In 2016, EUR 3.4 million was recognised as congestion revenue.

The remaining amount of the Group's revenue was equal to EUR 47.2 million.

## Operating expenses

In 2016, the Group's expenses amounted to EUR 189.6 million, which is a EUR 49.4 million increase compared to 2015. Increase in expenses resulted from higher electricity and related services expenses, depreciation and amortisation expenses.

The main elements in the total amount of expenses are purchases of energy resources and related services amounting to EUR 87.8 million (purchases of electricity and related services increased by EUR 42.8 million and amounted to EUR 80.6 million, natural gas related expenses declined by EUR 1.4 million and were equal to EUR 7.2 million) or EUR 41.4 million more than in 2015 due to a higher price of balancing/regulating electricity and higher volume of balancing/regulating electricity purchased, higher demand for reserve power (as a result of the operation of the new electricity interconnections with Sweden and Poland) and higher prices of these services, larger technological losses in the electricity transmission network and expenses for guaranteeing the allocated capacity of the interconnections with Sweden and Poland. Due to assets that were put into operation at the end of 2015 depreciation and amortisation expenses increased by EUR 5.8 million and amounted to EUR 42.5 million. Wages and salaries and related expenses amounted to EUR 23.0 million, repair and maintenance expenses reached EUR 9.5 million, telecommunications and ITT expenses – EUR 3.9 million and the remaining amount of expenses was equal to EUR 22.9 million.

## Results of operations

Net profit for 2016 amounted to EUR 39.1 million and was 3.2 times higher than in 2015 when a net profit of 12.2 million was earned. The Group's ROE ratio was equal to 17.7% (2015: 6.2%). The Group's profitability ratios improved as a result of a EUR 4.2 million decrease in the amount payable for the purchase of Litgrid (see Note 2.27 of the 2016 Group's financial statements for more details). Before taking into consideration these non-recurring income from financing activity, the Group's net profit for 2016 would amount to EUR 34.9 million (ROE ratio – 15.9%).

The Group's EBITDA increased by 61.7% compared to 2015 and was equal to EUR 90.5 million in 2016. The EBITDA margin rose to 38.6% (2015: 35.8%).

Based on the results reported in the financial statements for 2016, the ratio of return on equity and profitability ratios are one of the highest among the companies controlled by the State of Lithuania.

(All amounts in EUR thousands unless otherwise stated)

**Investments**

In 2016, investments of the electricity transmission system operator Litgrid amounted to EUR 36.7 million, whereof 50% were allocated for the implementation of the strategic electricity projects and 50% were designated for the reconstruction and development of the domestic transmission network.

Amber Grid investments for 2016 amounted to EUR 13.1 million. The construction of new gas systems amounted to EUR 6.6 million. Investments in the reconstruction and modernisation were equal to EUR 6.1 million. In 2016, investments in financial assets amounted to EUR 453 thousand (the authorised share capital was Get Baltic was increased in the first quarter of 2016 and in the fourth quarter 34.0% of shares were acquired from Gasum Oy).

**Statement of financial position**

As at 31 December 2016, the Group's assets amounted to EUR 1,093.4 million. The Group's non-current assets amounted to EUR 947.0 million and represented 86.6% of the Group's total assets. Shareholders' equity made up 22.0% of the Group's assets.

As at 31 December 2016, the Group's borrowings from financial institutions amounted to EUR 485.0 million (including a EUR 205.8 million liability to Lietuvos Energija for the acquisition of shares of Litgrid). Cash and cash equivalents amounted to EUR 16.7 million. The ratio of net debt to equity was equal to 194.8%

## VI. Personnel

In 2016, preparatory works for the introduction of uniform remuneration principles at all companies of the EPSO-G Group were completed. Based on the internationally recognised Hay Group methodology all executive positions at the Group and their responsibility levels, in view of which the amount of remuneration is established, were assessed.

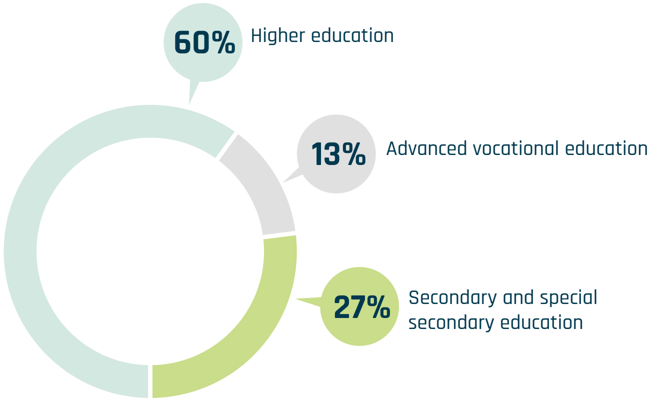
The remuneration policy of the EPSO-G Group based on the uniform responsibility and accountability principles is expected to be fully applicable in 2017 upon the approval of the Remuneration Committee and the Board.

As at 31 December 2016, the EPSO-G Group had 1,078 employees: EPSO-G – 17 employees, Amber Grid – 362 employees, Litgrid – 235 employees, Tetas – 421 employees, Baltpool – 11 employees, PLS – 29 employees, and Get Baltic – 3 employees.

The total wage bill of the EPSO-G Group for the reporting year amounted to EUR 17,037 thousand.

| | Number of employees | | Average salary (before tax) | |
|---|---|---|---|---|
| | At 31 Dec 2016 | At 31 Dec 2015 | At 31 Dec 2016 | At 31 Dec 2015 |
| **All employees** | **1,078** | **1,033** | **1,363** | **1,310** |
| All employees | 24 | 23 | 5,283 | 5,228 |
| Management personnel | 673 | 660 | 1,513 | 1,467 |
| Specialists | 381 | 350 | 813 | 818 |

The structure of the EPSO-G Group's employees according to educational background at the end of the period:




## VII. Corporate governance

**Corporate governance guidelines**

The corporate governance of EPSO-G corresponds to the Corporate Governance Guidelines for the State-owned Group of Energy Companies approved by the Minister of Energy of the Republic of Lithuania on 7 September 2015 that prescribed the corporate governance principles applicable to the Group of companies, the corporate governance organisation model, governance structure, as well as the system for accountability, supervision and control of operations.

In 2016, EPSO-G continued the implementation of the good governance practice by observing the principles of transparency, efficiency, professionalism, consistency and accountability. EPSO-G referred to the best international practices presented in the Guidelines of the Organisation for Economic Cooperation and Development (OECD), the recommendations of the United Nations and NASDAQ stock exchange whose main objective is to ensure effective management of state-owned companies by clearly separating the state control and professional management functions.

For the purpose of the implementation of these objectives in 2016 the Supervisory Council, the Board, the Remuneration and Appointment Committee, the Audit Committee of the parent company were newly formed; the Boards of all seven companies of the Group were renewed and re-elected.

Independent members comprise a third of all members of the collegial management bodies, including collegial management bodies of the EPSO-G companies. Moreover, EPSO-G became the first state-owned company in the country having the international expert (the representative of the European Bank for Reconstruction and Development) as its Board member. The transparency and professionalism of elections of the members to the collegial bodies of EPSO-G have been publicly recognised as one of the examples to be followed by other state-owned companies.

**Articles of Association**

On 17 December 2015, the new Articles of Association of EPSO-G were registered *(the updated version on 20 May 2016)*, which were drafted referring to the OECD recommendations published in 2015 regarding the implementation of the corporate governance principles by the companies owned by the State of Lithuania. The OECD report also recommends to reorganise the management of EPSO-G and form the Board at this company.

In attempt for the State, in its capacity as the owner, to effectively control its companies and for them to operate transparently and professionally, one of the main changes being planned is the separation of the state-owned companies from political influence by involving the best independent professionals in the management of the EPSO-G Group.

## Management bodies

The following management bodies are stipulated in the Company's Articles of Association:

1. General Meeting of Shareholders
2. Supervisory Council
3. Board
4. The Company's Manager – the Chief Executive Officer of the Company

## General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Company. The procedure for the convocation, decision-taking, and the competence of the General Meeting of Shareholders are prescribed by the Lithuanian Law on Companies and the Company's Articles of Association.

## Supervisory Council

The Supervisory Council of a collegial supervisory body of the Company and its subsidiaries composed of five members, at least two of whom should be independent members. The Chairman of the Supervisory Council is elected from the independent members. The competence of the Supervisory Council is prescribed by the Lithuanian Law on Companies and the Company's Articles of Association.

The following specialised committees are formed at the Company: the Audit Committee, and the Remuneration and Appointment Committee. Both committees are under the authority of the Supervisory Council.

The Audit Committee is composed of at least three members, at least two of whom should be independent members, by appointing one member from the existing independent members of the Supervisory Council. The Chairman of the Audit Committee is elected from the independent members.

The Remuneration and Appointment Committee is composed of at least three members, at least one of whom should be an independent member and the other two should be appointed from the members of the Supervisory Council in compliance with the principle that at least one member is elected from the independent members of the Supervisory Council.

The Supervisory Council is elected for the term of four years and the specialised committees under its authorisation are appointed for the term not longer than four years. The Supervisory Council and the specialised committees shall not serve for more than two consecutive terms.

The composition of the Supervisory Council of EPSO-G:

| Full name | Position | Term of office | Workplace |
|---|---|---|---|
| Viktorija Trimbel | Independent member of the Supervisory Council<br>Chair of the Supervisory Council | From 11 May 2016 | Quantum Capital, UAB |
| Raimondas Rapkevičius | Independent member of the Supervisory Council | From 11 May 2016 | General Financing UAB |

(All amounts in EUR thousands unless otherwise stated)

| | | | |
|---|---|---|---|
| Audrius Misevičius* | Member of the Supervisory Council | From 11 May 2016 | Government of the Republic of Lithuania |
| Inga Černiuk | Member of the Supervisory Council | From 11 May 2016 | Ministry of Energy of the Republic of Lithuania |
| Agnė Amelija Kairytė | Member of the Supervisory Council | From 11 May 2016 | Ministry of Energy of the Republic of Lithuania |

The composition of the Remuneration and Appointment Committee under the Supervisory Council of EPSO-G:

| Full name | Position | Term of office | Workplace |
|---|---|---|---|
| Viktorija Trimbel | Independent member of the Remuneration and Appointment Committee<br><br>Chair of the Committee | From 10 June 2016 | Quantum Capital, UAB |
| Agnė Amelija Kairytė | Member of the Remuneration and Appointment Committee | From 10 June 2016 | Ministry of Energy of the Republic of Lithuania |
| Jolita Lauciuvienė | Independent member of the Remuneration and Appointment Committee | From 25 August 2016 | PERSONALO VERTĖ VERSLUI UAB |

The composition of the Audit Committee under the Supervisory Council of EPSO-G:

| Full name | Position | Term of office | Workplace |
|---|---|---|---|
| Raimondas Rapkevičius | Independent member of the Audit Committee<br><br>Chairman of the Committee | From 12 September 2016 | General Financing UAB |
| Audrius Misevičius* | Member of the Audit Committee | From 12 September 2016 | Government of the Republic of Lithuania |
| Gediminas Šiušas | Independent member of the Audit Committee | From 12 September 2016 | Western Union Processing Lithuania UAB |

* On 12 January 2017, Audrius Misevičius resigned from the position of the member of the Supervisory Council and the Audit Committee of EPSO-G.

**Board**

The Board is a collegial management body of the Company composed of five members, at least three of whom should be independent members and the remaining members are elected from the Company's highest level executive personnel. The competence of the Board is prescribed by the Lithuanian Law on Companies and the Company's Articles of Association. The Board is accountable to the Company's Supervisory Council; it is elected for the term of four years and it shall not serve for more than two consecutive terms.

The Company's Board was formed on 10 November 2016

The composition of the Board of EPSO-G:

| Full name | Position | Term of office | Workplace |
|---|---|---|---|
| Rytis Ambrazevičius | Independent member of the Board*<br><br>Chairman of the Board | From 10 November 2016 | Association Baltic Institute of Corporate Governance |

(All amounts in EUR thousands unless otherwise stated)

| | | | |
|---|---|---|---|
| Valdas Vitkauskas | Independent member of the Board | From 10 November 2016 | European Bank for Reconstruction and Development |
| Rolandas Zukas | Member of the Board | From 10 November 2016 | EPSO-G UAB |
| Gediminas Almantas | Independent member of the Board | From 10 November 2016 | State enterprise Lietuvos Oro Uostai |
| Algirdas Juozaponis | Member of the Board | From 10 November 2016 | EPSO-G UAB |

* Considered to be an independent member of the Company's Board as of the moment of his resignation from the member of the Board of Klaipėdos Nafta AB, i.e. from 1 December 2016.

**The Company's General Manager**

The General Manager acts as a single-person management body of the Company accountable to the Board. The competence of the Company's General Manager is prescribed by the Lithuanian Law on Companies and the Company's Articles of Association.

The position of the Company's General Manager is held by Rolandas Zukas as from 17 February 2015.

**Transparency**

The Company complies with the provisions of sections IV-VII of the Guidelines for Ensuring the Transparency of Activities of the State-owned Enterprises approved by Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 and publicly announces the specified indicators of the operations of the EPSO-G Group (http://vkc.turtas.lt/imones).

The EPSO-G Group follows the policy of corruption prevention which establishes the main principles and requirements for the corruption prevention of the EPSO-G Group and the guidelines ensuring compliance with them, the implementation of which creates conditions for the application of the highest standards on transparent business operations at the Group level (http://epsog.lt/lt/apie-mus/korupcijos-prevencijos-politika-1).

## VIII. Shareholders and dividends

As at 31 December 2016, the Company's authorised share capital amounted to EUR 22,482,695 and it was divided into 77,526,533 ordinary registered intangible shares with the nominal value of EUR 0.29 each. All shares are fully paid and grant shareholders equal rights.

The sole shareholder of EPSO-G UAB is the Republic of Lithuania (100% of shares) whose property and non-property rights are implemented by the Ministry of Energy of the Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania in accordance with paragraph 2.3 of the Lithuanian Government's Resolution No 826 of 4 July 2012 Regarding the establishment of the private limited liability company and investment of state-owned assets.

EPSO-G UAB has not acquired own shares. During the reporting period EPSO-G UAB neither acquired nor disposed of its own shares. The Company's subsidiaries have not acquired the Company's shares.

The shares of Litgrid and Amber Grid that are controlled by EPSO-G are traded at NASDAQ Vilnius stock exchange:

| Company | ISIN code | Securities' abbreviation | Trading list |
|---|---|---|---|
| LITGRID AB | LT0000128415 | LGD1L | BALTIC SECONDARY LIST |
| Amber Grid AB | LT0000128696 | AMG1L | BALTIC SECONDARY LIST |

The securities of other companies controlled by EPSO-G are not traded at the stock exchange.

**Dividends**

In 2016, the Company allocated and paid to the state budget dividends amounting to EUR 425 thousand.

## IX. Risk factors and risk management

When performing its activities, the EPSO-G Group companies are exposed to the following main risks:

**Political and regulatory risk**

The power sector has great importance for national, political and economic interests. The structure, management and operations of the electricity and natural gas sector companies are regulated by the Lithuanian laws and implementing legal acts. Any amendments to the national or the EU level legal acts regulating the power sector may have impact on the results of the operations of the EPSO-G Group. Aiming to mitigate the impact of this risk on the results of operations the representatives of the companies actively participate in deliberations, inform about the decisions whose adoption is necessary and/or make proposals for the authorities that draft legal acts.

The prices of the electricity and natural gas services are regulated and the price caps are established by the National Control Commission for Prices and Energy (hereinafter "the Commission"). These decisions of the regulatory body directly affect not only the results of operations of the EPSO-G Group, but also the amount of funds allocated by the companies for necessary operating expenses, for the investments ensuring the reliability of the transmission network as well as the possibilities to finance strategic projects using own or borrowed funds. To reduce the impact of the regulatory risk on the results of operations, the companies actively cooperate with the Commission, take part in the deliberations on the amendments to the legal acts, present arguments to support their proposals by describing the influence of future decisions and the importance of long-term, strategic objectives of the companies.

**Operational and technological risk**

One of the main functions and responsibilities of the companies of the EPSO-G Group is to ensure a safe, reliable and effective operation of the natural gas and electricity transmission systems. To achieve this aim specialised information systems, modern business management systems are being installed at the companies, the plans on the management of emergencies are regularly updated, high requirements are set for contractors.

The maintenance and support of the transmission systems operated by the companies require special attention (more than a half of gas mains are older than 25 years, more than a half of high-voltage transmission facilities are older than 45 years). In order to avoid interruptions at the transmission systems the companies conduct a constant monitoring of the systems, draw up respective maintenance plans and plan necessary new investments in the network in due time. The companies apply the rating scale for the investments in the network based on objective criteria and special valuation methodology which leads to optimised and balanced investments.

**Financial risk**

The EPSO-G Group companies are exposed to financial risks in their operations, i.e. credit risk, liquidity risk and market risk (foreign exchange risk, interest rate risk). Information on financial risks is presented in the Group's financial statements for 2016.

**Competitive risk exposure**

The results of operations of the EPSO-G Group are affected by competition among different energy resources. A significant decline in natural gas consumption by the Lithuanian power sector companies due to more efficient methods of thermal power generation, use of alternative fuels (biomass, sun, wind, geothermal energy) have a negative effect on the financial performance of Amber Grid. By implementing the tasks defined under the established strategic directions (transformation to the transmission system operator functioning at the single gas market; development of the necessary infrastructure) the Company aims to mitigate the risk of reduction in natural gas consumption and transportation and its consequences.

## X. Social responsibility and environmental protection

The environmental protection and social responsibility policy is an integral part of the strategic tasks and objectives set for companies controlled by EPSO-G. The results and effectiveness of this policy are regularly and methodologically assessed.

### Environmental protection

The companies of the EPSO-G Group comply with the strictest environmental standards in their operations. In 2016, Amber Grid recertified the environmental management system and was issued a new environmental management certificate ISO 14001:2015. The Company completed the introduction and certification of the occupational safety and health management system OHSAS 18001 by integrated it in the existing environmental system. Litgrid requires that the contractors apply the ISO 14001 environmental management system. When accepting the works performed all companies verify whether the contractors fulfilled requirements, properly managed waste and have documents confirming this.

The environmental impact assessment or selection procedures are performed with respect to the planned infrastructure projects, the results of which are taken into consideration during the preparation of technical projects. The environmental requirements are established during the preparation of engineering tasks. Solutions less harmful to environment are chosen first, if possible.

### Social initiatives

The Group's activities are organised on the ground of social responsibility and transparency. The operations of the Group companies are crucial for economic success of the country. Long-term strategic objectives and strategic energy projects being implemented by the companies contribute to ensuring the country's energy independence. As in the previous years companies Litgrid and Amber Grid took part in various support programmes by acting as partners in projects significant to society and creating new living or occupational opportunities for those in need. In 2016, Amber Grid provided support to more than 20 different institutions, organisations or their projects, thus making a significant contribution in promoting various initiatives. In 2016, Litgrid paid large attention to the provision of information to society on a safe behaviour near electricity lines.

## XI. Significant events after the end of the reporting period

On 12 January 2017, Audrius Misevičius resigned from the position of the member of the Audit Committee and the Supervisory Council of EPSO-G.

On 17 January 2017, the agreements on the EU financial support to the gas interconnection between Poland and Lithuania were amended. Under these amendments the maximum amount of the EU financial support allocated to Amber Grid for the construction works of the interconnection was increased from EUR 55 million to EUR 58 million and the deadline for the project's implementation was extended until 31 December 2021. The maximum amount of the financial support allocated to the project's preparatory works remained unchanged and amounted to EUR 2.5 million.

On 20 January 2017, the extraordinary general meeting of shareholders of Baltpool was held at which the formation of the Board was completed; Viktoras Baltuškonis was elected as an independent member.

On 23 January 2017, the natural gas operators of the Baltic countries Amber Grid, Conexus Baltic Grid AS, Elering AS signed the agreement on cooperation in the implementation of the model on indirect allocation of capacities. The application of such model is a concrete step towards the integration of the gas markets of the Baltic countries.

On 3 February 2017, the sitting of the Board of Tetas was held at which the General Manager of Tetas Žydrūnas MatuF zas was revoked from this position due to mistrust. The General Manager of PLS Edvardas Tarasevičius was appointed as the Acting General Manager.

On 6 February 2017, the sitting of the Board of Baltpool was held at which Nemunas Biknius, Strategy and Development Director of EPSO-G, was elected as the Chairman of the Board.

On 1 March 2017, the credit agreement signed with SEB Bankas AB came into force under which EPSO-G can receive a loan of up to EUR 4,000 thousand to ensure higher treasury management effectiveness.

On 7 March 2017, the EPSO-G Group operational strategy was presented. The strategy indicates four main operational directions of the companies: sustainable growth of the Group, long-term benefit to the shareholders, expansion of regional activities and implementation of strategic projects. Other important areas include effective operations and the establishment of a creative and innovative organisation. The Group's average return on equity will reach 6.4% over the upcoming five years and EBITDA will amount to not less than EUR 70 million at the end of the period. These objectives have been set in consideration of the regulatory environment which provides that the excess of the return over the return's limit value is allocated to reduce the electricity transmission price to consumers in the next year, and the obligation to settle for the ownership right of the electricity transmission system operator Litgrid held by the Group.

# INDEPENDENT AUDITOR'S REPORT

To shareholders of EPSO-G UAB

# Independent auditor's report

To the shareholders of EPSO-G UAB

## Our opinion

In our opinion, the stand-alone and consolidated financial statements present fairly, in all material respects, the stand-alone and consolidated financial position of the EPSO-G UAB ("the Company") and its subsidiaries ("the Group") as at 31 December 2016, and their stand-alone and consolidated financial performance and their stand-alone and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*What we have audited*
The Company's and Group's stand-alone and consolidated financial statements comprise:

- the stand-alone and consolidated statement of financial position as at 31 December 2016;
- the stand-alone and consolidated statements of comprehensive income for the year then ended;
- the stand-alone and consolidated statement of changes in equity for the year then ended;
- the stand-alone and consolidated statement of cash flows for the year then ended; and
- the notes to the stand-alone and consolidated financial statements, which include a summary of significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

*Independence*
We are independent of the Company and Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law on Audit of the Republic of Lithuania that are relevant to our audit of the stand-alone and consolidated financial statements in Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law on Audit of the Republic of Lithuania.

## Other information

Management is responsible for the other information. The other information comprises the consolidated annual report (but does not include the stand-alone and consolidated financial statements and our auditor's report thereon).

Our opinion on the stand-alone and consolidated financial statements (together "the financial statements") does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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

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appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of 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 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 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 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 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 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 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.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
10 April 2017

# CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2016 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED ANNUAL REPORT

(All amounts in EUR thousands unless otherwise stated)

| | | Group | Company | Group | Company |
|---|---|---|---|---|---|
| **ASSETS** | Notes | **At 31 December 2016** | **At 31 December 2016** | **At 31 December 2015** | **At 31 December 2015** |
| **Non-current assets** | | | | | |
| Intangible assets | 4 | 2,138 | 1 | 1,701 | 1 |
| Property, plant and equipment | 5 | 940,649 | 54 | 887,394 | 2 |
| Prepayments for property, plant and equipment | | 727 | - | 56,298 | - |
| Investments in subsidiaries | 6 | 675 | 344,132 | - | 343,744 |
| Investments in associates | 6 | - | - | 942 | - |
| Deferred income tax assets | 20 | 100 | 30 | 66 | 1 |
| Available-for-sale financial assets | 7 | 2,693 | - | 2,273 | - |
| **Total non-current assets** | | **946,982** | **344,217** | **948,674** | **343,748** |
| **Current assets** | | | | | |
| Inventories | 8 | 5,271 | 1 | 5,467 | - |
| Prepayments | | 435 | 2 | 378 | 1 |
| Trade receivables | 9 | 25,399 | 26 | 22,389 | - |
| Other amounts receivable | 10 | 82,572 | 44 | 102,079 | 563 |
| Prepaid income tax | | 3 | - | 1,457 | - |
| Other financial assets | 11 | 16,044 | - | 38,021 | - |
| Cash and cash equivalents | 12 | 16,718 | 1,328 | 33,655 | 5,475 |
| **Total current assets** | | **146,442** | **1,401** | **203,446** | **6,039** |
| Non-current assets held for sale | | - | **-** | **3** | **-** |
| **TOTAL ASSETS** | | **1,093,424** | **345,618** | **1,152,123** | **349,787** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Share capital | 13 | 22,483 | 22,483 | 22,483 | 22,483 |
| Revaluation reserve | 14 | 5,468 | - | 6,072 | - |
| Reserve for change in fair value of financial assets | 15 | 639 | - | 291 | - |
| Legal reserve | 15 | 16,620 | 2,248 | 16,486 | 2,245 |
| Other reserves | 15 | 61,178 | - | 61,178 | - |
| Retained earnings (deficit) | | 120,516 | 101,593 | 82,630 | 84,995 |
| **Equity attributable to owners of the parent** | | **226,904** | **126,324** | **189,140** | **109,723** |
| Non-controlling interest | | 13,509 | - | 12,826 | - |
| **Total equity** | | **240,413** | **126,324** | **201,966** | **109,723** |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Grants | 17 | 258,738 | - | 190,609 | - |
| Non-current borrowings | 18 | 208,897 | 10,240 | 266,407 | 29,000 |
| Deferred income tax liabilities | 20 | 13,934 | - | 14,905 | - |
| Deferred income | 31 | 8,461 | - | 495 | - |
| Other anon-current amounts payable and liabilities | 19 | 194,150 | 193,572 | 210,599 | 209,975 |
| **Total non-current liabilities** | | **684,180** | **203,812** | **683,015** | **238,975** |
| **Current liabilities** | | | | | |
| Current portion of non-current borrowings | 18 | 22,086 | 2,560 | 33,193 | - |
| Current borrowings | 18 | 48,179 | - | 92,069 | - |
| Finance lease liabilities | | - | - | 10 | - |
| Trade payables | 21 | 19,560 | 24 | 36,740 | 92 |
| Advance amounts received | 22 | 5,247 | - | 7,336 | - |
| Income tax liability | | 2,237 | - | 326 | - |
| Other current amounts payable and liabilities | 23 | 71,522 | 12,898 | 97,468 | 997 |
| **Total current liabilities** | | **168,831** | **15,482** | **267,142** | **1,089** |
| **Total liabilities** | | **853,011** | **219,294** | **950,157** | **240,064** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,093,424** | **345,618** | **1,152,123** | **349,787** |

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

(All amounts in EUR thousands unless otherwise stated)

| | Notes | Group 2016 | Company 2016 | Group 2015 | Company 2015 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue from sale of electricity and related services | 24 | 143,215 | - | 82,985 | - |
| Revenue from natural gas transmission and related services | 25 | 66,491 | - | 55,246 | - |
| Other income | 26 | 24,816 | 29 | 18,111 | - |
| **Total revenue** | | **234,522** | **29** | **156,342** | **-** |
| **Operating expenses** | | | | | |
| Expenses attributable to electricity and related services | 24 | (80,615) | - | (37,793) | - |
| Cost of natural gas | | (7,180) | - | (8,603) | - |
| Depreciation and amortisation | 4,5,17 | (42,532) | (8) | (36,769) | - |
| Wages and salaries and related expenses | | (23,009) | (956) | (20,870) | (330) |
| Repair and maintenance expenses | | (9,509) | - | (9,799) | - |
| Telecommunications and IT maintenance expenses | | (3,862) | (26) | (4,028) | (14) |
| Write-offs of property, plant and equipment | 5 | (913) | (1) | (2,571) | - |
| Impairment of property, plant and equipment | | (1,181) | - | - | - |
| Other expenses | | (20,838) | (358) | (19,819) | (228) |
| **Total expenses** | | **(189,639)** | **(1,349)** | **(140,252)** | **(572)** |
| **Operating profit/(loss)** | | **44,883** | **(1,320)** | **16,090** | **(572)** |
| **Financing activities** | | | | | |
| Finance income | | 183 | 16,839 | 359 | 56,020 |
| Income from premium to the purchase price of LITGRID AB | 2.27 | 4,181 | 4,181 | - | - |
| Interest expenses | | (4,731) | (2,692) | (5,033) | (3,971) |
| Other finance costs | | (60) | (13) | (191) | (30) |
| **Total result of financing activities** | | **(427)** | **18,315** | **(4,865)** | **52,019** |
| Share of profit/(loss) of associates and joint ventures | 6 | 32 | - | (57) | - |
| **Profit/(loss) before income tax** | | **44,488** | **16,995** | **11,168** | **51,447** |
| **Income tax** | | | | | |
| Current year income tax expenses | 20 | (6,485) | - | (3,139) | - |
| Deferred income tax (expenses)/income | 20 | 1,071 | 31 | 4,197 | 1 |
| **Total income tax** | | **(5,414)** | **31** | **1,058** | **1** |
| **Net profit/(loss)** | | **39,074** | **17,026** | **12,226** | **51,448** |
| **Other comprehensive income that will not be reclassified subsequently to profit or loss** | | | | | |
| Change in fair value of financial assets | | 420 | - | 350 | - |
| Effect of deferred income tax | | (63) | - | (52) | - |
| **Total other comprehensive income that will not be reclassified subsequently to profit or loss** | | 357 | - | 298 | - |
| **Total comprehensive income/(expenses) for the year** | | **39,431** | **17,026** | **12,524** | **51,448** |
| **Net profit/(loss) attributable to:** | | | | | |
| Owners of the Parent | | 37,841 | 17,026 | 11,621 | 51,448 |
| Non-controlling interest | | 1,233 | - | 605 | - |
| | | **39,074** | **17,026** | **12,226** | **51,448** |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Parent | | 38,189 | 17,026 | 11,912 | 51,448 |
| Non-controlling interest | | 1,242 | - | 612 | - |
| | | **39,431** | **17,026** | **12,524** | **51,448** |

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

(All amounts in EUR thousands unless otherwise stated)

| | | Attributable to owners of the Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Notes** | **Share capital** | **Reval-uation reserve** | **Reserve of changes in fair value of financial assets** | **Legal reserve** | **Other reserves** | **Retained earnings** | **Subto-tal** | **Non-con-trolling interest** | **Total** |
| **Balance at 1 January 2015** | | **22,453** | **6,669** | - | **15,982** | **167,071** | **(34,805)** | **177,371** | **14,159** | **191,529** |
| **Comprehensive income** | | | | | | | | | | |
| Comprehensive income (loss) for the period | | - | - | 291 | - | - | 12,031 | 12,322 | 623 | 12,945 |
| Depreciation of revaluation reserve and amounts written off | 14 | - | (597) | - | - | - | 597 | - | - | - |
| **Total comprehensive income (loss) for the period** | | **-** | **(597)** | **291** | **-** | **-** | **12,628** | **12,322** | **623** | **12,945** |
| Transfer to retained earnings | | - | - | - | (3) | (105,893) | 105,896 | - | - | - |
| Transfer to reserves | | - | - | - | 507 | - | (507) | - | - | - |
| Share capital conversion into euros | | 30 | - | - | - | - | - | 30 | - | - |
| Dividends | 16 | - | - | - | - | - | (172) | (172) | (1,983) | (2,155) |
| Change in ownership interest in the subsidiary | | - | - | - | - | - | - | - | 38 | 38 |
| **Balance at 31 December 2015** | | **22,483** | **6,072** | **291** | **16,486** | **61,178** | **83,040** | **189,551** | **12,837** | **202,387** |
| Change in accounting policy | | | | | | | **(410)** | **(410)** | **(11)** | **(421)** |
| **Balance at 31 December 2015 (restated)** | | **22,483** | **6,072** | **291** | **16,486** | **61,178** | **82,630** | **189,140** | **12,826** | **201,967** |
| **Balance at 1 January 2016** | | **22,483** | **6,072** | **291** | **16,486** | **61,178** | **82,630** | **189,140** | **12,826** | **201,967** |
| **Comprehensive income** | | | | | | | | | | |
| Comprehensive income (loss) for the period | | - | | 348 | - | - | 37,841 | 38,189 | 1,242 | 39,431 |
| Depreciation of revaluation reserve and amounts written off | 14 | - | (604) | | - | - | 604 | - | - | - |
| **Total comprehensive income (loss) for the period** | | **-** | **(604)** | **348** | **-** | **-** | **38,445** | **38,189** | **1,242** | **39,431** |
| Transfer to retained earnings | | - | - | | | | - | - | - | |
| Transfer to reserves | | - | - | | 134 | | (134) | - | - | - |
| Share capital conversion into euros | | | | | | | - | - | | |
| Dividends | 16 | - | - | | - | - | (425) | (425) | | (425) |
| Change in ownership interest in the subsidiary | | - | - | | | | | - | (560) | (560) |
| **Balance at 31 December 2016** | | **22,483** | **5,468** | **639** | **16,620** | **61,178** | **120,516** | **226,904** | **13,509** | **240,413** |

| **Company** | | **Share capital** | **Legal reserve** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | | **22,453** | **1,738** | **34,226** | **58,417** |
| Comprehensive income (loss) for the period | | - | - | 51,448 | 51,448 |
| Transfer to reserves | | - | 507 | (507) | - |
| Share capital conversion into euros | 13 | 30 | - | - | 30 |
| Dividends | | - | - | (172) | (172) |
| **Balance at 31 December 2015** | | **22,483** | **2,245** | **84,995** | **109,723** |
| **Balance at 1 January 2016** | | **22,483** | **2,245** | **84,995** | **109,723** |
| Comprehensive income (loss) for the period | | - | - | 17,026 | 17,026 |
| Transfer to reserves | | - | - | - | - |
| Share capital conversion into euros | 13 | - | 3 | (3) | - |
| Dividends | | | - | (425) | (425) |
| **Balance at 31 December 2016** | | **22,483** | **2,248** | **101,593** | **126,324** |

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

(All amounts in EUR thousands unless otherwise stated)

| | Note | Group 2016 | Company 2016 | Group 2015 | Company 2015 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Net profit/(loss) | | 39,074 | 17,026 | 12,226 | 51,448 |
| **Adjustments for non-cash items:** | | | | | |
| Depreciation and amortisation expenses | 4,5 | 48,845 | 8 | 36,846 | 1 |
| Revaluation of property, plant and equipment | 5,17 | - | - | - | - |
| (Reversal of)/impairment charge on assets | | 1,693 | - | 431 | - |
| Loss on disposal of financial assets | | - | - | 62 | - |
| Share of profit of associates and joint ventures | 6 | (32) | - | 57 | - |
| Income tax expenses | 20 | 5,414 | (31) | (1,058) | (1) |
| (Depreciation) of grants | 17 | (6,414) | - | (416) | - |
| Increase (decrease) in provisions | | - | - | 12 | - |
| (Gain)/loss on disposal/write-off of property, plant and equipment | 5 | 928 | 1 | 2,208 | - |
| Elimination of results of financing and investing activities: | | | | | |
| Interest income | | (78) | - | (36) | (7) |
| Interest expenses | | 4,806 | 2,692 | 5,894 | 3,971 |
| Dividend income | | (59) | (16,839) | (122) | (56,013) |
| Other finance (income)/costs | | (4,247) | (4,168) | 70 | 30 |
| **Changes in working capital:** | | | | | |
| (Increase) decrease in trade receivables and other amounts receivable | | (13,748) | 493 | (14,141) | (2) |
| (Increase) decrease in inventories, prepayments and other current assets | | (1,502) | (2) | 323 | - |
| Increase (decrease) in amounts payable, grants, deferred income and advance amounts received | | (21,042) | (4,022) | 59,184 | 80 |
| Changes in other financial assets | | 22,730 | - | (20,142) | - |
| Income tax (paid) | | (3,126) | - | (2,474) | - |
| **Net cash flows from (used in) operating activities** | | **73,242** | **(4,842)** | **78,924** | **(493)** |
| **Cash flows from investing activities** | | | | | |
| (Purchase) of property, plant and equipment and intangible assets | | (69,594) | (61) | (263,330) | (3) |
| Proceeds from sale of property, plant and equipment and intangible assets | | 13 | - | 10 | - |
| Placement of time deposit | 12 | - | - | 6,000 | 6,000 |
| Grants received | 17 | 86,542 | - | 33,452 | - |
| Disposal (acquisition) of subsidiaries (associates)/reduction of share capital | 6 | (452) | (388) | (131) | - |
| Congestion management revenue | | 7,966 | - | 495 | - |
| Redemption of held-to-maturity investments | | - | - | 15,929 | - |
| Interest received | | 82 | - | 113 | 7 |
| Dividends received | | 59 | 16,839 | 122 | 56,013 |
| Other cash flows from investing activities | | - | - | 126 | - |
| **Net cash flows from (used in) investing activities** | | **24,616** | **16,390** | **(207,214)** | **62,017** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | 38,772 | 12,800 | 203,023 | - |
| Repayments of borrowings | | (121,427) | (29,000) | (142,323) | (52,000) |
| Finance lease payments | | (10) | - | (23) | - |
| Overdraft | | (29,852) | - | 81,490 | - |
| Interest paid | | (5,527) | (3,238) | (5,734) | (4,386) |
| Dividends paid | | (994) | (425) | (2,042) | (172) |
| Other cash flows from financing activities | | 4,243 | 4,168 | 38 | - |
| **Net cash flows from (used in) investing activities** | | **(114,795)** | **(15,695)** | **134,429** | **(56,558)** |
| **Net increase (decrease) in cash and cash equivalents** | | **(16,937)** | **(4,147)** | **6,139** | **4,966** |
| Cash and cash equivalents at the beginning of the period | 12 | 33,655 | 5,475 | 27,516 | 509 |
| **Cash and cash equivalents at the end of the period** | 12 | **16,718** | **1,328** | **33,655** | **5,475** |

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

(All amounts in EUR thousands unless otherwise stated)

## 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 g. 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 Company' main activity is to ensure an uninterrupted, stable transmission of electric power over high voltage networks and transportation of natural gas via high pressure gas pipelines, as well as to ensure management, maintenance and development of these transmission systems.

As at 31 December 2016 and 2015, the Company's authorised share capital amounted to EUR 22,482,695. As at 31 December 2016 and 2015, 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 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| | **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** | **Office address** | **Effective shareholding (%)** | | **Profile of activities** |
|---|---|---|---|---|
| | | **At 31 December 2016** | **At 31 December 2015** | |
| LITGRID AB | A. Juozapavičiaus g. 13, Vilnius, Lithuania | 97.5 | 97.5 | Electricity transmission system operator |
| Amber Grid AB | Savanorių pr. 28, Vilnius, Lithuania | 96.6 | 96.6 | Natural gas transmission system operator |
| BALTPOOL UAB* | A. Juozapavičiaus g. 13, Vilnius, Lithuania | 67.0 | 65.3 | Energy resources exchange operator entitled to organise trade in biofuel products, and the administrator of PSO funds |
| TETAS UAB (controlled through LITGRID AB) | Senamiesčio g. 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 g. 13, Vilnius, Lithuania | 97.5 | 97.5 | Management and operation of electricity interconnection facilities |
| UAB GET Baltic** (controlled through Amber Grid AB) | Savanorių pr. 28, Vilnius, Lithuania | 96.6 | 63.8 | Organisation of trading on natural gas exchange |

*On 5 February 2016, the Company and LITGRID AB signed the share purchase and sale agreement. Under this agreement the Company acquired from LITGRID AB 478,800 ordinary registered intangible shares of BALTPOOL UAB representing 67% of the total share capital of BALTPOOL UAB. The right of ownership was transferred to EPSO-G UAB on 1 March 2016. Shares of BALTPOOL UAB were sold for the market share price established by the independent property valuer amounting to EUR 387,828.

**On 6 November 2015, Amber Grid AB and Lietuvos Dujos AB signed the share purchase and sale agreement, under which 34% of the authorised share capital of GET Baltic UAB were acquired. As at 31 December 2015, Amber Grid AB held 66% of the authorised share capital. On 12 October 2016, Amber Grid AB acquired the remaining ownership interest of 34% in GET Baltic UAB from Finnish natural gas company Gasum Oy and became the sole shareholder of GET Baltic UAB owning 100% of its share capital. As at 31 December 2016, the authorised share capital of GET Baltic UAB amounted to EUR 580,450 and it was divided into 3,055,000 shares with the par value of EUR 0.19 each.

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 | Office address | The Group's shareholding (%) At 31 December 2016 | The Group's shareholding (%) At 31 December 2015 | Profile of activities |
|---|---|---|---|---|
| Duomenų Logistikos Centras UAB | Žvejų g. 14, Vilnius, Lithuania | 20 | 20 | IT services |
| LitPol Link Sp.z.o.o | Wojciecha Gorskiego 900-033 Warsaw, Poland | 50 | 50 | Execution and coordination of joint tasks related to the management of the existing interconnection Lithuania-Poland, a planned expansion of the network and to other cooperation fields |

On 27 January 2017, subject to the approval of the Board of LITGRID AB the sale of 20.36% ownership interest in Duomenų Logistikos Centras UAB held by the right of ownership together with the ownership interest held by Lietuvos Energija UAB was organised. In these financial statements the Group's investment in the associate was reclassified to available-for-sale 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 2016, the Group had 1,078 employees (31 December 2015: 1,030). As at 31 December 2016, the Company had 17 employees (31 December 2015: 8).

The Company's management approved these financial statements on 7 April 2017. 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 applied in the preparation of Company's and the Group's financial statements for the year ended 31 December 2016 are set out below:

2.1 Basis of preparation

The Company's and the Group's financial statements for the year ended 31 December 2016 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 EUR thousands, unless otherwise stated.

Due to the rounding effects of individual amounts to the nearest thousands of euros, the tabular amounts may not add up. Such rounding deviations are not material in the financial statements.

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

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

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

IFRSs and their amendments adopted by the Group and the Company for the first time in the financial year ended 31 December 2016 are as follows:

*Amendments to IAS 19, 'Defined benefit plans: Employee contributions' (effective for annual periods beginning on or after 1 February 2015).* The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

*Annual improvements to IFRSs 2012* (effective for the annual periods beginning on or after 1 February 2015). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

*Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11* (effective for annual periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

*Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38* (effective for annual periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

*Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41* (effective for annual periods beginning on or after 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

*Equity method in separate financial statements – Amendments to IAS 27* (effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

*Annual improvements to IFRSs 2014* (effective for the annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

*Disclosure initiative – Amendments to IAS 1* (effective for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

*Investment entities: Applying the consolidation exception – Amendments to IFRS 10, IFRS 12 and IAS 28* (effective for annual periods beginning on or after 1 January 2016). The standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

These amendments had no impact on the Group's and the Company's financial statements.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2016 are not relevant to the Group and the Company.

a) New, amended standards and interpretations that are not yet effective

Other new standards, amendments to standards and interpretations effective for the annual periods beginning on or after 01 January 2017, yet not applied in preparing these financial statements are as follows:

*IFRS 9, Financial instruments: Classification and measurement* (effective for annual periods beginning on or after 1 January 2018; adopted by the EU). 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.

*IFRS 15, Revenue from contracts with customers* (effective for annual periods beginning on or after 1 January 2018; adopted by the EU). 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.

*IFRS 16, Leases* (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). 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.

*Disclosure initiative – Amendments to IAS 7* (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

*Revenue from contracts with customers - Amendments to IFRS 15* (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). 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 promise 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.

*Transfers of investment property – Amendments to IAS 40* (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendment 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.

*IFRIC 22, Foreign currency transactions and advance consideration* (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). 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.

Other IFRSs, their amendments and improvements, IFRIC interpretations that are not yet effective are not expected to have a significant impact on the Group and the Company or are not relevant to the Group and Company. The Group and the Company are currently assessing the impact of the new relevant standards on their 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 of accounting.

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 income statement.

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 cost or revalued amounts. The categories of property, plant and equipment encompassing gas transmission pipelines and related installations, gas distribution pipelines and related installations, and technological gas equipment and structures are recorded at cost less accumulated depreciation and impairment. All other property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations performed by independent valuers, less subsequent accumulated depreciation and 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; all other decreases are charged to the profit and loss account. Revaluation increases in property, plant and equipment value that offset previous decreases are taken to the profit and loss account. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax. After the sale or a write-off of property unit, any balance of the revaluation reserve related to this property is transferred to retained earnings.

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 there will be a possibility 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.

(All amounts in EUR thousands unless otherwise stated)

Construction in progress represents property, plant and equipment under construction. The cost of such assets includes design engineering, 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 if they are expected to provide economic benefit to the Group and the Company in future periods and their cost can be measured reliably.

After initial recognition, intangible assets are carried at cost, less accumulated amortisation and impairment losses, if any (the Group/Company does not have intangible assets with indefinite useful lives).

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 | 20 - 75 |
| Structures and equipment | 5 - 55 |
| Gas transmission pipelines and installations | 18 - 55 |
| Gas distribution pipelines and installations | 55 |
| Technological gas equipment and installations | 5 - 20 |
| Motor vehicles | 4 - 10 |
| Other PP&E | 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

Financial assets are classified as either financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and loans and receivables. The classification of financial assets is determined at initial recognition.

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus, in the case of investments not carried at fair value through profit or loss, directly attributable transaction costs.

The Company's/Group's financial assets include cash and cash equivalents, short-term bank deposits, investments in securities, trade and other amount receivable.

The subsequent accounting for financial assets depends on their classification as follows.

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories. Such assets are recognised as non-current assets, except where the term of investment expires or management have an intention to sell it within 12 months after the date of preparation of the financial statements.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs, and subsequently measured at fair value. Changes in the fair value are recognized in other comprehensive income.

When investments are classified as available for sale and available-for-sale financial assets are disposed or impaired, the related accumulated gain or loss on fair value revaluation is recognised in the statement of comprehensive income as profit or loss.

The fair value of investments traded in active financial markets is based on the quoted closing market prices available at that date, which is closest to the financial reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using resent transactions in the market, reference to the price of other substantially similar financial instruments, discounted cash flow analysis, and other valuation models.

<u>Held-to-maturity financial assets</u>

Held-to-maturity financial assets are non-derivative financial assets, quoted in an active market with fixed or determinable payments and fixed maturity which the entity has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are carried at amortised cost using the effective interest method.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are carried at amortized cost using the effective interest method (except for current receivables when the recognition of interest income would be immaterial), less any recognized impairment, which reflects irrecoverable accounts. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognised, impaired or amortised.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at bank, demand deposits and other short-term highly liquid investments (up to 3 months of original maturity) that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash balances in bank accounts, deposits in current accounts and other short-term highly liquid investments with original maturities of 3 months or less.

Effective interest rate method

Effective interest rate method is used to calculate amortised cost of financial assets and financial liabilities and allocate interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Impairment of financial assets

At each reporting date the Group and the Company assess whether there is an indication that financial assets may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortized cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, estimated using the original effective interest rate.

The carrying amount of the financial asset is directly reduced by the amount of estimated impairment loss, except for trade receivables, for which impairment is recorded through allowance account. Impaired accounts receivable are written-off when they are assessed as uncollectible.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date that would have been determined had no impairment loss been recognized for the asset in prior years.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the right to receive cash flows is retained, but there is an obligation to pay the full amount to a third party under a 'pass-through' agreement in a short period; or

- the Group/Company has 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.

When the Group and the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

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

Following the adoption of euro in the Republic of Lithuania on 1 January 2015, the Group's functional currency was changed. The exchange rate of the litas against the euro, i.e. LTL 3.45280 to EUR 1, which was irrevocably established by the Council (the EU), was applied during the conversion of the litas to the euros.

In the consolidated financial statements, results of operations and financial position of each entity of the Group are presented in the euros, which is the functional currency of the Company and the presentation currency of the Group's consolidated financial statements. All financial information presented in the 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.

From 2 February 2002 till 31 December 2014, the Lithuanian litas (LTL) was pegged to the euro (EUR) at the exchange rate of LTL 3.4528 to EUR 1, and the exchange rates in relation to other currencies were set daily by the Bank of Lithuania.

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. Grants are recorded as a deduction of value of the respective asset and subsequently recognised as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

PSO service fees allocated to the Group and intended for the preparation and implementation of strategic projects are classified as asset-related grants.

2.17 Provisions

Provisions are recognised when the Group/Company has a legal obligation or irrevocable commitment 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 pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in staff payroll expenses.

Bonus plans

The Company and the Group recognise a liability and an expense for bonuses 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 local laws and the collective agreement of LITGRID AB and Amber Grid AB, 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.

2.20 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax and discounts. The following specific recognition criteria must also be met before revenue is recognised:

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

Revenue from electricity transmission, capacity reserve services and trade in balancing/regulating electricity is recognised after the services have been rendered or electricity has been sold, i.e. all risks and rewards associated with the transaction have been transferred to the buyer.

Regulation of tariffs for electricity transmission and related services

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 tariffs for electricity sold by the producers and independent suppliers as well as the tariffs for capacity reserves are not regulated, except for the cases when the producer or supplier holds more than 25% of the market. In latter case, the procedure for regulation of tariffs is set by the Commission.

The Group purchases capacity reserve services from electricity suppliers in accordance with the capacity reserve agreements, 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.

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 network as income immediately upon the connection of a new consumer or producer, provided the price for electricity 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.

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 are recognised over the useful life of the asset concerned by reducing depreciation expenses.

Revenue from gas transmission services

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Sales revenue is recognised net of VAT and discounts.

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

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 income. 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.

Income from repair services

Income under individual contracts/projects with customers, for instance for repair services, is recognised using the stage of completion method estimated based on project costs actually incurred in proportion to total estimated project costs. The probable change in profitability is recognised 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.

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.

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

Dividend income

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

Recognition of expenses

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

Recognition of income and expenses from PSO services

Under the PSO scheme approved by Order No. 1-283 of 8 October 2010 of the Lithuanian Minister of Energy, the Group acts as an administrator of PSO service funds, i.e. only collects and disburses PSO service funds.

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;
• PSO service funds allocated by the Commission to the Group for balancing electricity produced from the renewable energy resources;
• PSO service funds allocated by the Commission to the Group to cover administration costs of PSO service funds.

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.

2.21 Deferred revenue

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

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

Depending on the purpose stipulated in the EU Regulation congestion revenue is 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) grants when they are used for the maintenance or expansion of the capacity of the interconnections. In the financial statements congestion revenue is recognised using the principles for the accounting of grants, i.e. initially congestion revenue is recognised as deferred revenue and subsequently as revenue by reducing depreciation expenses of the related assets over the useful life of the assets.

c) income in the period during which the Group receives less income due to lower tariffs established.

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 2016 and 2015.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Group changes its activities due to which these losses were incurred, except when the Group does not continue its activities due to reasons which do not depend on the 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 Inter-company 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:

<u>Revaluation of property, plant and equipment of LITGRID AB</u>

<u>Information on valuation of property, plant and equipment performed as at 31 December 2014</u>

In 2014, LITGRID AB performed valuation of its property, plant and equipment as at 31 December 2014, revalued its assets and recognised impairment.

As at 31 December 2015, having estimated whether assumptions used in the previously performed valuation of the assets have changed and whether a new valuation or impairment test needs to be performed LITGRID AB stated as follows:

- By Resolution No 03-509 of 21 September 2015 the Commission substantially altered the provisions of the Methodology for the Determination of the Price Caps of Electricity Transmission, Distribution and Public Supply Services (hereinafter "the Methodology") and recognised the application of the LRAIC accounting model (hereinafter "the LRAIC model") in determining the price cap of the electricity transmission service;
- The Methodology does not take into consideration that the Description of Procedure for Determining Regulated Prices in Electric Energy Sector as approved by Resolution No 1026 of 24 September 2014 of the Lithuanian Government provides that the determination of the value of assets, on the basis of which the return on investments for the electricity transmission system operator in 2015–2019 is calculated, includes an annual additional component equal to 1/5 of the difference between the carrying amount of the company's assets and the regulated asset base that arose as at 30 June 2014. Consequently, the total calculated difference would be included in the regulated asset value attributable to the service and/or the product in 2019. LITGRID AB does not expect this provision to be implemented;
- Resolution No 03-510 of 21 September 2015 the Commission approved the methodology for the determination of the rate of return on investments and used it to calculate the Company's rate of return on investments which is equal to 5.23% (it decreased compared to the assumptions of the previous valuation);
- Under its Resolution No 03-548 of 19 October 2015, the Commission established the price cap for the electricity transmission service via high voltage networks for 2016-2020;
- In December 2015, the assets related to the interconnections with Sweden and Poland were put into operation resulting in a significant increase in the total value of the Company's assets;
- Due to electricity price difference in different price areas, the interconnections will generate material congestion income (on average EUR 16 million on a year-by-year basis in 2016-2025) which will be used to finance investments in the transmission network. These investments are classified as investments financed from grants, i.e. they are not included in expenses and assets of the regulated activity;
- Inputs used in the calculation of the weighted average cost of capital (discount rate) have changed.

Having estimated that all these developments may have a material impact on the value of property, plant and equipment, LITGRID AB performed a new valuation of non-current assets. The valuation corresponds to level 3 of the fair value measurement hierarchy (Note 2.28).

LITGRID AB estimated the fair value of the assets as at 31 December 2015 under the income method using the discounted cash flows approach. The assets' value was calculated as the present value of net future cash flows.

LITGRID assessed the assets as a business, but its assessment excluded all activities related to the transmission network development (and not related to the assets being assessed), i.e. investments in development projects, connection of new consumers/

producers, grants to development projects.

The value of the assets was calculated as follows:

- Cash flows from operations in 2016-2025 were calculated;
- These cash flows were adjusted by cash flows related to the grants received for Nordbalt and LitPol Link projects and PSO funds and the respective payments related to these projects, because in the financial accounting of LITGRID AB the assets' value is reduced by the amount of grants received and at the valuation date the value of the assets related to Nordbalt and LitPol Link projects had already been reduced by the amount of accrued but not yet received grants;
- Adjusted cash flows for 2016-2025 were aggregated;
- Discounted going concern value (beyond 2025) was added. Management of LITGRID AB uses an assumption that in a long run cash flows will be generated only from return on investments of regulated assets. Normalised cash flows were calculated by multiplying the value of regulated assets at the end of 2025 by the rate of return on investments, net of income tax;
- Value of non-current intangible assets was deducted.

Net cash flows generated by the assets were discounted using the discount rate (post-tax WACC) equal to 4.38% which was calculated by the Company.

The result of the fair value estimation performed in respect of property, plant and equipment amounted to EUR 403,259 thousand. The estimated value of assets of LITGRID AB exceeded its carrying amount by EUR 396,179 thousand, but the difference was insignificant and the estimated value of assets was within the range from EUR 425,543 thousand to EUR 382,472 thousand, and the discount rate change was within the range from -1% to +1%. Therefore, LITGRID AB did not account for the valuation result.

The tables below present the sensitivity of the asset valuation result to changes in the discount rate and in the amount of congestion revenue:

| Change in discount rate (with the rate of return on investments recalculated beyond 2021), % | Value of assets, EUR thousand |
|---|---|
| -1.0% | 425,543 |
| -0.5% | 414,206 |
| 0.0% | 403,259 |
| 0.5% | 392,686 |
| 1.0% | 382,472 |

| Share of congestion revenue, % of estimated value | Value of assets, EUR thousand |
|---|---|
| 0% | 399,156 |
| 25% | 400,182 |
| 50% | 401,208 |
| 100% | 403,259 |
| 125% | 404,285 |

As at 31 December 2016, LITGRID AB reviewed the assumptions used in the previous valuation of assets, considered the need to perform a new valuation or impairment test, and concluded that:

- there were no changes in legal acts and/or events in 2016 that might have significant impact on the value of assets and that might lead to the necessity to perform new valuation of assets;
- based on the accounting policies of LITGRID AB, LITGRID AB is required to assess annually the existence of any impairment indications of its assets. For the purpose of impairment test, LITGRID AB used the same valuation model as that which was used in the valuation of assets as at 31 December 2015.

Accordingly, LITGRID AB carried out impairment test of its assets as at 31 December 2016 and used the same valuation model as that which was used in the valuation of assets as at 31 December 2015. The valuation (impairment test) was attributed level three in the fair value hierarchy (Note 2.28).

LITGRID AB estimated the fair value of the assets as at 31 December 2016 under the income method using the discounted cash flows technique. The value of assets was determined 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 operations in 2017-2025 were calculated.

• These cash flows were adjusted by the grants received for Nordbalt project and the cash flows of PSO funds, because in the financial accounting of LITGRID AB, the value of assets of Nordbalt project had already been reduced by the amount of accrued but not yet received grants at the valuation date.

• Adjusted cash flows for 2017-2025 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 2016 amounted to EUR 398,777 thousand. The estimated value of the assets exceeded the carrying amount (EUR 386,819 thousand), thereby leading to no impairment, and the carrying amount of assets being within the value range between EUR 384,792 thousand and EUR 412,762 thousand, while the estimated value of the optimised assets for 2021-2025 ranging between 75% and 125%, and within the range between EUR 382,460 thousand and EUR 411,153 thousand, while the share of congestion revenue ranging between 50% and 125% compared to forecast revenue. Having taken into account the sensitivity of assumptions, LITGRID AB did 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 optimised via LRAIC model during 2021-2025, % of estimated value | Value of assets, EUR thousand |
|---|---|
| 25% | 356,822 |
| 50% | 370,807 |
| 75% | 384,792 |
| 100% | 398,777 |
| 125% | 412,762 |

| Change in discount rate (with the rate of return on investments recalculated beyond 2021), % | Value of assets, EUR thousand |
|---|---|
| -1.0% | 412,546 |
| -0.5% | 405,567 |
| 0.0% | 398,777 |
| 0.5% | 392,168 |
| 1.0% | 385,733 |

| Share of congestion revenue, % of forecast revenue | Value of assets, EUR thousand |
|---|---|
| 0% | 377,418 |
| 25% | 378,534 |
| 50% | 382,460 |

(All amounts in EUR thousands unless otherwise stated)

| | |
|---|---|
| 100% | 398,777 |
| 125% | 411,153 |

As at 31 December 2016, the Group and the Company had contractual commitments to purchase property, plant and equipment in amount of EUR 37,608 thousand (31 December 2015: EUR 25,556 thousand) to be fulfilled in the upcoming periods.

Revaluation of property, plant and equipment of Amber Grid AB

Based on the Group's accounting policies, revaluation of property, plant and equipment of the Group entity Amber Grid AB as at 31 December 2014 excluded the categories of gas transmission pipelines and related installations, gas distribution pipelines and related installation, and technological gas equipment and installations. The revaluation was performed using the discounted cash flow approach (corresponding to level 3 in fair value measurement hierarchy (Note 2.28)).

When preparing the financial statements for 2016 and 2015 and seeking to identify whether there occurred any new indications of impairment of property, plant and equipment, Amber Grid AB assessed internal and external impairment indications and also whether the events which took place in 2016 and 2015 or future events might affect assumptions used in the previous estimation of the recoverable amount of assets. As a result of the assessment, Amber Grid AB did not identify any substantial changes in respect of the discount rate, regulatory environment or future estimated cash flows, and based on available data, Amber Grid AB does not expect any such changes in the foreseeable future, therefore, it concluded that no indications of impairment existed and the carrying amount of property, plant and equipment as at 31 December 2016 and 2015 corresponded to its recoverable amount.

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 (LTL 750,000 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 management, additional return on investments from premium to RAB and excess profit adjustment to return on investments are treated as substantial changes in the principles of determining the tariffs that were applied when calculating the initial value of shares of LITGRID AB, and accordingly, these assumptions should be included in the assumptions for calculation of the premium.

In view of these assumptions, the Company assessed the premium to the final price and concluded that it changed and is equal to EU 4,181 thousand as at 31 December 2016. 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.

Impairment of investments

The shares of the Group's subsidiaries, associates and joint ventures are not publicly traded, therefore, management estimated their probable recoverable amount (with reference to the reports of independent valuers, if any) using the discounted future cash inflows indicated in the financial forecasts covering a period of several years or based on indirectly observable inputs of similar transactions. The recoverable amount of the investment in TETAS UAB as at 31 December 2015 was estimated using the discounted cash flow method, considering a decrease in financial liabilities and an improved forecast of cash flows to be generated by TETAS UAB which was positively affected by the result of operations in 2015. The reversal of impairment charge on the investment amounted to EUR 1,540 thousand. The discount rate used (post-tax WACC) was equal to 8.19%.

The recoverable amount of other investments was estimated using indirectly observable market inputs.

Congestion revenue

In accordance with the accounting principles described in Note 2.21 congestion revenue is 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 2016 will be used for investments in the interconnections in the upcoming periods. In 2016, the Company incurred expenses in amount of EUR 3,439 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).

2.28 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 2016 and 2015, 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 2016 and 2015 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 2016 and 2015.

**3. Correction of comparative figures**

In 2016, management of LITGRID AB decided to introduce changes in the accounting policies relating to congestion revenue (Note 2.21), and to account for congestion revenue that was received before 2016 and was recognised in the statement of comprehensive income (though was not used for guaranteeing availability of the allocated capacity of interconnections) as deferred revenue. As a result of change in the accounting policy, for the purpose of the financial statements for 2016, the comparative figures were corrected as follows: in the statement of financial position, deferred revenue at 31 December 2015 was increased by EUR 495 thousand, deferred income tax liability was reduced by EUR 74 thousand and retained earnings were reduced by EUR 421 thousand; in the statement of comprehensive income, revenue was reduced by EUR 495 thousand, deferred income tax benefit was increased by EUR 74 thousand, and net profit was reduced by EUR 421 thousand; in the statement of cash flows, net profit was reduced by EUR 421 thousand, income tax expenses were reduced by EUR 74 thousand, and congestion management revenue was increased by EUR 495 thousand.

(All amounts in EUR thousands unless otherwise stated)

## 4. Intangible assets

| Group | Patents and licences | Software | Other intangible assets | Total |
|---|---|---|---|---|
| **Net book amount at 31 December 2014** | 205 | 1,389 | 3 | 1,597 |
| Additions | 58 | 556 | 64 | 678 |
| Write-offs | - | (4) | (1) | (5) |
| Reclassification from property, plant and equipment | - | 66 | - | 66 |
| Amortisation charge | (88) | (536) | (11) | (635) |
| **Net book amount at 31 December 2015** | **175** | **1,471** | **55** | **1,701** |
| | | | | |
| **At 31 December 2015** | | | | |
| Cost | 310 | 3,348 | 120 | 3,778 |
| Accumulated amortisation and impairment | (135) | (1,877) | (65) | (2,077) |
| **Net book amount** | **175** | **1,471** | **55** | **1,701** |
| | | | | |
| **Net book amount at 31 December 2015** | **175** | **1,471** | **55** | **1,701** |
| Additions | 44 | 1,335 | - | 1,379 |
| Reclassification between groups | 80 | (80) | - | - |
| Reclassification from property, plant and equipment | 20 | (166) | - | (146) |
| Amortisation charge | (99) | (681) | (16) | (796) |
| **Net book amount at 31 December 2016** | **220** | **1,879** | **39** | **2,138** |
| | | | | |
| **At 31 December 2016** | | | | |
| Cost | 564 | 4,282 | 108 | 4,954 |
| Accumulated amortisation and impairment | (344) | (2,403) | (69) | (2,816) |
| **Net book amount** | **220** | **1,879** | **39** | **2,138** |

(All amounts in EUR thousands unless otherwise stated)

## 5. Property, plant and equipment

| Group | Land | Buildings | Plant and machinery | Gas transmission pipelines and related installations | Gas distribution pipelines and related installations | Technological gas equipment and installations | Motor vehicles | Other PP&E | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2014** | | | | | | | | | | |
| Cost | 647 | 15,871 | 288,901 | 190,658 | 109 | 62,867 | 1,495 | 11,071 | 73,331 | 644,950 |
| Accumulated depreciation | - | - | - | (3,482) | (2) | (2,396) | - | - | - | (5,880) |
| Accumulated impairment | - | - | - | - | - | - | - | - | - | - |
| **Net book amount** | **647** | **15,871** | **288,901** | **187,176** | **107** | **60,471** | **1,495** | **11,071** | **73,331** | **639,070** |
| **Net book amount at 31 December 2014** | **647** | **15,871** | **288,901** | **187,176** | **107** | **60,471** | **1,495** | **11,071** | **73,331** | **639,070** |
| Additions | - | - | 14 | - | - | 102 | 300 | 1,673 | 282,635 | 284,724 |
| Write-offs | - | (189) | (2,426) | - | - | - | - | - | - | (2,615) |
| Reclassification to/(from) inventories | - | - | - | 2,482 | - | - | (3) | - | 13 | 2,492 |
| Reclassification to property, plant and equipment | - | - | - | - | - | - | - | (7) | (59) | (66) |
| Reclassifications between groups | - | 3,728 | 276,391 | 51,830 | - | 1,715 | - | 3,579 | (337,243) | - |
| Depreciation charge | - | (840) | (19,285) | (7,344) | (2) | (4,843) | (483) | (3,414) | - | (36,211) |
| **Net book amount at 31 December 2015** | **647** | **18,570** | **543,595** | **234,144** | **105** | **57,445** | **1,309** | **12,902** | **18,677** | **887,394** |
| **At 31 December 2015** | | | | | | | | | | |
| Cost | 647 | 19,566 | 562,761 | 241,488 | 107 | 62,288 | 2,412 | 17,057 | 18,677 | 925,003 |
| Accumulated depreciation | - | (996) | (19,166) | (7,344) | (2) | (4,843) | (1,103) | (4,155) | - | (37,609) |
| Accumulated impairment | - | - | - | - | - | - | - | - | - | - |
| **Net book amount** | **647** | **18,570** | **543,595** | **234,144** | **105** | **57,445** | **1,309** | **12,902** | **18,677** | **887,394** |
| **Net book amount at 31 December 2015** | **647** | **18,570** | **543,595** | **234,144** | **105** | **57,445** | **1,309** | **12,902** | **18,677** | **887,394** |
| Additions | 12 | 32 | 11 | 1 | - | 147 | 323 | 1,101 | 100,480 | 102,107 |
| Disposals | - | (8) | - | - | - | - | - | - | - | (8) |
| Write-offs | - | - | (1,182) | (7) | - | - | - | (47) | - | (1,236) |
| Impairment | - | (25) | (434) | (102) | - | - | - | - | (620) | (1,181) |
| Reclassification to/(from) inventories | - | - | - | - | - | - | - | 1,488 | - | 1,488 |
| Reclassification to assets held for sale | - | - | - | (12) | - | - | - | - | - | (12) |
| Reclassification to property, plant and equipment | - | - | - | - | - | - | - | (28) | 174 | 146 |
| Reclassifications between groups | - | 5,958 | 87,205 | 1,052 | - | 482 | 30 | 2,157 | (96,884) | - |
| Depreciation charge | - | (940) | (29,221) | (8,552) | (2) | (4,831) | (455) | (4,048) | - | (48,049) |
| **Net book amount at 31 December 2016** | **659** | **23,587** | **599,974** | **226,524** | **103** | **53,243** | **1,207** | **13,525** | **21,827** | **940,649** |
| **At 31 December 2016** | | | | | | | | | | |
| Cost | 659 | 25,519 | 648,299 | 242,420 | 107 | 62,916 | 2,765 | 21,644 | 21,827 | 1,026,156 |
| Accumulated depreciation | - | (1,932) | (48,325) | (15,896) | (,4) | (9,673) | (1,558) | (8,119) | - | (85,507) |
| Accumulated impairment | - | - | - | - | - | - | - | - | - | - |
| **Net book amount** | **659** | **23,587** | **599,974** | **226,524** | **103** | **53,243** | **1,207** | **13,525** | **21,827** | **940,649** |

| Company | Land | Buildings | Plant and machinery | Gas transmission pipelines and related installations | Gas distribution pipelines and related installations | Technological gas equipment and installations | Motor vehicles | Other PP&E | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net book amount at 31 December 2014** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Additions | - | - | - | - | - | - | - | 2 | - | 2 |
| Depreciation | - | - | - | - | - | - | - | - | - | - |
| **Net book amount at 31 December 2015** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2** | **-** | **2** |
| **At 31 December 2015** | | | | | | | | | | |
| Cost | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2** | **-** | **2** |
| Accumulated depreciation | - | - | - | - | - | - | - | - | - | - |
| **Net book amount** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2** | **-** | **2** |
| **Net book amount at 31 December 2015** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2** | **-** | **2** |
| Additions | - | - | - | - | - | - | - | 61 | - | 61 |
| Write-offs | | | | | | | | (1) | | (1) |
| Depreciation | - | - | - | - | - | - | - | (8) | - | (8) |
| **Net book amount at 31 December 2016** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **54** | **-** | **54** |

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

(All amounts in EUR thousands unless otherwise stated)

In 2016, the Group capitalised part of its borrowing costs. In 2016, the total amount of capitalised borrowing costs was EUR 177 thousand (2015: EUR 1,262 thousand).

As at 31 December 2016, the Group had the agreements for the acquisition of non-current assets amounting to EUR 52,320 thousand (31 December 2015: EUR 32,170 thousand) that are not recognised in these financial statements.

In 2016, the Group performed the valuation of property, plant and equipment and in 2014 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 fair value was mostly affected by the assumptions used in assessing the future tariff for transmission services. The assumptions used in determining the fair value of property, plant and equipment are described in more detail in Note 2.28.

**6. Investments in subsidiaries, associates and joint ventures**

*The Company's investments in subsidiaries*

As at 31 December 2016, the Company's investments in the Group entities were as follows:

| Group entity | 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** | |

As at 31 December 2015, the Company's investments in the Group entities were as follows:

| Group entity | Investment cost | Impairment | Carrying amount | Ownership interest, % |
|---|---|---|---|---|
| LITGRID AB | 217,215 | - | 217,215 | 97.5 |
| Amber Grid AB | 126,529 | - | 126,529 | 96.6 |
| **Total** | **343,744** | **-** | **343,744** | |

On 5 February 2016, the Company and LITGRID AB signed the share purchase and sale agreement. Under this agreement the Company acquired from LITGRID AB 478,800 ordinary registered intangible shares of BALTPOOL UAB representing 67% of the total share capital of BALTPOOL UAB. The agreement stipulates that the right of ownership is transferred to EPSO-G UAB on 1 March 2016. Shares of BALTPOOL UAB were sold for the market share price established by the independent property valuer amounting to EUR 387,828

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

**LITGRID AB**

| Summarised statement of financial position | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Property, plant and equipment | 634,284 | 408,757 |
| Other non-current assets | 4,977 | 230,927 |
| Current assets | 58,954 | 36,890 |
| Grants | 235,889 | 170,685 |
| Financial liabilities | 124,517 | 132,600 |
| Other non-current liabilities | 16,334 | 10,507 |
| Other current liabilities | 66,670 | 118,807 |
| **Total equity** | **254,805** | **243,975** |
| Attributable to: | | |
| Owners of the Company | 248,435 | 237,876 |
| Minority interest | 6,370 | 6,099 |

| Summarised income statement | 2016 | 2015 |
|---|---|---|
| Revenue | 167,055 | 85,070 |
| Expenses | (145,874) | (80,897) |
| Finance costs, net | (1,387) | (496) |
| **Profit before income tax** | **19,794** | **3,677** |
| Income tax | (2,066) | (307) |
| **Net profit (loss)** | **17,728** | **3,370** |
| Minority interest | 443 | 84 |

(All amounts in EUR thousands unless otherwise stated)

| Summarised statement of cash flows | 2016 | 2015 |
|---|---|---|
| Net cash flows from operating activities | 23,211 | 41,019 |
| Net cash flows from investing activities | 20,964 | (148,586) |
| Net cash flows from financing activities | (44,168) | 83,047 |
| **Net increase (decrease) in cash flows** | **7** | **(24 520)** |

## Amber Grid AB

| Summarised statement of financial position | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Property, plant and equipment | 306,303 | 311,422 |
| Other non-current assets | 1,306 | 1,023 |
| Current assets | 42,583 | 98,442 |
| Grants | 23,344 | 20,419 |
| Financial liabilities | 93,666 | 138,010 |
| Other non-current liabilities | 6,144 | 4,968 |
| Other current liabilities | 24,228 | 52,826 |
| **Total equity** | **202,810** | **194,664** |
| Attributable to: | | |
| Owners of the Company | 195,871 | 188,004 |
| Minority interest | 6,939 | 6,660 |

| Summarised income statement | 2016 | 2015 |
|---|---|---|
| Revenue | 66,742 | 55,800 |
| Expenses | (41,978) | (40,671) |
| Finance costs, net | (484) | (442) |
| **Profit before income tax** | **24,280** | **14,687** |
| Income tax | (3,352) | 1,291 |
| **Net profit (loss)** | **20,928** | **15,978** |
| Minority interest | 716 | 547 |

| Summarised statement of cash flows | 2016 | 2015 |
|---|---|---|
| Net cash flows from operating activities | 40,986 | 26,407 |
| Net cash flows from investing activities | 3,642 | (41,498) |
| Net cash flows from financing activities | (57,631) | 40,346 |
| **Net increase (decrease) in cash flows** | **(13,003)** | **25,255** |

## BALTPOOL UAB

| Summarised statement of financial position | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Property, plant and equipment | 8 | 7 |
| Other non-current assets | 19 | 25 |
| Current assets | 48 401 | 43 843 |
| Other non-current liabilities | - | 2 |
| Other current liabilities | 47 822 | 43 470 |
| **Total equity** | **606** | **403** |
| Attributable to: | | |
| Owners of the Company | 406 | 273 |
| Minority interest | 200 | 130 |

(All amounts in EUR thousands unless otherwise stated)

| **Summarised income statement** | **2016** | **2015** |
|---|---|---|
| Revenue | 726 | 533 |
| Expenses | (469) | (413) |
| Finance costs, net | (0) | - |
| **Profit before income tax** | **257** | **120** |
| Income tax | (27) | (6) |
| **Net profit (loss)** | **230** | **114** |
| Minority interest | 76 | 38 |

| **Summarised statement of cash flows** | **2016** | **2015** |
|---|---|---|
| Net cash flows from operating activities | 14,275 | (13,201) |
| Net cash flows from investing activities | 71 | (16) |
| Net cash flows from financing activities | (14,140) | 13,434 |
| **Net increase (decrease) in cash flows** | **206** | **217** |

*Investments in associates and joint ventures*

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

| | **Group 2016** | **Company 2016** | **Group 2015** | **Company 2015** |
|---|---|---|---|---|
| **Carrying amount at the beginning of the period** | **942** | **-** | **1,211** | **-** |
| Acquisition of the associate or the joint venture | - | - | 131 | - |
| Annulment of shares | - | - | - | - |
| Transfer of the associate to available-for-sale assets | (752) | - | - | - |
| Associate becoming subsidiary | (222) | - | (375) | - |
| Share of result of associates and joint ventures | 32 | - | (25) | - |
| **Carrying amount at the end of the period** | **-** | **-** | **942** | **-** |

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. In these financial statements the Group's investment in the associate was reclassified to available-for-sale financial assets (Note 11).

The financial position and the results of operations of the associate and the joint venture as at 31 December 2016 and for the year then ended:

| | **Assets** | **Liabilities** | **Revenue** | **Net profit (loss)** |
|---|---|---|---|---|
| Duomenų Logistikos Centras UAB | 6,233 | 1,688 | 4,359 | 159 |
| LitPol Link Sp.z.o.o. | | 79 | 242 | (222) |

The financial position and the results of operations of the associate and the joint venture as at 31 December 2015 and for the year then ended:

| | **Assets** | **Liabilities** | **Revenue** | **Net profit (loss)** |
|---|---|---|---|---|
| Duomenų Logistikos Centras UAB | 8,372 | 3,985 | 4,893 | (161) |
| LitPol Link Sp.z.o.o. | 519 | 172 | 765 | 13 |
| GET Baltic UAB | 1,016 | 753 | 110 | (100) |

(All amounts in EUR thousands unless otherwise stated)

**Available-for-sale financial assets**

Available-for-sale financial assets consisted of the shares of the following entities:

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| NordPool Spot (2%) | 2,693 | - | 2,273 | - |
| Technologijų ir Inovacijų Centras UAB (0.01%) | - | - | - | - |
| **Carrying amount** | **2,693** | **-** | **2,273** | **-** |

In the management's opinion the fair value did not change significantly from the last year (fair value measurement of level 3).

**8. Inventories**

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Raw materials, spare parts, other consumables, and assets held for sale | 4,837 | 1 | 3,978 | - |
| Natural gas | 1,074 | - | 1,779 | - |
| Assets held for sale | 13 | - | - | - |
| Less: impairment | (653) | - | (290) | - |
| **Carrying amount** | **5,271** | **1** | **5,467** | **-** |

As at 31 December 2016, the carrying amount of the Group's inventories stated at net realisable value was EUR 932 thousand (31 December 2015: EUR 2,234 thousand). The Group's inventories recognised as expenses amounted to 14,067 thousand (31 December 2015: EUR 13,103 thousand).

Movements in write-down allowance for inventories in 2016 and 2015 are indicated below:

| | Group 2016 | Company 2016 | Group 2015 | Company 2015 |
|---|---|---|---|---|
| Carrying amount at 1 January | 290 | - | 197 | - |
| Change in write-down allowance | 363 | - | 93 | - |
| **Carrying amount at 31 December** | **653** | **-** | **290** | **-** |

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

**9. Trade receivables**

Trade receivables comprise as follows:

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Receivables from transmission of electricity | 19,823 | - | 15,860 | - |
| Receivables from transmission and transit of gas | 6,859 | - | 9,417 | - |
| Receivables for contractual works and other services | 4,489 | - | 4,198 | - |
| Other trade receivables | 1,556 | - | 163 | - |
| Less: impairment of trade receivables | (7,328) | - | (7,249) | - |
| **Carrying amount** | **25,399** | **-** | **22,389** | **-** |

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

In 2016, the Group recognised an additional reversal of impairment of EUR 79 thousand (2015: reversal of impairment of EUR 791 thousand) for individually assessed doubtful receivables related to debts for the purchased balancing energy.

(All amounts in EUR thousands unless otherwise stated)

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

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Not overdue | 24,047 | 26 | 20,734 | - |
| Overdue up to 30 days | 758 | - | 1,123 | - |
| Overdue from 30 to 60 days | 7 | - | 34 | - |
| Overdue from 60 to 90 days | - | - | 30 | - |
| Overdue more than 90 days | 587 | - | 468 | - |
| **Carrying amount** | **25,399** | **26** | **22,389** | **-** |

**10. Other amounts receivable**

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Administered PSO funds receivable | 43,358 | - | 37,234 | - |
| Administered LNG Terminal funds receivable | 13,279 | - | 9,473 | - |
| Accrued income for PSO services rendered | - | - | 19,817 | - |
| PSO funds receivable | 1,632 | - | - | - |
| VAT receivable from the state budget | 38 | 38 | 563 | 563 |
| Grants receivable | 24,176 | - | 34,645 | - |
| Accrued interest receivable | - | - | 4 | - |
| Other accrued receivables | 1 | - | - | - |
| Receivables for lease of assets | 86 | - | 149 | - |
| Other receivables | 3 | 6 | 194 | - |
| Less: impairment of other receivables | (1) | - | - | - |
| **Carrying amount** | **82,572** | **44** | **102,079** | **563** |

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

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

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Not overdue | 52,623 | 44 | 79,111 | 563 |
| Overdue up to 30 days | 2,482 | - | 3,000 | - |
| Overdue from 30 to 60 days | 3,642 | - | 1,038 | - |
| Overdue from 60 to 90 days | 393 | - | 792 | - |
| Overdue more than 90 days | 23,432 | - | 18,138 | - |
| **Carrying amount** | **82,572** | **44** | **102,079** | **563** |

**11. Other financial assets**

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Administered PSO funds | - | - | - | - |
| Administered LNG Terminal funds | 1,658 | - | 31,386 | - |
| Funds deposited for guarantees and deposits | 1,499 | - | 2,574 | - |
| Congestion management revenue | 7,761 | - | - | - |
| Available-for-sale assets | 752 | - | - | - |
| Monetary contributions of participants of the exchange | 4,374 | - | 4,061 | - |
| **Carrying amount** | **16,044** | **-** | **38,021** | **-** |

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.

Available-for-sale financial assets consists of 20.36% of shares of Duomenų Logistikos Centras UAB with a value of EUR 752 thousand and 1,000 shares of Technologijų ir Inovacijų Centras UAB with a value of EUR 289.62.

The fair value of other financial assets as at 31 December 2016 and 2015 approximated their carrying value.

(All amounts in EUR thousands unless otherwise stated)

### 12. Cash and cash equivalents

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Cash at bank | 16,718 | 1,328 | 28,745 | 565 |
| Overnight deposits | - | - | 4,910 | 4,910 |
| **Carrying amount** | **16,718** | **1,328** | **33,655** | **5,475** |

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

### 13. Share capital

Pursuant to the Lithuanian Law on the Adoption of the Euro in the Republic of Lithuania and the provisions of the Procedure for the conversion of the nominal value of the share capital of Lietuvos Centrinis Vertybinių Popierių Depozitoriumas (Central Securities Depository of Lithuania) to the euros, on 1 January 2015 the Company's share capital was converted to the euros. As at 31 December 2016, 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 requirements of the Lithuanian Law on Companies, the Company's equity must not be less than 1/2 of its authorised share capital. As at 31 December 2016 and 2015, the Company was in compliance with the above-mentioned requirement. 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 resulting in increase in value. In accordance with the Lithuanian legislation, the revaluation reserve can be used to increase the 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 2014** | **7,845** | **(1,177)** | **6,669** |
| Depreciation of revaluation reserve | (673) | 101 | (572) |
| Write-offs of property, plant and equipment | (29) | 4 | (25) |
| Change in ownership interest in subsidiary | - | - | - |
| **Balance at 31 December 2015** | **7,143** | **(1,072)** | **6,072** |
| Depreciation of revaluation reserve | (674) | 102 | (572) |
| Write-offs of property, plant and equipment | (36) | 4 | (32) |
| Revaluation of property, plant and equipment | - | - | - |
| **Balance at 31 December 2016** | **6,433** | **(,966)** | **5,468** |

### 15. Legal reserve and other reserves

Legal reserve

The legal reserve is established in accordance with the Lithuanian laws. 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 2016, the legal reserve was not fully formed.

Reserve of changes 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.

(All amounts in EUR thousands unless otherwise stated)

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.

The Ordinary General Meeting of Shareholders of LITGRID AB held on 24 April 2015 approved the proposed profit appropriation and resolved to transfer EUR 108,608 thousand from other reserves to retained earnings. As a result, the share of the reserve attributable to the owners of the Company amounting to EUR 105,893 thousand was transferred to the Group's retained earnings.

**16. Dividends**

During the Ordinary General Meeting of Shareholders of EPSO-G UAB held on 29 April 2016, the decision was made in relation to the payment of dividends in the amount of EUR 424,976 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**

Movements in grants in 2016 and 2015 were as follows:

| | Group |
|---|---|
| **Balance at 31 December 2014** | **108,140** |
| Grants received during the period | 82,886 |
| Other write-off of grants | (1) |
| Depreciation of property, plant and equipment | (416) |
| **Balance at 31 December 2015** | **190,609** |
| Grants received during the period | 74,550 |
| Other write-off of grants | (7) |
| Depreciation of property, plant and equipment | (6,414) |
| **Balance at 31 December 2016** | **258,738** |

The grants received during 2016 comprised as follows:

• Financial assistance received from the EU structural funds to finance the reconstruction of property, plant and equipment of LITGRID AB in amount of EUR 6,817 thousand (2015: EUR 8,650 thousand);

• Financial assistance received from the EU funds to finance the implementation of the interconnection Lithuania-Poland (LitPolLink) in amount of EUR 16,449 thousand (2015: EUR 10,950 thousand);

• PSO service funds received for the implementation of the interconnection Lithuania-Sweden (NordBalt) in amount of EUR 19,588 thousand (2015: EUR 20,273 thousand);

• Financial assistance received under the EU programme European Energy Programme for Recovery to finance the interconnection project Lithuania-Sweden (NordBalt) in amount of EUR 25,700 thousand (2015: EUR 7,500 thousand);

• Financial assistance received to compensate expenses in amount of EUR 38 thousand (2015: EUR 0);

• Financial assistance received from the EU funds to finance the project for the construction of gas transmission pipeline Klaipėda–Kuršėnai DN800 (capacity enhancement for gas transmission pipeline Klaipėda-Kiemėnai) of Amber Grid AB in amount of EUR 6 thousand (2015: EUR 19,033 thousand);

• Financial assistance received from the EU funds to finance the project for the design engineering of the gas interconnection Poland-Lithuania (GIPL) of Amber Grid AB in amount of EUR 2,061 thousand (2015: EUR 455 thousand);

• Financial assistance received from the EU funds to finance the European Regional Development Fund projects of Amber Grid AB in amount of EUR 1,487 thousand (2015: EUR 0 thousand).

(All amounts in EUR thousands unless otherwise stated)

## 18. Borrowings

Borrowings of the Group/Company were as follows:

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| **Non-current borrowings** | | | | |
| Borrowings from banks | 208,897 | 10,240 | 237,407 | - |
| Other non-current borrowings | - | - | 29,000 | 29,000 |
| **Current borrowings** | | | | |
| Current portion of non-current borrowings | 22,086 | 2,560 | 33,193 | - |
| Borrowings from banks | - | - | - | - |
| Overdraft | 48,179 | - | 92,069 | - |
| **Total borrowings** | **279,162** | **12,800** | **391,669** | **29,000** |

Borrowings grouped by maturity profile:

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Between 1 and 2 years | 33,531 | 2,560 | 42,693 | 9,500 |
| From 2 to 5 years | 90,124 | 7,680 | 122,072 | 19,500 |
| After 5 years | 85,242 | - | 101,642 | - |
| **Total** | **208,897** | **10,240** | **266,407** | **29,000** |

As at 31 December 2016 and 2015, 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 2016, the weighted average interest rate on the Group's and the Company's borrowings was 0.72% and 0.52%, respectively (31 December 2015: 0.85% and 1.76%, respectively).

As at 31 December 2016, the Group's unwithdrawn balance of loans and overdrafts amounted to EUR 64,101 thousand (31 December 2015: EUR 79,981 thousand).

In 2016, the Company repaid to Lietuvos Energija UAB the loan of EUR 29 thousand prior to its maturity.

On 25 May 2016, the Company signed the long-term agreement with SEB Bankas AB for the loan of EUR 12,800 thousand with the repayment term of 5 years.

## 19. Other non-current amounts payable and liabilities

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Amounts payable for the shares of LITGRID AB | 193,572 | 193,572 | 209,975 | 209,975 |
| Advance amounts received from connection of new consumers | - | - | 40 | - |
| Provisions for pension benefit obligations to employees | 578 | - | 582 | - |
| Other | - | | 2 | |
| **Carrying amount** | **194,150** | **193,572** | **210,599** | **209,975** |

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 209,975 thousand as at 31 December 2016. Accrued interest payable of EUR 436 thousand as at 31 December 2016 (31 December 2015: EUR 982 thousand) was recorded within 'Other current amounts payable and liabilities'.

Provisions for pension benefit obligations to employees represent amounts calculated according to the Lithuanian laws and to be paid under the collective agreement applicable at the Group entities (Note 2.18).

(All amounts in EUR thousands unless otherwise stated)

## 20. Current income tax and deferred income tax

Income tax expense components:

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Current year income tax | 6,485 | - | 3,139 | - |
| Deferred income tax (benefit) | (1,071) | (31) | (4,197) | (1) |
| **Current year income tax expense (benefit)** | **5,414** | **(31)** | **(1,058)** | **(1)** |

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 2014** | **18,930** | **25,651** | **120** | **2,374** | **47,074** |
| Recognised in profit or loss | 659 | (3,639) | 367 | 2,196 | (417) |
| Recognised in other comprehensive income | - | - | - | - | - |
| **At 31 December 2015** | **19,589** | **22,012** | **487** | **4,570** | **46,657** |
| Recognised in profit or loss | (1,462) | (1,029) | 1,111 | (1,692) | (3,072) |
| Recognised in other comprehensive income | - | - | - | - | - |
| **At 31 December 2016** | **18,127** | **20,983** | **1,598** | **2,878** | **43,586** |

| **Deferred income tax liabilities** | **PP&E revaluation (impairment)** | **Difference in depreciation rates** | **Tax relief on acquisition of PP&E** | **Effect of capitalisation of interest** | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2014** | **(32,100)** | **(31,530)** | **(2,318)** | **(110)** | **(66,058)** |
| Recognised in profit or loss | 2,870 | 1,634 | 180 | (70) | 4,614 |
| Recognised in other comprehensive income | (52) | - | - | - | (52) |
| **At 31 December 2015** | **(29,282)** | **(29,896)** | **(2,138)** | **(180)** | **(61,496)** |
| Recognised in profit or loss | 2,331 | 1,738 | 156 | (84) | 4,141 |
| Recognised in other comprehensive income | (,63) | - | - | - | (63) |
| **At 31 December 2016** | **(27,014)** | **(28,158)** | **(1,982)** | **(264)** | **(57,418)** |

| | |
|---|---|
| Net deferred income tax assets at 31 December 2015 | 66 |
| Net deferred income tax assets at 31 December 2016 | 100 |
| Net deferred income tax liability at 31 December 2015 | (14 979) |
| Net deferred income tax liability at 31 December 2016 | (13 934) |

Income tax expense reported in the statement of comprehensive income can be reconciled to income tax expense that would arise using a statutory income tax rate applicable to profit before income tax:

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| **Profit (loss) before income tax** | **44,488** | **16,995** | **11,168** | **51,447** |
| Income tax calculated at a rate of 15% | 6,673 | 2,549 | 1,675 | 7,717 |
| Investment relief effect | (521) | | (3,626) | - |
| Unrecognised deferred income tax on tax losses | (75) | (55) | 679 | 683 |
| Adjustment relating to prior years | 2 | | (80) | |
| Tax effect of non-taxable income and non-deductible expenses | (664) | (2,525) | 294 | (8,401) |
| **Income tax expenses/(benefit) recognised in profit or loss in the statement of comprehensive income** | **5,414** | **( 31)** | **(1,058)** | **( 1)** |

(All amounts in EUR thousands unless otherwise stated)

### 21. Trade payables

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Amounts payable for electricity | 4,754 | - | 1,951 | - |
| Amounts payable for natural gas | 663 | - | - | - |
| Amounts payable for contractual works, services | 7,765 | 24 | 5,617 | 92 |
| Amounts payable for property, plant and equipment and inventories | 6,258 | - | 28,040 | - |
| Amounts payable for electricity transit | 109 | - | 234 | - |
| Other trade payables | 11 | - | 898 | - |
| **Carrying amount** | **19,560** | **24** | **36,740** | **92** |

The fair values of trade payables approximate their carrying amounts.

### 22. Advance amounts received

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Guarantee to secure fulfilment of obligations | 5,242 | - | 6,005 | - |
| Other advance amounts received | 5 | - | 1,331 | - |
| **Carrying amount** | **5,247** | **-** | **7,336** | **-** |

The Group's guarantees to secure fulfilment of obligations consist of received deposits, including those pertaining to the trade on exchange.

### 23. Other current amounts payable and liabilities

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Payable administered PSO funds | 15,474 | - | 30,192 | - |
| Difference between PSO service funds collected and disbursed | 274 | - | 49 | - |
| Payable administered LNG Terminal funds | 11,468 | - | 25,794 | - |
| Accrued administered LNG Terminal funds | 3,696 | - | 15,316 | - |
| Current portion of the amount payable for shares of LITGRID AB | 12,222 | 12,222 | - | - |
| Advance amounts received from connection of new consumers* | 660 | - | 2,900 | - |
| Employment-related liabilities | 1,995 | 181 | 1,443 | - |
| Accrued expenses relating to vacation reserve | 1,381 | 30 | 940 | 7 |
| VAT payable | 1,866 | - | 1,413 | - |
| Real estate tax payable | 971 | - | 896 | - |
| Dividends payable | 522 | - | 412 | - |
| Interest payable | 495 | 436 | 982 | 982 |
| Other accrued expenses | 17,673 | 30 | 13,923 | 8 |
| Accrued liabilities for electricity | 1,125 | - | 1,526 | - |
| Other payables and current liabilities | 1,700 | - | 1,682 | - |
| **Carrying amount** | **71,522** | **12,898** | **97,468** | **997** |

*Advance amounts received from connection of new consumers represent prepayments received from new consumers for their connection to the electricity network. These advance amounts will be recognised as income upon the provision of connection services.

The fair value of current other amounts payable approximates their carrying amounts.

(All amounts in EUR thousands unless otherwise stated)

## 24. Revenue and expenses attributable to electricity and related services

Revenue from sale of electricity comprised as follows:

| | Group 2016 | Company 2016 | Group 2015 | Company 2015 |
|---|---|---|---|---|
| Electricity transmission services | 67,968 | - | 50,419 | - |
| Trade in balancing/regulating electricity | 22,066 | - | 14,569 | - |
| Capacity reserve services | 33,923 | - | 9,370 | - |
| Revenue from other sale of electricity and related services | 6,041 | - | 4,115 | - |
| Revenue from PSO services | 7,105 | - | 4,313 | - |
| Revenue from connection of new consumers | 2,674 | - | 694 | - |
| Congestion revenue | 3,438 | - | (,495) | - |
| **Total** | **143,215** | **-** | **82,985** | **-** |

Revenue from sale of electricity increased by 35% up to EUR 68 million compared to 2015. Revenue growth was caused by a higher volume of electricity transmitted and a 28% higher tariff for the electricity transmission service established by the National Control Commission for Prices and Energy.

Revenue from sale of balancing/regulating electricity increased by 51% up to EUR 22.1 million. This revenue grew mainly due to a 56% increase in the volume of balancing/regulating electricity sold. The volume sold increased as a result of the ensurance of the allocated capacity (the electricity volume traded on the power exchange) of the new electricity interconnections with Sweden and Poland.

Revenue from sale of system services increased 3.6 times up to EUR 33.9 million. Such growth was mainly caused by a 3.8 time higher tariff for system services established by the National Control Commission for Prices and Energy from 1 January 2016. As from 1 August 2016 the tariff for system services was reduced by 23%.

Expenses attributable to electricity comprised as follows:

| | Group | |
|---|---|---|
| | 2016 | 2015 |
| Electricity expenses for compensation of technological losses | 15,409 | 9,862 |
| Expenses for system services | 36,900 | 10,320 |
| Expenses for PSO services (balancing of generation using renewable energy sources) | 7,006 | 4,215 |
| Expenses for balancing/regulating electricity | 16,678 | 10,814 |
| Expenses for the participation in the ITC mechanism of the European Network of Transmission System Operators for Electricity (ENTSO-e) | 1,184 | 2,582 |
| Expenses for guaranteeing the availability of allocated capacities of the interconnections | 3,438 | - |
| **Total** | **80,615** | **37,793** |

Electricity expenses increased more than 2 times compared to 2015. Expenses for balancing/regulating electricity grew by 54% up to EUR 16.7 million. Expenses for system services increased 3.6 times up to EUR 36.9 million. Expenses for the purchase of electricity and for the compensation of technological losses in the transmission network increased by 56% up to EUR 15.4 million.

## 25. Revenue from natural gas transmission and related services

| | Group 2016 | Company 2016 | Group 2015 | Company 2015 |
|---|---|---|---|---|
| Natural gas transmission in the territory of Lithuania | 59,878 | - | 49,841 | - |
| Revenue from balancing in the transmission system | 6,613 | - | 5,405 | - |
| **Total** | **66,491** | **-** | **55,246** | **-** |

## 26. Other income

| | Group 2016 | Company 2016 | Group 2015 | Company 2015 |
|---|---|---|---|---|
| Repairs and other services | 15,404 | - | 15,115 | - |
| Lease of assets | 1,230 | - | 1,594 | - |
| Engineering works | 405 | - | 233 | - |
| Grants recognised as income | 51 | - | 338 | - |
| LNG terminal administration funds | 145 | - | 145 | - |
| Other income | 7,581 | 29 | 686 | - |
| **Total** | **24,816** | **29** | **18,111** | **-** |

(All amounts in EUR thousands unless otherwise stated)

### Related-party transactions

The Company's/Group's related parties in 2016 and 2015 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.

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 2016 and balances arising from these transactions as at 31 December 2016 were as follows:

| Related party | Finance income | Finance costs | Amounts payable | Amounts receivable | Purchase | Sale |
|---|---|---|---|---|---|---|
| Lietuvos Energija UAB (controlled by the state) | - | 2,653 | 206,229 | - | - | - |
| Group's associates | - | - | 38 | 86 | 361 | 1,224 |
| **Total** | **-** | **2,653** | **206,267** | **86** | **361** | **1,224** |

The Group's transactions conducted with related parties in 2015 and balances arising from these transactions as at 31 December 2015 were as follows:

| Related party | Finance income | Finance costs | Amounts payable | Amounts receivable | Purchase | Sale |
|---|---|---|---|---|---|---|
| Lietuvos Energija UAB (controlled by the state) | 1 | 3,981 | 239,146 | 127 | - | - |
| Group's associates | - | - | 94 | 144 | 593 | 1,515 |
| **Total** | **1** | **3,981** | **239,240** | **271** | **593** | **1,515** |

The Company's transactions conducted with related parties in 2016 and balances arising from these transactions as at 31 December 2016 were as follows:

| Related party | Finance income | Finance costs | Amounts payable | Amounts receivable | Purchase | Sale |
|---|---|---|---|---|---|---|
| Lietuvos Energija UAB (controlled by the state) | - | 2,653 | 206,229 | - | - | - |
| Group's associates | 16,839 | - | - | 26 | 388 | 30 |
| **Total** | **16,839** | **2,653** | **206,229** | **26** | **388** | **30** |

The Company's transactions conducted with related parties in 2015 and balances arising from these transactions as at 31 December 2015 were as follows:

| Related party | Amounts payable | Amounts receivable | Purchase | Sale | Finance costs |
|---|---|---|---|---|---|
| Lietuvos Energija UAB (controlled by the state) | 239,146 | - | - | - | 3,919 |
| Company's associates | 2 | - | 19 | - | - |
| | **239,148** | **-** | **19** | **-** | **3,919** |

Compensation to the key management personnel

| | Group 2016 | Company 2016 | Group 2015 | Company 2015 |
|---|---|---|---|---|
| Employment-related payments | 1,552 | 294 | 1,285 | 118 |
| *Whereof: termination benefits* | 33 | - | 2 | 1 |
| Number of the key management personnel (average annual) | 24 | 5 | 21 | 2 |

Key management personnel consists of heads of administration and their deputies (directors of departments).

(All amounts in EUR thousands unless otherwise stated)

## 28. 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.

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

| Financial assets | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Trade receivables | 25,964 | 26 | 22,389 | - |
| Other receivables | 86,866 | 6 | 101,516 | - |
| Other financial assets | 16,044 | - | 38,021 | - |
| Cash and cash equivalents | 16,718 | 1,328 | 33,655 | 5,475 |
| **Loans and receivables** | **145,592** | **1,360** | **195,581** | **5,475** |
| **Other financial assets** | | | | |
| Available-for-sale financial assets | 2,693 | - | 2,273 | - |
| **Total financial assets** | **148,285** | **1,360** | **197,854** | **5,475** |

| Financial liabilities | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Liability for acquisition of LITGRID AB | 205,794 | 205,794 | 213,516 | 213,516 |
| Borrowings | 279,162 | 12,800 | 391,669 | 29,000 |
| Trade payables | 19,586 | 24 | 36,740 | 92 |
| Other amounts payable and liabilities | 55,189 | 473 | 87,300 | 314 |
| **Total** | **559,732** | **219,091** | **729,225** | **242,922** |

Credit risk

As at 31 December 2016 and 2015, exposure to credit risk was related to the following items:

| | Group At 31 December 2016 | Company At 31 December 2016 | Group At 31 December 2015 | Company At 31 December 2015 |
|---|---|---|---|---|
| Financial assets other than available-for-sale financial assets | 145,592 | 1,360 | 195,581 | 5,475 |

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 61% as at 31 December 2016 (31 December 2015: 63%) of the Group's total trade receivables (financial assets). As at 31 December 2016, amounts payable by the major customer, distribution network operator Energijos Skirstymo Operatorius AB (former LESTO AB), accounted for 9% (31 December 2015: 5%) 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):

| | |
|---|---|
| Nordea | AA- |
| Danske bank | A |
| Swedbank | A+ |
| SEB | A+ |
| Pohjola Bank plc | A+ |
| DNB Bank | A+ |

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.

(All amounts in EUR thousands unless otherwise stated)

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 2016, therefore its exposure to liquidity risk is not significant. As at 31 December 2016, the Group's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 0.87 and 0.84, respectively (31 December 2015: 0.76 and 0.74, respectively). The Company's current and quick ratios as at 31 December 2016 were 0.1 and 0.1, respectively (31 December 2015: 5.5 and 5.5, 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 2016** | | | | |
| Trade and other amounts payable | 72,105 | 6,111 | 43,832 | 167,261 |
| Borrowings | 8,746 | 19,611 | 159,015 | 87,990 |
| **At 31 December 2015** | | | | |
| Trade and other amounts payable | 154,290 | 14,331 | 39,292 | 184,946 |
| Borrowings | 7,511 | 54,426 | 234,905 | 82,790 |

| Company | Up to 3 months | Between 4 months and 1 year | Between year 2 and year 5 | After 5 years |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| Trade and other amounts payable | 877 | 6,111 | 43,832 | 167,261 |
| Borrowings | 17 | 58 | 118 | - |
| **At 31 December 2015** | | | | |
| Trade and other amounts payable | 1,081 | 2,041 | 39,292 | 184,946 |
| Borrowings | 4,614 | 325 | 25,040 | - |

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% shift in interest rate would result in EUR 338 thousand impact on the Group's profit before tax as at 31 December 2016 (2015: EUR 346 thousand).

b) Foreign exchange risk

In order to manage the foreign exchange risk, the Group and the Company enter into purchase/sale contracts only in euros.

**29. Fair value of financial assets and 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, borrowings, trade and other amounts payable, and held-to-maturity investments.

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).

• The fair value of held-to-maturity investments is determined based on the value of bonds of similar risk level (level 3).

**30. Contingent liabilities**

Litigations

LITGRID AB group litigations

Disputes regarding default interest

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. Legal proceedings are pending. On 29 November 2016, an expert examination was assigned by the court in this legal case in order to determine the compliance of the operational project prepared by the claimant with the technical project. Based on the received conclusions of the expert examination LITGRID AB ungroundedly requested TETAS to change the technical project resulting in delay to perform construction works. The investigation of the case is continued at the court of first instance.

It is projected that the claim may be satisfied to a larger extent, therefore the Company has established a provision of EUR 201,707.73.

On 6 March 2017, A.Žilinskis ir Ko UAB filed a claim against the Company for the recognition of the set-off of a homogeneous counter-claim as null and void and for the awarding of the payment for construction works and interest on late payment. The claim amount was EUR 1,021,804.16. The claimant requests that the court recognises the Company's set-off of EUR 953,175.53, awards this amount to the claimant as an amount owed for the construction works performed, as well as awards from the Company interest on late payment, procedural interest (8%) and litigation expenses of EUR 68,628.63. Currently, a time period has been established for the Company to respond to the claim.

It is projected that the claim may be satisfied to a larger extent, therefore the Company has established a provision of EUR 1,136,885,99.

Disputes related to public service obligations (PSO)

In view of the amendments to the Procedure for the Administration of Public Service Obligations in the Electricity Sector that were approved by Resolution No 1002 of 16 September 2015 of the Government, with effect from 1 October 2015 the Company is no longer engaged in the collection of PSO funds from entities connected to the transmission network. The latter function was taken over by the PSO funds administrator BALTPOOL UAB. Subject to the above-mentioned legislative amendments, the Company transferred the claim rights to PSO funds debtors (Achema AB, ORLEN Lietuva AB, Lifosa AB and Dirbtinis Pluoštas UAB) under the agreements on the transfer of rights and obligations of 23 December 2015 and 21 November 2016, in respect of which legal disputes are pending in 7 cases. Accordingly, the requests have been filed with the court for the replacement of the Company with Baltpool UAB. The outcome of these cases will not affect the Company's financial performance, as the Company acted only as an agent and PSP funds are recorded only in the line items of amounts receivable and amounts payable.

Disputes with the independent suppliers:

Currently, four bankruptcy proceedings were instituted in respect of the independent electricity suppliers that have amounts payable to the Company:

•ECO Energy Systems UAB (the Company's financial claim approved by the court amounts to EUR 783,937.40; the amount recovered during the bankruptcy proceedings equals EUR 2012,961.65);

•Elektra Visiems UAB (the Company's financial claim approved by the court amounts to EUR 3,733,593.36);

•Elektros Energijos Prekyba UAB (the Company's financial claim approved by the court amounts to EUR 368,673.20; the amount recovered during the bankruptcy proceedings equals EUR 6,263.73);

•Saurama UAB (the Company's financial claim approved by the court amounts to EUR 3,101,890.21).

It is unlikely that the Company's claims will be satisfied to the larger extent in the bankruptcy proceedings instituted in respect of the former independent electricity suppliers.

Regulatory disputes

The Company continues to challenge the decisions passed by the National Control Commission for Energy and Prices by which the prices of the regulated electricity transmission services were set and announced. With regard to these disputes the Company holds the opinion that the National Control Commission for Energy and Prices incorrectly established the price caps of the electricity transmission service tariffs for 2015 and also on the ground of these price limits illegitimately announced the electricity transmission service prices applicable to the Company.

The Company has also brought a lawsuit requesting to annul the decision of the National Control Commission for Energy and Prices under which an economic sanction of EUR 100 thousand was imposed on the Company for violations relating to the regulated activity that were allegedly made during the regulatory period of 2011-2013. Based on the Company's request the court suspended the investigation of this case until the resolution of another administrative case related to the electricity transmission service price caps for 2015 applicable to the Company.

Other disputes

On 22 April 2016, LITGRID AB filed a claim with Kaunas Regional Court for the payment of electricity transmission services provided by LITGRID AB. Under the agreement on the electricity transmission service No 432-2010-032E/305F/SUT-59-10 (a new version from 1 January 2013) concluded on 1 July 2010, Achema AB failed to make payments of EUR 86,323.72 (incl. VAT) for services provided in January-February 2016. The examination of the case has been completed, the court's ruling is scheduled on 24 March 2017.

Having assessed factual circumstances of the case and a publicly presented interpretation of the National Control Commission for Prices and Energy regarding the application of tariffs, it is projected that the outcome of the case may be favourable to the Company.

Amber Grid AB litigations

Pursuant to the Lithuanian Law on the Liquefied Natural Gas Terminal and the resolutions adopted by the Commission, the users of the natural gas system transporting natural gas through the transmission system are required to pay an additional component to be included in the natural gas transmission price, which is intended to compensate for the construction and operating expenses of the LNG terminal, its infrastructure, connector (the LNG terminal component funds) as they make payments for natural gas transmission services[1]. Since Achema AB, as a transmission system user, has systematically failed to pay the LNG terminal funds, on 7 March 2014 Amber Grid filed a claim to Kaunas Regional Court with the request to award from Achema AB the amount owed for unpaid the LNG terminal funds for the period from 1 September 2013 to 31 December 2013, also to award penalties on late payment of the LNG terminal funds for the above-mentioned period. On 16 March 2015, Amber Grid AB applied to Kaunas Regional Court with a new claim, whereby it requested to award from Achema AB the debt for the LNG terminal funds intended to compensate for the fixed operating costs of the LNG terminal, its infrastructure and connector, the collection of which was started from 3 December 2014, plus penalties and 6% annual interest. As the Court combined the above-mentioned two cases, on 29 September 2015 Kaunas Regional Court satisfied in full the claim of Amber Grid AB and awarded from Achema AB the debt of EUR 3,188 thousand for the period from 1 September 2013 to 31 December 2013, penalties of EUR 545 thousand, procedural interest and debt of EUR 14,721 thousand for the period from 3 December 2014 to 30 April 2015, penalties of EUR 305 thousand and procedural interest. Achema AB appealed against the above-mentioned court ruling. The ruling of the court of first instance remained in force based on the judgement passed by the Court of Appeal of Lithuania on 8 June 2016.

The Supreme Court of Lithuania passed the ruling on 9 August 2016 whereby it accepted the appeal in cassation. On 8 December 2016, the Supreme Court of Lithuania accepted the request of Achema AB for the suspension of the investigation of the case until the resolution of the claim of Achema AB filed with the General Court of the European Union in case No T-417/16. The case is pending at the Supreme Court of Lithuania. The Company's credit risk related to amounts receivable and penalties charged to Achema AB is low as the Company acts only as the entity collecting the LNG terminal funds and transfers the LNG terminal funds to their recipients only when it collects them from the purchasers.

On 19 November 2012, Achema AB applied to Vilnius County Administrative Court with request to annul paragraphs 3.1 and 4 of the Commission's Resolution No 03-317 of 19 October 2012 On the establishment of funds for the year 2013 intended to compensate for all or part of the construction and operating costs of the liquefied natural gas terminal, its infrastructure and connector, and to annul paragraph 2 of the Commission's Resolution No 03-330 of 26 October 2012 On Lietuvos Dujos AB natural gas transmission and distribution price cap adjustment and establishment of additional component to be included in the natural gas transmission price cap (the LNG terminal component) for the year 2013 (hereinafter "the First Administrative Case"). Amber Grid AB acts as a third party in the lawsuit. On 28 May 2015, Vilnius Regional Administrative Court rejected in full the claim of Achema AB. Achema AB appealed against the court ruling. Based on the ruling of the Supreme Administrative Court of Lith-

1 The Lithuanian Law on the Liquefied Natural Gas Terminal (original version) stipulated that the LNG terminal costs are subject to compensation, whereas a term „the LNG terminal component" was used in the Methodology for the Calculation of the Price Caps of Natural Gas Transmission and Distribution Services as approved by the Commission's Resolution No 03-106 of 8 August 2008. From 2014, the term "additional natural gas supply security component to be included in the natural gas transmission price" is used in the Law on the Liquefied Natural Gas Terminal.

uania passed on 24 October 2016 the investigation of the case was suspended until the coming into force of the final ruling in case No T-417/2016 at the General Court of the European Union.

On 22 December 2014, Achema AB applied to Vilnius County Administrative Court with request to annul paragraphs 1.1, 2.2.1, 2.3 and 3 of the Commission's Resolution No 03-895 of 20 November 2014 On the establishment of the upper gasification limit of natural gas (additional natural gas supply security component to be included in the natural gas transmission price) for the years 2015-2019. Based on the court ruling of 7 July 2015, Amber Grid AB joined the lawsuit as a third party. Based on the court ruling of 11 November 2015, the lawsuit was suspended. Separate complaints were filed. On 11 January 2016, the Supreme Administrative Court of Lithuania passed a ruling whereby the ruling of Vilnius Regional Administrative Court of 11 November 2015 on the suspension of the investigation of the case until the resolution of the First Administrative Case at the Supreme Administrative Court of Lithuania remained in force.

On 22 January 2016, Achema AB applied to Vilnius Regional Administrative Court with request to annul paragraph 1 of the Commission's Resolution No 03-683 of 23 December 2016 On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price. Based on the court ruling of 09 March 2016, Amber Grid AB joined the lawsuit as a third party. The parties filed their responses. Based on the ruling of Vilnius Regional Administrative Court of 10 November 2016 the investigation of the case was suspended until the resolution of the First Administrative Case at the Supreme Administrative Court of Lithuania.

On 18 April 2016, Achema AB applied to Vilnius Regional Administrative Court with request to annul paragraph 1 of the Commission's Resolution No 03-683 of 25 March 2016 On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price. Based on the court ruling of 02 May 2016, Amber Grid AB joined the lawsuit as a third party. The parties filed their responses. Based on the ruling of Vilnius Regional Administrative Court of 16 November 2016 the investigation of the case was suspended until the resolution of the First Administrative Case at the Supreme Administrative Court of Lithuania.

On 18 August 2016 Amber Grid AB filed a claim to Kaunas Regional Court with the request to award from Achema AB the amount owed of EUR 2,430 thousand for the LNG terminal funds according to the agreements on the natural gas transmission services concluded in 2012 and 2014. Preparations are made for the investigation of the case on its merits.

On 6 October 2016, Achema AB filed a claim to the respondent, the Republic of Lithuania, for the compensation of damage incurred in granting state aid not agreed with the European Commission. Amber Grid AB joined the lawsuit as a third party. The parties filed their responses.

On 28 December 2016, Achema AB applied to Vilnius Regional Administrative Court with request to annul the Commission's Resolution No 03-369 of 17 November 2016 On the establishment of the additional natural gas supply security component to be included in the natural gas transmission price. Amber Grid AB joined the lawsuit as a third party. A time period has been established in the case for the provision of responses.

<u>BALTPOOL UAB litigations</u>

<u>Litigations in which BALTPOOL UAB was involved as a claimant during the reporting period</u>

A civil case No eL2-14375-775/2016 was initiated at Kaunas District Court in response to the statement submitted by the creditor BALTPOOL UAB on 16 May 2016 regarding the issue of the court order, by which amount of EUR 246,462.23 was claimed to be awarded in relation to PSO funds receivable from the debtor Dirbtinis Pluoštas UAB (company code 13515425). As the debtor covered part of its debt and seeking to settle the dispute in a peaceful manner, and as the parties to the civil case agreed on the schedule of payment of PSO funds receivable and interest thereon, and as the debtor committed itself to cover the stamp-duty costs incurred by BALTPOOL UAB, by its ruling of 27 June 2016 Kaunas District Court decided to approve the agreement on peaceful dispute settlement between BALTPOOL UAB and Dirbtinis Pluoštas UAB and to terminate the initiated civil case. Under the agreement on peaceful dispute settlement, the debtor was obliged to pay to the creditor the remaining amount in dispute of EUR 221,897.27 at the time of signing the agreement over the period of 11 months, by making monthly payments of the principal amount of debt together with accumulated interest on the outstanding balance of the debt calculated as 8%+R[2]. The budget of PSO funds will incur no losses as a result of signing the agreement on peaceful settlement of dispute (as the debtor will pay interest). As at 31 December 2016, the outstanding balance of amount in dispute to be covered by Dirbtinis Pluoštas UAB under the agreement on peaceful settlement of dispute was EUR 80,495.85. Based on the provisions of the agreement, in the event that the debtor fails to comply with the established schedule of payment, BALTPOOL UAB will have a right to claim forced recovery of full amount of debt.

<u>Litigations in which BALTPOOL UAB filed a request for the take-over of rights and obligations of the claimant</u>

Civil case No 2-52-440/2017 is investigated at Šiauliai Regional Court on the basis of the claim of 22 April 2013 filed by LITGRID AB against the defendant Orlen Lietuva AB regarding the awarding of PSO funds payable under invoice No 0002326 of 31 January 2013 issued by LITGRID AB. According to the claim transfer agreement No SUT-295-15/16-BP-4 of 23 December 2015 concluded between BALTPOOL UAB and LITGRID AB, BALTPOOL UAB took over from LITGRID AB a claim of EUR 248.96 against Orlen Lietuva AB regarding the repayment of PSO funds owed, in respect of which the investigation of the mentioned civil case was

2 A fixed interest rate applied by the European Central Bank to its most recent main refinancing operation, increased by 8 percentage points, provided the most recent main refinancing operation of the European Central Bank resulted from fixed-rate tender procedures, or a marginal interest rate, provided the most recent main refinancing operation of the European Central Bank resulted from variable-rate tender procedures.

started at Šiauliai Regional Court. Under the ruling of 12 February 2014 Šiauliai Regional Court suspended the investigation of civil case No 2-752-601/2014. The investigation of the case was not renewed until the end of the reporting period (31 December 2016). On 14 January 2016, BALTPOOL UAB filed a request to Šiauliai Regional Court for the replacement of the claimant in civil case No 2-52-440/2017 (2-107-440/2016) being investigated by this court by transferring the claimant's rights and obligations to BALTPOOL UAB. Šiauliai Regional Court informed BALTPOOL UAB that the request for the replacement of the claimant will be considered only after the renewal of the investigation of the case on its merits. After the claim is satisfied by the court and the amount awarded is recovered from Orlen Lietuva AB, the deficit of the PSO funds budget would decrease by the amount awarded.

Civil case No 2-116-601/2017 is investigated at Kaunas Regional Court on the basis of the claim of 22 April 2013 filed by LITGRID AB against the defendant LIFOSA AB. In its claim, the claimant requested to award from the defendant PSO funds owned of EUR 104,102.44, interest charged of EUR 889.91 and procedural interest of 6% and also to oblige the defendant to sign the agreement on PSO funds collection with the claimant according to the submitted draft version and to award litigation expenses. According to the claim transfer agreement No SUT-297-15/16-BP-3 of 23 December 2015 BALTPOOL UAB took over from LITGRID AB the creditor's claims against LIFOSA AB, the awarding of which is being investigated in the mentioned case. Under the ruling of 7 January 2014 Kaunas Regional Court suspended the investigation of civil case No 2-752-601/2014 (2-116-601/2017). The investigation of the case was not renewed until the end of the reporting period (31 December 2016). On 14 January 2016, BALTPOOL UAB filed a request to Kaunas Regional Court for the replacement of the claimant in civil case No 2-216-601/2016 (2-116-601/2017) being investigated by this court by transferring the claimant's rights and obligations to BALTPOOL UAB. This request of BALTPOOL UAB for the replacement of the claimant will be considered only after the renewal of the investigation of the case on its merits.

Civil case No 2-79-264/2017 is investigated at Kaunas Regional Court on the basis of the claim of 22 July 2011 filed by LITGRID AB against the defendant Achema AB regarding the awarding of PSO funds owed of EUR 657,758.60, interest charged of EUR 6,058.34, procedural interest of 8.49% and litigation expenses. Under the ruling of 14 June 2012 Kaunas Regional Court suspended the investigation of this civil case. The investigation of the case was renewed on 29 August 2016 and repeatedly suspended on 20 September 2016. The investigation of the case was not renewed until the end of the reporting period (31 December 2016). According to the agreement on the transfer of rights and obligations No 16-BP-44 of 21 November 2016, BALTPOOL UAB took over from LITGRID AB rights and obligations related to PSO funds collection from the defendant Achema AB under the services provision agreement No SUT-59-10 of 1 July 2010 and under the legal acts regulating the collection and administration of PSO funds. The request of BALTPOOL UAB dated 9 December 2016 for the replacement of the claimant by transferring the claimant's, i.e. LITGRID AB, rights and obligations to BALTPOOL UAB will be considered only after the renewal of the investigation of the case on its merits.

Civil case No 2-117-230/2017 is investigated at Kaunas Regional Court on the basis of the claim of 18 April 2013 filed by LITGRID AB against the defendant Achema AB regarding the awarding of PSO funds owed of EUR 374,551.62 for January 2013, interest charged of EUR 3,201.66, procedural interest of 6% and litigation expenses, and the obligation to be imposed on the defendant Achema AB to sign the agreement on the collection of PSO funds with the claimant according to the submitted draft version. Under the ruling of 29 November 2013 Kaunas Regional Court suspended the investigation of civil case No 2-1808-230/2013 (2-117-230/2017). According to the claim transfer agreement No SUT298-15/16-BP-2 of 23 December 2015 BALTPOOL UAB took over from LITGRID AB the claim against Achema AB for PSO funds owed, the awarding of which is being investigated in the mentioned civil case. The request of BALTPOOL UAB dated 14 January 2016 for the replacement of the claimant by transferring the rights and obligations of LITGRID AB to BALTPOOL UAB will be considered only after the renewal of the investigation of the case on its merits.

<u>Litigations in which BALTPOOL UAB was involved as a defendant during the reporting period</u>

Civil case No e2-446-545/2016 (e2-402-545/2017) is investigated at Vilnius City District Court on the basis of the claim of the claimant Vilniaus Energija UAB against the defendant BALTPOOL UAB regarding the recognition of the provisions of 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 claim amount has not been specified, because this is a non-material dispute. The claim is in direct conflict with the requirements of the existing legislation, therefore the Company does not agree with it. No monetary claims have been filed against the Company. The case has not been investigated yet. By the ruling of 27 January 2016 the case was suspended until the National Control Commission for Prices and Energy (the Commission) passes a resolution regarding the approval of the components of the thermal energy basic price for Vilniaus Energija UAB for the period of 2016-2021. The investigation of the case was renewed on 17 January 2017 as a result of the disappearance of the circumstances that caused the suspension of the case, i.e. by resolution No 03-318 of 14 October 2016 the Commission established the components of the thermal energy basic price for Vilniaus Energija UAB to be applicable until 31 October 2019. During the court's hearing held on 23 February 2017, it was decided to repeatedly suspend the investigation of the case until the resolution of the case in which the Commission's resolution of 14 October 2016 was appealed (administrative case No eI-9933-789/2016 investigated by Vilnius Regional Administrative Court). In any case the outcome of the case is expected to have no adverse consequences for the Company even if the court acknowledges that the legal acts regulating the administration of PSO funds are in conflict with the Constitution or the laws.

In such case, such legal acts would have to be amended, and the amounts awarded to the claimant would be paid out from the budget of PSO funds.

Civil case No 2A-1339-XX/2016 (No 2A-377/2017) is investigated at the Court of Appeal of Lithuania on the basis of the appeal of the claimant Achema AB regarding the ruling of Vilnius Regional Court passed in civil case No 2-2587-657/2016 whereby the court rejected the claim of Achema AB regarding the recognition of respective provisions of the electricity transmission service agreement No 432-2010-032E/SUT-59-10 concluded between the claimant and LITGRID AB as null and void and the application of the restitution. On 21 November 2016, BALTPOOL UAB took over from LITGRID AB the creditor's rights and obligations arising from legal relations with Achema AB related to PSO funds collection. Referring to the request of BALTPOOL UAB Vilnius Regional Court replaced the defendant in the case by transferring rights and obligations held by LITGRID AB to BALTPOOL UAB. On 9 December 2016, BALTPOOL UAB filed a response to the mentioned appeal. The date of the court's hearing has not been set until the end of the reporting period (31 December 2016).

Litigations in which BALTPOOL UAB was involved as a third party during the reporting period

By the ruling of 29 September 2016 of the Supreme Administrative Court of Lithuania (the SACL) the investigation of administrative case No A-3537-822/2016 reviewed under the appeal procedure was completed. By the mentioned ruling of the SACL the following requirements made by claimants Vėjo Gama UAB and Pabalnotas Vėjas UAB in the appeal were satisfied in full:

- The ruling of 14 March 2016 of Vilnius Regional Administrative Court passed in administrative case No I-5898-473/2016 was revoked;

By a new ruling passed a decision was made to revoke the following Commission's resolutions under appeal:

1. Commission's Resolution No 03-91 of 24 March 2014 On the amendment to Resolution No 03-104 of the National Control Commission for Prices and Energy of 28 March 2013 On the approval of the winners of the auction on the allocation of promotion quotas to producers using wind energy with their power plants' installed capacity ranging from 30 kW to 350 kW and connected to the distribution network.
2. Commission's Resolution No 03-172 of 4 June 2014 On the amendment to Resolution No 03-91 of the National Control Commission for Prices and Energy of 24 March 2014 On Resolution No 03-104 of the National Control Commission for Prices and Energy of 28 March 2013 On the approval of the winners of the auction on the allocation of promotion quotas to producers using wind energy with their power plants' installed capacity ranging from 30 kW to 350 kW and connected to the distribution network.
3. Commission's Resolution No 03-136 of 26 May 2014 On the amendment to Resolution No 03-104 of the National Control Commission for Prices and Energy of 28 March 2013 On the approval of the winners of the auction on the allocation of promotion quotas to producers using wind energy with their power plants' installed capacity ranging from 30 kW to 350 kW and connected to the distribution network.

After the revocation of the Commission's Resolutions, the Company, as the entity performing the functions of the PSO funds administrator, is obliged to execute the ruling and to pay out from the PSO funds budget PSO funds payable to the claimants. The increased need for PSO funds in the PSO budget has been agreed with the Commission; the execution of the ruling of the SACL of 29 September 2016 will have no impact on the Company's financial position.

Administrative case No  A-686-525/2017 is investigated at the SACL on the basis of appeals of ORLEN Lietuva AB, Achema AB and LIFOSA AB regarding the ruling of 9 February 2016 of Vilnius Regional Administrative Court passed in administrative case No I-1739-142/2016 whereby the claims of the claimants ORLEN Lietuva AB, Achema AB and LIFOSA AB regarding the annulment of  respective paragraphs of the Commission's Resolution No 03-442 of 11 October 2013 (On the establishment of PSO funds and prices for 2014) were rejected as ungrounded. The defendant in the case is the Commission. BALTPOOL UAB is involved in the case as a third party, as the entity performing the functions of the PSO funds administrator. BALTPOOL UAB objects to the appeals and on 10 March 2016 filed a response to the claimants' appeals received. No property and/or any other claims have been presented in the case towards the Company. The date for the court's hearing of the case under the appeal procedure was not been set yet. When the court resolves the case and the court's ruling comes into force, the Company, as the entity performing the functions of the PSO funds administrator, would have to take into account the court's ruling when administrating PSO funds. If the ruling passed by the appeal court is favourable to the claimants, the execution of such ruling will not have any impact on the Company's financial position.

Administrative case No el-2761-142/2016 is investigated at Vilnius Regional Administrative Court on the basis of the claim of the claimants ORLEN Lietuva AB, Achema AB and LIFOSA AB regarding the annulment of respective paragraphs of the Commission's Resolution No 03-840 of 17 October 2014 (On the establishment of PSO funds and prices for 2015). The defendant in the case is the Commission. The Company is involved in the case as a third party, as the entity performing the functions of the PSO funds administrator. No property and/or any other claims have been presented in the case towards the Company. At the present moment the investigation of the case has been suspended until the adoption and coming into force of final rulings in administrative cases No I-16-426/2016 (I-33-426/2015)[3] and A-3184-525/2016 (I-2048-142/2015[4]). When the court resolves the case and the court's ruling comes into force, the Company, as the entity performing the functions of the PSO funds administrator, would have to take into account the court's ruling when administrating PSO funds, i.e. to accordingly adjust the PSO funds collected from and/or paid to the persons specified in the court's ruling to the established extent. The court's ruling will have no impact on the Company's financial position.

3 Suspended until the completion of the investigation by the SACL and passing of the ruling in case No A-3184-525/2016 (litigation No 3-61-3-06606-2013-7).

4 Combined with other cases and investigated under the appeal procedure in the SACL case No A-686-525/2017.

Panevėžys Regional Court passed the ruling of 6 May 2016 in civil case No e2A-315-544/2016 regarding the ruling of 8 December 2015 of Visaginas City District Court passed in civil case No e2-859-724/2015, whereby the claim of the claimant Pusbroliai UAB against the defendant state enterprise Visagino Energija for the compensation of losses was rejected. The Company is involved in the case as a third party, as the entity performing the functions of the energy resources exchange operator. Having investigated the appeal of the claimant Panevėžys Regional Court annulled the ruling of the court of first instance and passed a new ruling whereby the claim of Pusbroliai UAB was satisfied partially. No claims have been presented in the case towards BALTPOOL UAB. The court's ruling will have no impact on the Company's financial position.

An appeal in cassation of the defendant state enterprise Visagino Energija regarding the ruling of 6 May 2016 of Panevėžys Regional Court passed in civil case No e2A-315-544/2016 was received at the Supreme Court of Lithuania on 2 August 2016, accepted by the ruling of the Supreme Court of Lithuania passed on 5 August 2016 (No 3P-1562/2016, legal process No 2-11-3-00603-2015-4) and was included in the list of cases investigated under the cassation procedure. The appeal in cassation was transmitted to the parties involved in the case. On 9 September 2016, BALTPOOL UAB filed a response to the appeal in cassation requesting to reject the appellant's claim and leave the ruling of 6 May 2016 of Panevėžys Regional Court unchanged. The Supreme Court of Lithuania passed the ruling on 8 February 2017 in civil case No e3K-3-17-378/2017 whereby the ruling of 6 May 2016 of Panevėžys Regional Court was annulled and the ruling of 8 December 2015 of Visaginas City District Court was left in force. The court's ruling has no impact on the Company's financial position.

Civil case No e2-33456-833/2016 is investigated at Vilnius City District Court on the basis of the claim of Renerga UAB for the awarding of losses (compensatory interest) incurred as a result of the suspension of payment of PSO funds and litigation expenses from the defendants Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB. In view of the claim's requirements the claimant requests that the court investigating the case apply to the Constitutional Court regarding the legitimacy of the provisions of the Description of the Procedure for the PSO Funds Administration and the Description of the Procedure for the Provision of PSO Services regulating the suspension of payment of PSO funds for PSO services rendered. The claimant also requests that the court investigating the case apply to the SACL with the request to investigate whether respective paragraphs of the mentioned Descriptions of the Procedure for the PSO Funds Administration and for the Provision of PSO Services are not in conflict with the Competition Law and the provisions of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009. The Company, the Government, the Ministry of Energy and the companies related to the claimant Achema AB and Koncernas Achemos Grupė UAB are involved in the case as third parties. The suspension of the payment of PSO funds to Renerga UAB was in compliance of the effective legal acts as its related company Achema AB fails to meet the obligation to pay for PSO services. The passing of the ruling in a third-party case will have no impact on the Company's financial position which acts as the PSO funds administrator. In August-September 2016 the parties to the case filed responses to the claim submitted. On 21 December 2016 Vilnius City District Court passed the ruling whereby the request of Renerga UAB for the application to the Constitutional Court was rejected. On 21 February 2017, Renerga UAB filed a request for the referral to the Court of Justice of the European Union for the adoption of a preliminary ruling. During the court's hearing held on 22 February 2017 the parties to the case were informed about the right to submit their opinion on the latter request of Renerga UAB within 10 working days. The investigation of the case was postponed failing to set the date for the court's hearing. The court's ruling in the case is not expected to have any impact on the Company's financial position.

Litigations in which BALTPOOL UAB was involved as a claimant during the reporting period

Enforcement case No 0114/16/00170 regarding the enforcement of enforcement order No e22435-773/2015 of 21 January 2016 issued by Kaunas Regional Court. According to the claim transfer agreement No SUT296-15/16-BP-1 of 23 December 2015 BALTPOOL UAB took over the claim right from LITGRID AB (the initial creditor) to the unpaid PSO funds of EUR 169,461.90 by Dirbtinis Pluoštas UAB. Accordingly, in view of civil case No e2-2435-773/2015 initiated on the basis of the claim of the claimant LITGRID AB against the defendant Dirbtinis Pluoštas UAB for the awarding of unpaid PSO funds of EUR 169,461.90 and compensation of litigation expenses, in which the ruling of 26 November 2015 of Kaunas Regional Court was passed satisfying the claim in full, the claimant's rights and obligations were transferred to BALTPOOL UAB. Based on the mentioned court's ruling the enforcement order was issued on 21 January 2016 after the application of which the investigation of enforcement case No 0114/16/00170 was started. Based on the enforcement order the amount of EUR 20,000.00 was recovered on 22 March 2016. The remaining amount of EUR 156,790.76 (including enforcement expenses) was recovered on 1 April 2016. The amount of actually recovered funds has no impact of the financial position of BALTPOOL UAB as the amounts recovered were included in PSO funds. The accounting of PSO funds is carried out separately from the Company's accounting.

(All amounts in EUR thousands unless otherwise stated)

## 31. Deferred revenue

| | Group | |
|---|---|---|
| | At 31 December 2016 | At 31 December 2015 |
| **Congestion management revenue at 1 January** | **495** | - |
| Congestion management revenue received during the period | 11,405 | 495 |
| Congestion management revenue recognised by offsetting against depreciation of assets concerned | - | - |
| Congestion management revenue recognised as income during the period | (3,439) | - |
| **Congestion management revenue at 31 December** | **8,461** | **495** |

As disclosed in Note 2.21, deferred revenue consists of congestion revenue. Deferred congestion revenue amounting to EUR 8,461 thousand as at 31 December 2016 will be used for investments in the interconnection in the upcoming periods. Congestion revenue of EUR 3,439 thousand recognised in the statement of comprehensive income for 2016 are designated for the offsetting against expenses incurred in guaranteeing the availability of the allocated capacity. In 2015, the amount of EUR 495 thousand was used for investments in the interconnection.

## 32. Events after the end of the reporting period

On 1 March 2017, the Company made an early repayment of a part (EUR 4,300 thousand) of the amount due to Lietuvos Energija UAB for the acquisition of LITGRID AB.

On 1 March 2017, the Company signed the overdraft agreement for the amount of EUR 4,000 thousand. The overdraft agreement was concluded for the term of one year with the possibility to extend the term for additional one year.

On 1 February 2017, Amber Grid AB signed the agreement on the extension of the loan agreement concluded with the European Investment Bank under which the term for the payment/use of the loan was extended until the end of 2017.

On 28 February 2017, Amber Grid AB made an early repayment of a part (EUR 11,444 thousand) of the loan received from Swedbank AB.

On 1 March 2017, Amber Grid AB signed the overdraft agreement for the amount of EUR 10,000 thousand. The overdraft agreement was concluded for the term of one year with the possibility to extend the term for additional one year.

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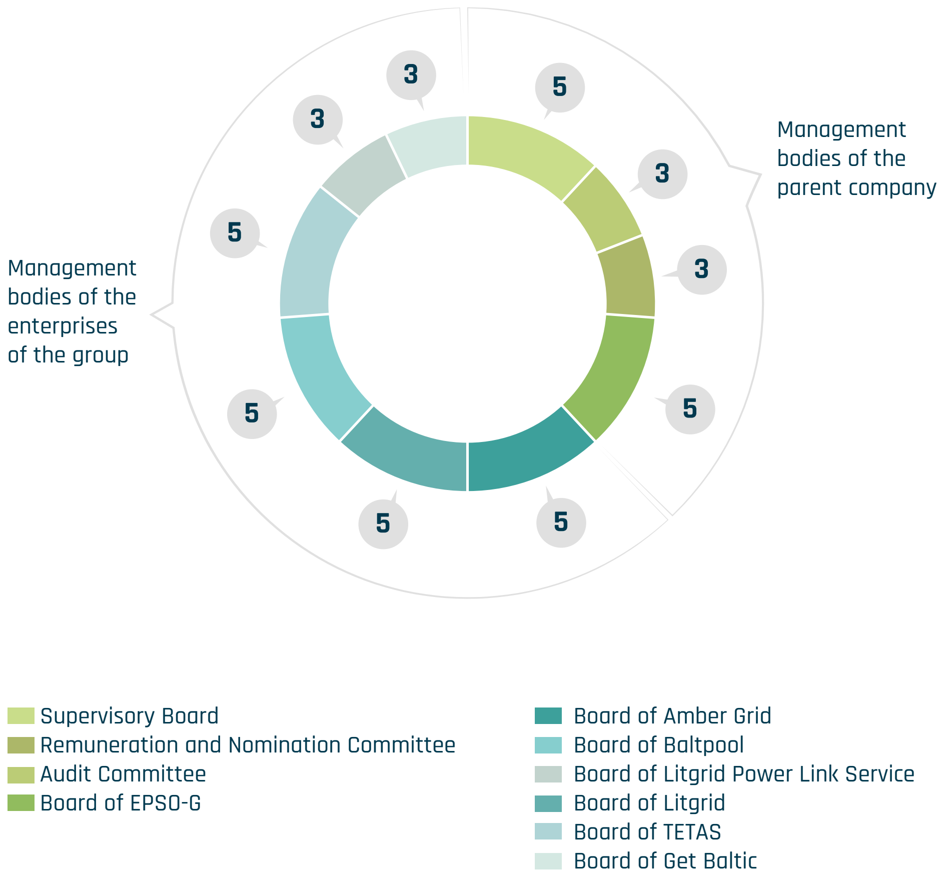
## Collegial management bodies and remuneration to the members

In 2016, new Supervisory Board, Board, Remuneration and Nomination Committee, and Audit Committee of the parent company were formed, boards of the seven enterprises controlled by the group were re-elected. Independent members account for 1/3 of all members of the newly formed key management bodies.

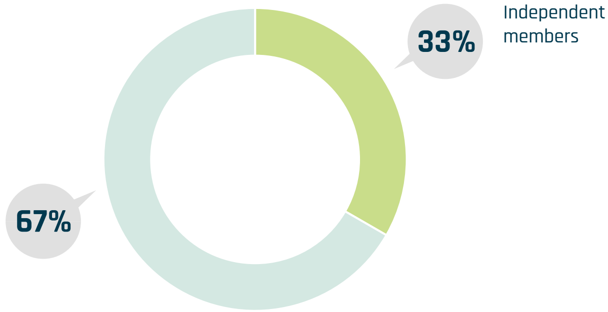
External and internal competitions were organised for the positions of members of all internal and external management bodies. Well-known experienced professionals in the field were selected as independent members and signed Board Member Agreements.

Below is information about the number of board members in the enterprises, percentage of independent members and funds allocated for their remuneration; compared to the previous year, the amount of such funds changed in part due to the payment of wages to the external independent board members.

## Management bodies of the group and its enterprises



## Composition of the management bodies




## Remuneration to the members of the management bodies (EUR thousand)

| | 2016 | 2015 |
|---|---|---|
| Supervisory Board and the subordinate committees | 17 | 6 |
| Board | 49 | 20 |
| **Total** | **66** | **26** |

## Information about bad transactions or those with the associated parties entered into on behalf of the EPSO-G group over the reference period

A working group established by the CEO of EPSO-G has found that, during the reference period, the former CEO of TETAS failed to duly inform the Board and shareholders of TETAS about the conflict of interest with the enterprise managed by him breaching the duty provided for in Article 2.87(6) of the Civil Code, mingled assets of the legal entity with his own assets on the basis of transactions entered into with the enterprise managed by him thereby receiving personal gain without the consent of shareholders of TETAS and breaching the duty provided for in Article 2.87(4), and failed to fulfil his duty to remain loyal to the enterprise managed by him. For the above reason, at its meeting of 3 February 2017, the Board of TETAS examined the findings presented by the working group and decided to terminate the contract with the CEO due to loss of confidence. The issue of damages is being addressed separately.

The Company is not aware of any other bad transactions that conflict with the aims of the Group, normal market conditions, interests of shareholders or other persons, etc. that had or could have adverse impact on the business and/or performance as well as transactions with managers, controlling shareholders or other associated parties concluded on behalf of EPSO-G and/or the Group despite the existing conflict of interest.