Litgrid

LITGRID AB

CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2017 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT AND THE CONSOLIDATED ANNUAL REPORT

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CONFIRMATION OF RESPONSIBLE PERSONS

March 21, 2018 Vilnius

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Information Disclosure approved by the Bank of Lithuania, we, Daivis Virbickas, Chief Executive Officer of LITGRID AB, Vytautas Tauras, Finance Controller, Acting as Director of Finance Department of LITGRID AB and Žydrūnas Augutis, Chief Financier-Head of Accounting Division of LITGRID AB, hereby confirm that, to the best of our knowledge, the attached LITGRID AB Consolidated and the Company's financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union, for the 2017 year, give a true and fair view of the LITGRID AB and consolidated group assets, liabilities, financial position, profit and cash flows; Consolidated Annual Report for the 2017 year includes a fair review of the development and performance of the business, consolidated group financial position and undertakings in relation to the description of the main risks and contingencies faced thereby.

Daivis Virbickas — Chief Executive Officer

Vytautas Tauras — Finance Controller, Acting as Director of Finance Department

Žydrūnas Augutis — Chief Financier

Translation note:

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

The financial statements were approved on 21 March 2018.

Daivis Virbickas Chief Executive Officer	Vytautas Tauras Finance Controller, Acting as the Director Finance Department	Žydrūnas Augutis Chief Financier

Independent auditor's report

To the shareholders of LITGRID AB

Report on the audit of the stand-alone and consolidated financial statements

Our opinion

In our opinion, the stand-alone and consolidated financial statements give a true and fair view of the stand-alone and consolidated financial position of LITGRID AB ("the Company") and its subsidiaries ("the Group") as at 31 December 2017, and of 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.

Our opinion is consistent with our additional report to the Audit Committee.

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

- the stand-alone and consolidated statements of financial position as at 31 December 2017;
- the stand-alone and consolidated statements of comprehensive income for the year then ended;
- the stand-alone and consolidated statements of changes in equity for the year then ended;
- the stand-alone and consolidated statements 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 the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the stand-alone and consolidated financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

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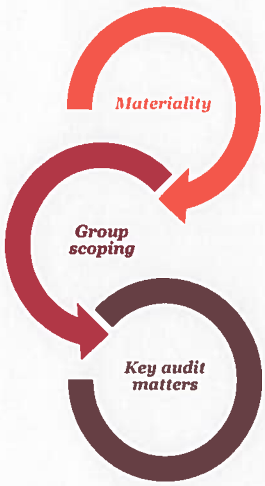
The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in ne 38 to the financial statements.

Our audit approach

Overview



Overall the Company materiality is EUR 1.000 thousand which represents 2.5% of earnings before interest, tax, depreciation and amortization, write off expenses of property, plant and equipment, impairment losses of investments (EBITDA).

Overall the Group materiality is EUR 1.000 thousand which represents 2.5% of earnings before interest, tax, depreciation and amortization, write off expenses of property, plant and equipment (EBITDA).

As at 31 December 2017 the Company owned two subsidiaries (as at 31 December 2016 – two subsidiaries). A full scope audit was performed by PricewaterhouseCoopers UAB for all Group entities.

- Valuation of property, plant and equipment
- Impairment of investment in the subsidiary (stand-alone financial statements)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the stand-alone and consolidated financial statements (together "the financial statements"). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality for the stand-alone and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	EUR 1.000 thousand (2016: EUR 1.200 thousand)
Overall Group materiality	EUR 1.000 thousand (2016: EUR 1.217 thousand)
How we determined it	2.5% of EBITDA
Rationale for the materiality benchmark applied	We have applied EBITDA because, in our view, it is the benchmark against which the performance of the Group and the Company is most commonly measured both internally by management and externally by stakeholders, including the shareholders, regulator and creditors.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 50 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of property, plant and equipment *Refer to Notes 2.7, 3 and 5 of the stand-alone and consolidated financial statements.* According to the Company's and Group's accounting policies, property, plant and equipment is carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and less any subsequent accumulated impairment losses. We focused on this area due to significance of the property, plant and equipment balance for the stand-alone and consolidated statements of financial position (EUR 375.8 million and EUR 378.1 million as at 31 December 2016 respectively) and because management's assessment on whether the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the end of the	We obtained, understood and evaluated management's policies, processes, methods and assumptions used to assess the fair values of property, plant and equipment. We examined management's information about changes in electricity regulatory environment during 2017 with reference to the latest decisions of the National Commission for Energy Control and Prices, including the regulated rate of return. We reviewed the following significant inputs used in the valuation model: expected cash flows from operations during years 2018 – 2025; adjustments made to cash flows regarding to grants for the interconnection projects; discounted going concern value beyond 2025 which is based on the return on the regulated assets investments; and the discount rate. We discussed these inputs with management and traced them to internal and external information where appropriate.

reporting period involves significant judgements and estimates. Management has applied the income method using the discounted cash flows technique and concluded that fair value of property, plant and equipment is higher than its carrying amount as at 31 December 2017. Given the identified deviation in value is lower than 5% of the carrying amount of the property, plant and equipment as at 31 December 2017, management concluded that the fair value of revalued assets does not differ materially from its carrying amount and consequently further revaluation is not required.	We ensured that valuation model is mathematically accurate and that the results are accurately compared to the carrying values of assets. Also we assessed sensitivity of property, plant and equipment valuation results to changes in selected assumptions. Our work gave us sufficient audit evidence to conclude that management's judgement not to change the carrying values of property, plant and equipment is supportable and appropriate in light of the evidence obtained.
Impairment of investments in the subsidiary (stand-alone financial statements) *Refer to Notes 2.5, 3 and 6 of the stand-alone financial statements.* The Company's subsidiary suffered material losses during the year ended 31 December 2017, therefore as there are indications of impairment in respect of investments in this subsidiary, the Company's management estimated its recoverable amount as of 31 December 2017 and recognised impairment loss of EUR 4.3 million in respect of investments. We focused on this area because of risks related to these assets. The management of the Company applies significant judgment and makes significant assumptions in estimating expected future cash flows from the subsidiary and determining the recoverable amount of investments and recognising impairment.	We analysed and discussed with management the impairment indicators for investments in the subsidiary. We reviewed the impairment test for investments prepared by the Company's management. We analysed the major inputs in the calculation of the value in use applied in the test, including revenue, profitability, and discount rate assumptions. We discussed with management the basis for expected future performance of the subsidiary, compared it with historical performance and information of the existing and planned contracts. Our work gave us sufficient audit evidence to conclude that management's judgement to recognise impairment loss in respect of investments in the subsidiary is supportable and appropriate in light of the evidence obtained.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

As at 31 December 2017, the Company owned two subsidiaries (as at 31 December 2016 – two) that are further disclosed in Note 1. A full scope audit of all subsidiaries was performed by PricewaterhouseCoopers UAB.

Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report, including the corporate governance report and the social responsibility report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the consolidated annual report.

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 appears to be materially misstated.

With respect to the consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated annual report for the financial year ended 31 December 2017, for which the financial statements are prepared, is consistent with the financial statements; and
- the consolidated annual report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Company and the Group presented the social responsibility report as a part of the consolidated annual report.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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 the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group on 24 April 2015. Our appointment has been renewed annually by the shareholders resolution representing a total period of uninterrupted engagement appointment of 3 years.

The certified auditor on the audit resulting in this independent auditor's report is Rimvydas Jogėla.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
21 March 2018

LITGRID AB CONSOLIDATED ANNUAL REPORT

Chairman's Foreword

It's my honour to present the annual report of the transmission system operator Litgrid, an EPSO-G Group company.
2017 was another remarkable year of successful and well-focused operations. Continuing with preparatory project aimed at the synchronisation of the Lithuanian electricity system with the European continental network, Litgrid team achieved goals set by our shareholder and maintained sustainable financial and network reliability indicators.
In 2017 Lithuanian business and people witnessed the recovery of eurozone and sustainable growth of the economy. In the light of the growing national economy, it was the record year of electricity consumption in Lithuanian since 1992. It opened the doors for more efficient employment of the transmission infrastructure and provisions of system services at lower prices thus contributing to the competitiveness of Lithuanian economy.
The reliability of the transmission grid is ensured by efficient infrastructure, timely investments and professional system management. The reliability of the interconnections that ensure lower prices has increased: LitPol Link operated without major disturbances, while the availability of the NordBalt has increased to 84 per cent. The planned replacement of the underground cable joints will help us to mitigate long-term risks of price fluctuations and interruptions of the electricity supply. NordBalt will continue to provide stable and secure supply of the electricity for the sake of the society and business needs.
Striving for better transparency and accountability, Litgrid, as all other EPSO-G group companies implemented unified policies of accounting, remuneration, corruption prevention, interest and risk management, financial and non-financial information disclosure. It allows our stake-holders to evaluate our behaviour in the market, impact on the environment, relationship with the employees and the public.
And the most important is that the homework done the last year allows to get ready for the synchronisation with the Continental Europe and make it a reality. While saying thank you for every employee of Litgrid, board member, shareholder I am asking for the for the outstanding cooperation this year so that at the end of the next year we can be proud by empowering a breakthrough towards the goals defined in our strategy.

Rimvydas Štilinis, Chairman of the Board

CEO'S Foreword

2017 was a year of the coherent, persistent and often invisible work for the Litgrid team of professionals, that laid foundation for the implementation of ambitious goals and creation of value-based modern organisation.
Our motto – 'Energy for our future' – reflected our priorities perfectly: we allotted significant amount of attention to the synchronisation with the European continental network, which is the strategic goal of Lithuania and the Baltic States, and we put a lot of effort for our ability to rapidly implement infrastructure projects and complete the international studies in 2018.
The NordBalt and LitPol Link projects carried out by the Litgrid team for integration into the European market proved their value – thanks to these links, the wholesale electricity price has decreased for Lithuanian residents and businesses. Together with our partners, we have created a reliable common Baltic balancing market. So, step by step, we are implementing our mission of creating value for society.
The transmission grid that we operate ensures reliable power supply – we are among the best in the region in terms of reliability indicators. This contributes significantly to the creation of value for Lithuania – reliable electricity supply is vital to the growing economy of Lithuania. Even under the conditions of the limited competition, we successfully carried out the power reserve auction – one of the major projects that secures uninterrupted electricity supply.
We are building our modern organisation - in 2017, we started a very interesting Lean journey. Lean provides us with the foundation for growth. Continuous improvement of operational processes is becoming a part of our organisation's culture and everyday work; it helps us to liberate the initiatives of our colleagues, and liberated initiative will become the key success factor for achieving our vision.
Last year, we approved the long-term strategy of Litgrid and set even bigger goals for ourselves, of which I would single out our new vision: the Europe's Smartest Transmission System Operator. I sincerely believe that with the team of the best specialists, we will continue to successfully increase confidence in the energy system.

Daivis Virbickas, CEO

(All amounts are in EUR thousands unless otherwise stated)

I. General information about the group of companies

This consolidated annual report has been prepared for the year 2017.

The issuer and its contact details:

Name	LITGRID AB (hereinafter referred to as "Litgrid" or the "Company")
Legal form	Public limited liability company
Date and place of registration	16 November 2010, the Register of Legal Entities of the Republic of Lithuania
Company code	302564383
Registered office address	A. Juozapavičiaus g. 13, LT-09311, Vilnius
Telephone	+370 707 02171
Fax	+370 5 272 3986
Email	info@litgrid.eu; www.litgrid.eu

Litgrid's activities

Litgrid, the Lithuanian electricity transmission system operator (the "TSO"), ensures the stable operation of the national electric power system, controls electricity flows and creates conditions for competition in the 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. Litgrid has implemented the strategic projects on electricity cross-border links, namely, NordBalt (Lithuania–Sweden) and LitPol Link (Lithuania–Poland). In its work aimed at the consolidation of the country's energy independence, Litgrid fosters a culture of responsibility, rational creativity and dialogue.

As the backbone of the national electric power sector, Litgrid is not only responsible for maintaining the balance between electricity consumed and produced in the system and reliable transmission of electricity, but also implements strategic national electricity projects. Its vision and strategic operating guidelines are based on the long-term goals identified in the National Energy Independence Strategy. The most important activity areas and responsibilities of the Lithuanian TSO include the maintenance of the country's electricity infrastructure and its integration with the Western and Northern European electricity infrastructure; development of the electricity market and participation in the creation of a single electricity market of the Baltic and European countries; and the integration of the electricity systems of Lithuania and continental Europe for synchronous operations.

Litgrid's strategy

On 28 September 2017, the Board of Litgrid approved the Company's strategy for 2018–2027.

Litgrid's mission is to ensure a reliable transmission of high-quality electricity in the European market by creating value for the society.

Litgrid's vision is to become Europe's smartest transmission system operator.

Litgrid's values are cooperation, respect, responsibility, professionalism, and initiative.

Litgrid's strategic objectives and priorities for 2018–2027 are:
- Synchronisation with the grids of continental Europe;
- Expansion of the European market;
- Innovative and sustainable management of the system and assets;
- Development of a modern organisation;
- Sustainable increase of value for the society.

Litgrid – part of the EPSO-G group

EPSO-G UAB is a state-owned company with the Ministry of Energy controlling 100% of its shares. EPSO-G UAB holds 96.6% of shares of gas transmission system operator Amber Grid AB and 97.5% of shares of electricity transmission system operator Litgrid. EPSO-G UAB also holds 67% of shares of the Lithuanian energy exchange operator Baltpool UAB, while its subsidiary Amber Grid AB controls 66% of shares of the Lithuanian natural gas exchange operator GET Baltic UAB. These exchange operators aim to become the regional platforms for trade in energy resources.

The objectives of EPSO-G corporate governance are:

- implementation of ownership rights;
- strategic management of the transmission system and other companies;
- enhancement of operational efficiency of the companies;
- transparency.

Litgrid's business plans and prospects

The section below indicates the main directions of Litgrid's activities.

Integration of the national electric power system into the European electricity infrastructure

Following a full-fledged integration of Lithuania into the European electricity system, the European system management standards will be introduced in the electricity sector ensuring management of electricity flows based on market principles and participation in maintaining the system's frequency. The aim is to achieve a synchronous operation of the system of the Baltic countries within the electricity grids of continental Europe.

Single European electricity market

The integration of the Lithuanian electricity market into the electricity market of the Baltic and Nordic countries, and subsequently into the single European electricity market, will ensure transparent wholesale prices of electricity, competition and freedom of choice for all market participants as well as equitable trade in electricity with the neighbouring European countries. Being part of a large electricity market will allow ensuring the most effective use of the grids and electricity generation infrastructure and security of electricity supply.

Integration of the electricity transmission grid into the European electricity infrastructure

The electricity transmission grid of Lithuania is well-developed and reliable in meeting the needs of electricity users. Since the end of 2015, the country's electricity transmission grid has been connected to Sweden and Poland via the asynchronous power links (LitPol Link is a double-circuit power link) and to the electricity systems of Latvia and the neighbouring eastern countries via 12 synchronous power links. The NordBalt (with Sweden) and LitPol Link (with Poland) power links have connected, for the first time, Lithuania's electric power system to the electricity grids of Northern and Western Europe. The electricity transmission grid, which is operated and maintained by Litgrid, allows trading in electricity between different power systems and provides access to the electricity markets rich in diverse energy resources. Optimal investments in the national grid ensure the integration of new electricity producers, safe transmission of electricity, and reliable operation of the system.

The main activities carried out by Litgrid in 2017

Integration of the national electric power system into the European electricity infrastructure

The European Commission's Joint Research Study on synchronization alternatives was completed in March 2017. The results of the study once again confirmed the scenario of synchronisation of the Baltic countries with the electricity grids of Western Europe through the Polish electricity system being the most effective in terms of technical, economical and reliability aspects of electricity supply.

During the BEMIP (Baltic Energy Market Interconnection Plan) meeting held on 7 December 2017, officials from the European Commission and the Baltic countries confirmed that the synchronisation of the Baltic countries with the network of continental Europe is priority project.

On 28 December 2017, Polish (PSE) and Baltic (Litgrid, Augstsprieguma Tikls and Elering) transmission system operators signed the agreement on a dynamic study of synchronisation.

The main transmission grid projects related to the system's synchronisation with the network of continental Europe carried out in 2017 include as follows:

- Construction works of a 330 kV electricity transmission line Kruonis PSHP-Alytus were completed with progress at 83%;
- Environmental impact assessment report *On a 330 kV electricity transmission line Lithuanian Power Plant–Vilnius* was agreed with stakeholders and public tender for works was announced;
- Preparation of the documentation for the project *Optimisation of the North-East Lithuanian power grid and preparation for synchronous work with the energy system of continental Europe* was completed and public tender was announced.

Expansion of the European market

The electricity transmission system operators of three Baltic countries (Litgrid, Augstsprieguma Tikls and Elering) have agreed on the establishment of a common Baltic balancing market and the launch of a common Baltic balancing market starting from 1 January 2018.

Electricity interconnections

LitPol Link is a double-circuit transmission line from Alytus in Lithuania to Elk in Poland and the Alytus back-to-back converter. LitPol Link interconnection was available to the market 99% of the time throughout 2017.

NordBalt electricity interconnection is one of the longest sea cables in the world, the operation of which significantly increases safety of energy supply to Lithuania and the Baltic countries. NordBalt interconnection was available to the market 84% of the time throughout 2017. In order to increase NordBalt's availability to the market, the replacement of the underground cable joints is planned from 30 July to 9 October 2018.

Electricity transmission and the grid's reliability

The electricity transmission grid of Lithuania is well-developed and reliable in meeting the needs of electricity users. Optimal investments in the national grid ensure the integration of new electricity producers, safe transmission of electricity, and the reliable operation of the system.

Electricity transmission

In 2017, Litgrid transmitted 9,992 million kilowatt-hours (kWh) of electricity via high-voltage transmission networks for domestic consumption, which is 2.71% more than in 2016. The volume of electricity transmitted to customers of Elektros Skirtymo Operatorius (ESO) equalled 8,988 million kWh (+1.65% compared to 2016), and 1,004 million kWh (+13.26% compared to 2016) of electricity were transmitted to other customers.

Reconstruction of the electricity grid

Litgrid operates high-voltage (400-330-110 kV) transmission lines with the length of 7,029 km and 236 transformer substations and switchyards. In 2017, reconstruction works of the transmission network (replacements of wires of overhead lines and supports) and 11 transformer substations and switchyards were carried out.

Reliability of the transmission network

Based on the requirements for the electricity transmission reliability and service quality approved by the National Commission for Prices and Energy Control, two indicators are used to measure the electricity transmission reliability level: ENS (Energy not Supplied due to interruptions) and AIT (Average Interruption Time).

The actual indicators for 2017 were as follows: ENS – 1.68 MWh and AIT – 0.06 min. These indicators were higher than the average of the European electricity transmission networks.

Capacity reserves

In 2017, Litgrid successfully organised an auction for a tertiary electric capacity reserve for 2018 and signed agreements with the suppliers of the reserve. The tertiary electric capacity reserve is necessary to ensure uninterrupted electricity supply for Lithuanian households and businesses.

Innovative and sustainable management of the system and assets

In 2017, the Company completed the Asset Management Information System (AMIS) introduction stage, a part of the first stage system was tested and a majority of data was transferred. The main objective of the AMIS introduction is to improve and standardise asset management processes by covering technological assets of the entire Company. The AMIS will be used to accumulate digital operating data, evaluate equipment based on their condition and respectively control risks related to asset management. A widely used hierarchical data model will be applied to describe the assets ensuring a more effective and precise accounting for the assets, management of relevant technical information relating to the assets.

Development of the modern organisation

In 2017, the Company started to implement the LEAN principles in its activities, including employee and management staff trainings and exercises for the application of the LEAN principles and methods. The LEAN programme comprises exercises for the improvement, standardisation of separate selected processes, standardisation of problem solving, strategy for the implementation of the LEAN practices in strategic management and daily business operations.

Litgrid's membership in international organisations

International visibility of and support for projects implemented by Litgrid is ensured through participation in international associations such as the European Network of Transmission System Operators for Electricity (ENTSO-E).

ENTSO-E unites 42 electricity transmission system operators from 35 countries across Europe. Its main functions include: resolving European-level issues concerning transmission grid management and development and the electricity market; promoting regional collaboration among TSOs; making proposals for draft legal acts of the European Commission; and preparing the Ten-Year Network Development Plan (TYNDP) and network codes. Litgrid's representatives sit on the organisation's System Operations, System Development, Market, and R&D committees as well as the related working groups. Participation in ENTSO-E activities is aimed at representing national interests and those of Litgrid in the making of European and regional decisions related to system management, the planning and implementation of projects to develop Lithuania's electricity infrastructure, electricity market connections and electricity transmission systems' integration.

Services provided by the companies of the Litgrid group

Litgrid, the electricity transmission system operator, and the group companies provide the following services:

- Transmission of electricity;
- System services (capacity reserve);
- Trade in balancing and regulating electricity;
- Public service obligations (PSO);
- Maintenance and repairs of the electricity grid;
- Maintenance, operation and control of the HVDC links.

Transmission of electricity

The electricity transmission service is the transmission of electricity via the high voltage (330 and 110 kV) electric installations. The transmission system operator transmits electricity from producers to customers that are connected to the transmission grid, and to distribution network operators. Electricity transmission is a regulated activity.

The main operations of the TSO consist of the management of the high voltage electricity transmission grid and ensuring a reliable, effective, high-quality, transparent and safe transmission of electricity.

System services

In order to maintain reliable system operations, Litgrid purchases from energy generating companies the services for the capacity reserve assurance at power generation facilities, reactive capacity and voltage management, and emergency and disruption prevention and response, and provides customers with system (capacity reserve) services. The capacity reserve is needed when electricity production suddenly and unexpectedly falls or its consumption increases.

Trade in balancing and regulating electricity

Litgrid ensures the balance between production and consumption of electricity in the country. Balancing electricity is electricity that is consumed or produced outside of established electricity consumption and production schedules. Litgrid organises trading in balancing electricity, buying and selling balancing electricity that is necessary to ensure the country's electricity production and consumption balance.

Regulating electricity is electricity that is bought and/or sold on instruction of the TSO as electricity necessary for performing the function of balancing the country's electricity consumption and production. Litgrid organises trading in regulating electricity by auction. The auction participants are suppliers of regulating energy and TSOs of other countries possessing technical facilities that enable them to quickly change the electricity generation and consumption conditions and having concluded a relevant agreement with Litgrid.

Public service obligations

Public service obligations (PSO) in the electricity sector are services that ensure and enhance the national energy security and the integration and use of electricity produced from renewable resources. The list of PSO, their providers, and procedures for the provision of PSO are approved by the Government of the Republic of Lithuania, or an institution authorised by it, having regard to the public interest in the power sector. PSO funds are funds that are paid to providers of PSO.

Litgrid provides the following PSO services:

- Preparation and implementation of strategic projects aimed at increasing the energy security (the Lithuania–Sweden and Lithuania–Poland power links and integration of the Lithuanian power system into the grids of continental Europe);
- Connection of power generation equipment that uses wind, biomass, solar energy, or hydropower to the transmission grid as well as the transmission grid's optimisation, development, and/or renovation related to the acceptance and transmission of electricity generated by producers that use renewable energy sources;
- Balancing of electricity produced from renewable energy sources.

Electricity grid maintenance and repairs

Tetas, Litgrid's subsidiary, offers the following electricity grid equipment's maintenance and repair services:

- Maintenance and repairs of electrical equipment of the electricity grids;
- Construction of new energy facilities and reconstruction of existing energy facilities;
- Electrical equipment design services.

Maintenance, operation and control of HVDC power links

On 24 February 2014, Litgrid's subsidiary Tinklo Priežiūros Centras UAB (renamed into Litgrid Power Link Service UAB from 29 April 2016) was established as a centre of competences for high qualification and specialised engineering areas in the management and operation of high voltage direct current (HVDC) power links.

Since the beginning of 2016, Litgrid Power Link Service has taken over the operation of LitPol Link and the operation of NordBalt power link was taken over in June 2016.

Customers of the transmission system operator

Litgrid's direct customers are electricity transmission grid users and suppliers of balancing and regulating electricity.

Transmission grid users include:
- ESO, a distribution network operator;
- Customers whose electrical equipment is connected to the electricity transmission grid, purchasing electricity for use;
- Electricity producers connected to the electricity transmission grid.

Suppliers of balancing and regulating electricity include electricity producers and suppliers.

Research and development activities of the Litgrid group

Every year Litgrid prepares the electric power system long-term development plans aimed at ensuring the reliable operation of the transmission grid and increasing the safety of electricity supply. The reconstruction of energy facilities involves the replacement of old equipment by installing modern equipment and the implementation of modern systems for relay protection, system automation, management, and data collection and accounting. Plans for the construction and reconstruction of facilities are made for a 10-year period and updated on an annual basis.

The TSOs of three Baltic countries conducted, jointly with consultants, a feasibility study on the application of the flow-based method in the calculation of cross-border capacities in the Baltic countries' electricity markets. The study assessed the technical feasibility of applying this method, compared the benefits provided by this method and its reliability with the methods and the reliability of the current methodologies for capacity calculation. The results of the analysis on the grid's safety, social-economic benefits and third-party impact showed that the application of the flow-based method in the calculation of cross-border capacities in the Baltic countries is technically possible, however, at the present moment, it would not be more efficient compared to the application of the existing method. In view of the conclusions of the feasibility study, in cooperation with TSOs of the neighbouring countries, the methodology for the determination of transmission capacities of the internal interconnections of the Baltic countries and cross-border interconnections with Poland, Sweden and Finland has been prepared and submitted to the regulatory authorities of the respective countries for approval.

The common analysis on long-term adequacy of the electricity system of the Baltic countries, which was jointly prepared by the TSOs of Lithuania, Latvia and Estonia, confirmed that by 2030 new reliable and flexible power plants should be constructed in the Baltic region to ensure a proper functioning of the electricity systems and reliable supply of electricity.

Jointly with ESO Litgrid conducts the study of consumer loads management. The objective of the study is to define the potential for the management of electricity demand in Lithuania. By conducting this study the electricity transmission system and distribution operators aim to assess a potential, positive role of electricity consumers in balancing the system and identify possible measures that may affect such a role. Jointly with the transmission system operators of Latvia and Estonia a study on a possible market model of consumer load management in the Baltic countries is carried out.

ITC competences

Efficient information technology and communications (ITC) solutions are critical in ensuring smooth and uninterrupted activities of the transmission system operator and form an integral part of the electricity system's planning and management as well as equipment control and servicing. Know-how in the automation of the electric power system control, pooled at the Litgrid ITC Centre, ensure the continuity of the company's IT solutions, security control, and transparency of operations. To ensure functioning of critical information systems, Litgrid has implemented advanced IT recovery solutions. In preparing for the integration and synchronisation with the grids of continental Europe the electricity transmission grid management system was renewed by successfully using advanced virtualisation technologies.

In 2017, the Company's ITTC Control Systems Group was the first in the world to virtualise the dispatch control system (Power On Reliance) of General Electric and independently installed the control system, including all relating environments, data bases and data storages.

(All amounts are in EUR thousands unless otherwise stated)

Personnel

Litgrid is building a value-based organisational culture and advocates equal rights for employees and equal opportunities at work, regardless of gender, ethnicity, race, nationality, social status, age, disability, membership in a political party or association, religious beliefs or sexual orientation.

As at 31 December 2017, the Litgrid group had 633 employees: Litgrid – 229, Tetas – 375 and Litgrid Power Link Service – 29.

The total wage bill of Litgrid for the reporting period amounted to EUR 5,504 thousand (2016: EUR 5,516 thousand).

	At 31 December 2017		At 31 December 2016	
	Number of employees	Average monthly wage, in EUR	Number of employees	Average monthly wage, in EUR
Chief Executive Officer	1	9,425	1	7,766
Top-level managers	6	5,895	6	5,977
Medium-level managers	21	3,360	23	3,391
Experts-specialists	201	1,687	205	1,596
Total	**229**	**1,989**	**235**	**1,888**

The total wage bill of the Litgrid group for the reporting period amounted to EUR 10,889 thousand (2016: EUR 10,665 thousand).

	At 31 December 2017		At 31 December 2016	
	Number of employees	Average monthly wage, in EUR	Number of employees	Average monthly wage, in EUR
Chief Executive Officer	3	6,531	3	5,976
Top-level managers	9	4,666	10	5,136
Medium-level managers	41	2,712	44	2,700
Experts-specialists	361	1,481	374	1,418
Workers	219	843	254	775
Total	**633**	**1,413**	**685**	**1,350**

Remuneration policy and performance evaluation

The common remuneration policy of the EPSO-G group has been introduced at Litgrid and it is applicable to all employees of the Company. The remuneration policy is approved and amended by the decision of the Company's Board taking into consideration recommendations of the Remuneration and Appointment Committee of EPSO-G. The Remuneration and Appointment Committee of EPSO-G regularly reviews provisions of the remuneration policy, its effectiveness, implementation and application.

The goal of the remuneration policy is to contribute to the realisation of the mission and vision of the organisation that is being managed by modern and effective methods, to mobilise people for joint work and motivate them to implement the strategic priorities, to form and establish an attitude that employees are the Company's main asset, and to foster the corporate values of professionalism, cooperation, responsibility, initiative, and respect. Remuneration depends on the employee's position, performance, achievement of individual annual goals, level of competencies, and adherence to the values of organisation. The pay package consists of financial and non-financial elements: basic pay, variable part of pay, fringe benefits, and psychological reward.

Litgrid continuously carries out evaluations of employees' performance as one of the most important tools for effective corporate management that allows linking personal and organisational goals, shows the importance of each employee's work for the attainment of common objectives, makes career planning possible, and motivates employees by providing an objective basis for incentivisation.

Remuneration policy for collegial body members and management

At the EPSO-G UAB group the remuneration principles applied in respect of management body members are established according to the *Guidelines on the establishment of remuneration for the activity at the bodies of the group companies* as approved by the decision of the sole shareholder EPSO-G UAB. Based on the decisions passed at the General Meeting of the Company's Shareholders held on 29 July 2016, the maximum amount of the annual remuneration budget allocated for the payment of services as the Company's Board members was established. The hourly and maximum monthly pay as well as the terms of the agreements with the Board members regarding their activity at the Board were approved. Based on the decision passed at the General Meeting of Shareholders held on 26 July 2016, the hourly work pay of EUR 50.00 (fifty euros) (before tax) was established for services as a member of the Company's Board, without exceeding the maximum monthly pay of EUR 1,000.00 (one thousand euros) (before tax). The Board members who also are the employees of EPSO-G UAB, a company holding a controlling ownership interest in the Company, are not paid by the Company for their services as members of the Board.

The fixed and variable remuneration components of the Company's CEO are established by the Company's Board, and those of the top-level managers are established by the Company's CEO in accordance with the Company's remuneration policy approved by the Company's Board. A variable remuneration component is paid to the CEO and management once a year after the approval of the implementation of objectives set for the Company's CEO given by the Company's Board.

Remuneration paid to the Board members eligible to receive remuneration for their services as the Board members under the shareholders' decision of 29 July 2016 amounted to EUR 28,475 (2016: EUR 13,000).

Training

Litgrid enables its employees to develop their competences and qualifications by:

- Organising in-house trainings;
- Enriching the work content with new projects;
- Offering opportunities for working in unique projects;
- Participating in external training and conferences;
- Participating in the work of professional organisations.

Approximately 70 per cent of the Company's employees participated in various training sessions and conferences in 2017.

Integration of New Employees

The adaptation process for new employees is constantly updated. An adaptation programme for new employees was prepared, during which new employees are acquainted with the Company structure and department activities and taken on a tour of the System Control Centre. We make transition period as smooth as possible. The new employee is mentored by his direct supervisor, his colleague and an human resources manager during his first three months.

The goal of the programme is to help newcomers adapt more quickly to the organisational culture of the Company, integrate into the team, understand the principles of work, and start creating value for the Company as soon as possible.

Internship Opportunities

The Company cooperates with educational institutions and creates opportunities for university and college students to use their theoretical knowledge and gain practical skills. The Company works with Kaunas University of Technology and Vilnius Gediminas Technical University, and signed a cooperation agreement with Klaipėda University in 2017.
In 2017, the Company participated in the Kaunas University of Technology and Vilnius Gediminas Technical University Career Days, and 11 university students did internships at the Company.

Collective agreement

Litgrid recognises the right of employees to voluntarily unite into trade unions or associations, as well as the right to negotiate with the employer, and supports a constructive social dialogue.
On 20 February 2018, an updated Collective Agreement between Litgrid and the newly established trade union of Company employees was signed. The document defines and ensures a fair remuneration policy and balance between work and rest, and

regulates social and economic relations between the employer and the employee. The Collective Agreement also contains provisions on how the Company supports employees when important or painful life events occur.
Meetings between trade union representatives and Company management are held periodically to discuss issues of relevance to the trade union.

Equal Opportunities

The majority of the Company's employees are male. This is largely influenced by the specifics of the activities carried out: women are less likely to choose technical jobs in the field of technical engineering that are done outside or specialities directly related to them.
In 2017, there were 59 women and 174 men employed at the Company. The average age of employees is 42.6 years (42.4 for women, and 42.7 for men).
219 employees have a university education, 12 employees have post-secondary education, and two employees have a secondary education.

Employee Health

The Company encourages its employees to lead a healthy lifestyle, participate in sports, and take care of their physical well-being. Company employees get preventive check-ups and are offered tick-borne encephalitis and flu vaccines. In 2017, 65 employees had check-ups and 34 employees were given tick-borne encephalitis vaccine. Flu shots were administered to 50 employees. The Company creates favourable conditions for employees to play sports – the employees play volleyball, and the table football championship that was held on the initiative of the employees at the end of 2017 got everyone involved. Considerable attention is given to employee sporting activities at team building events.

II. Financial information

The main financial and operating indicators of the Group and the Company

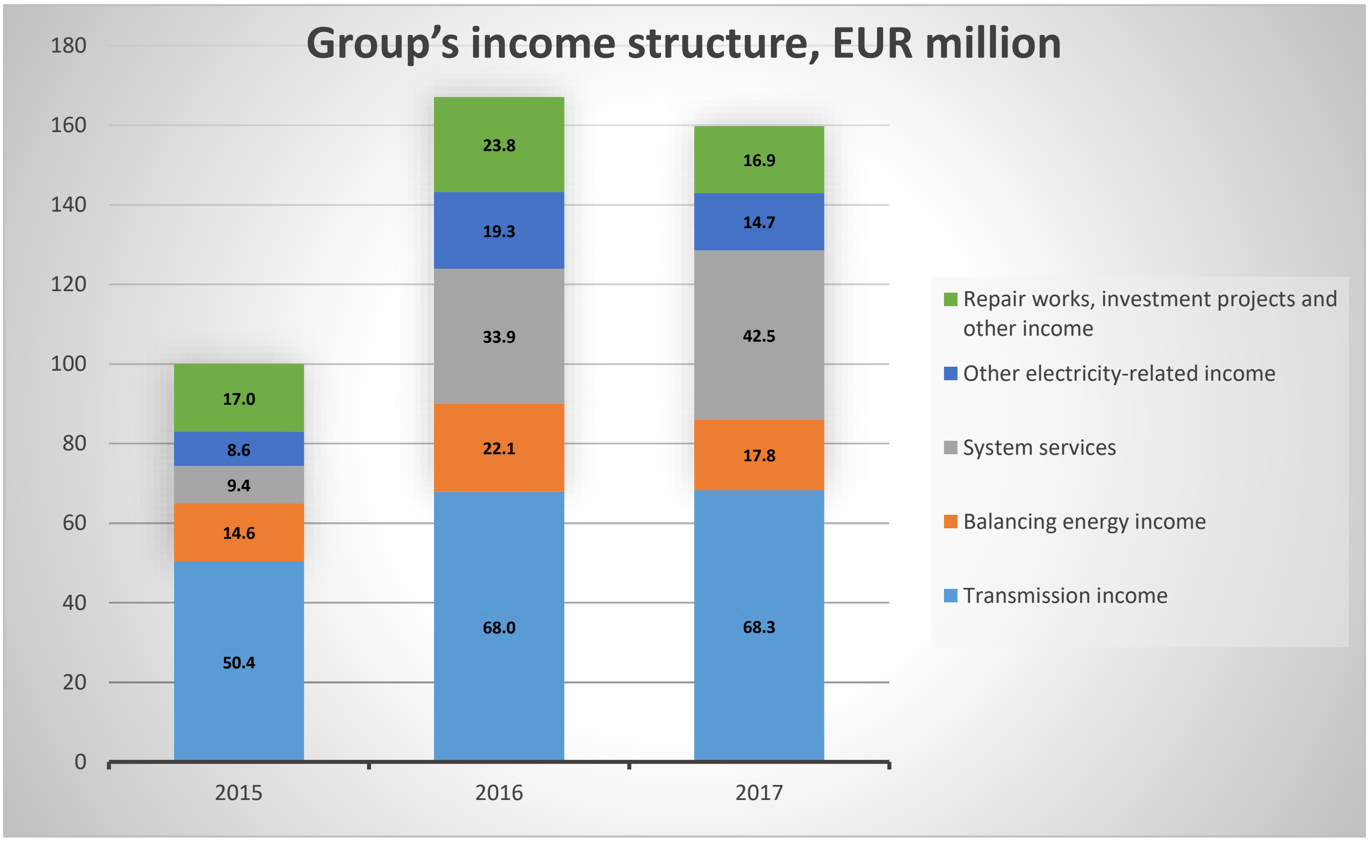
	January-December 2017		January-December 2016		January-December 2015	
	Group	**Company**	**Group**	**Company**	**Group**	**Company**
Financial indicators, EUR '000						
Revenue from electricity sales	143,292	143,292	143,215	143,215	82,985	82,985
Other operating income	16,896	1,065	23,840	8,114	17,043	2,085
EBITDA*	40,525	42,829	49,302	48,094	25,857	25,972
Profit (loss) before tax	11,794	10,245	19,794	18,883	1,646	3,677
Net profit (loss)	9,585	7,724	17,857	16,828	1,414	3,370
Cash flows from operations	43,416	45,128	23,243	22,483	43,315	41,019
Ratios						
EBITDA margin, %	25.3	29.7	29.5	31.8	25.8	30.5
Operating profit margin, (%)	8.1	7.9	12.7	13.3	2.2	4.9
Return on equity, %	3.8	3.1	7.2	6.7	0.5	1.4
Return on assets, %	2.1	1.7	3.5	3.5	0.2	0.6
Shareholder's equity / Assets, %	56.1	57.1	55.1	56.2	43.6	47.9
Financial liabilities / Equity, %	61.8	60.8	65.0	64.2	84.3	83.0
Liquidity ratio	0.78	0.75	0.79	0.74	0.49	0.29
TSO operating indicators						
Electricity transmission volume, m kWh		9,992		9,729		9,220
Technological costs in the transmission network, %		2.91		2.91		1.96
ENS (Energy Not Supplied due to interruptions), MWh **		1.68		1.03		4.54
AIT (Average Interruption Time), min. **		0.06		0.04		0.22

*EBITDA = operating profit + depreciation and amortisation + impairment expenses of assets + write-off expenses of assets;

** Only due to the operator's fault or due to undetermined causes.

Revenue

Revenue earned by the Litgrid group in 2017 amounted EUR 160.2 million, a 4.1% decrease compared to 2016.



Revenue from electricity transmission increased by 0.4% (up to EUR 68.3 million) compared to 2016. Revenue from electricity transmission accounted for 43% of the Group's total revenue. The increase in revenue has resulted from a 2.7% higher electricity transmission volumes as the actual electricity transmission price was 2.2% lower than in 2016 due to a 2.7% lower price cap for the transmission service set by the National Commission for Prices and Energy Control.

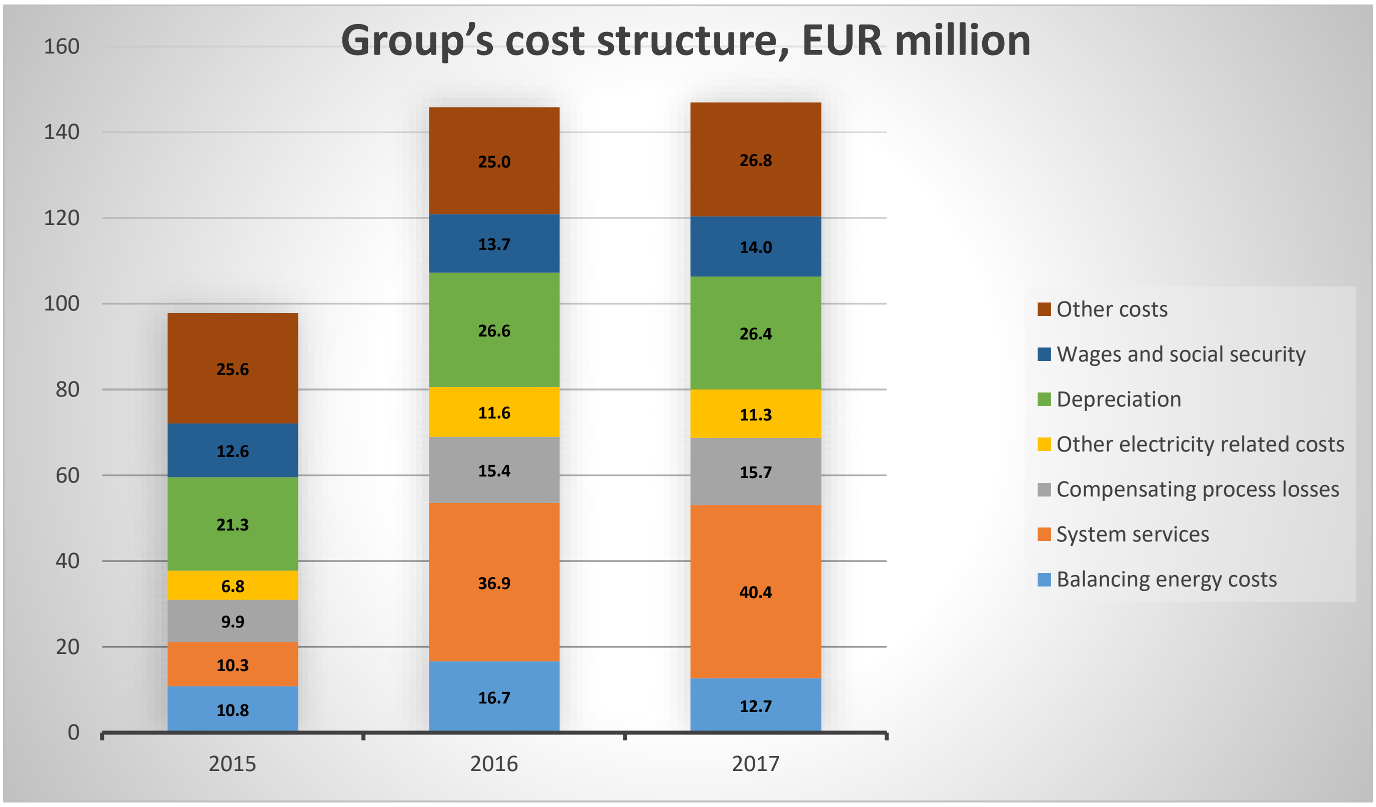
Revenue from sale of balancing/regulating electricity decreased by 19.4% to EUR 17.8 million. The decrease in this revenue has largely resulted from a 21.5% drop in sales volumes (and respectively in purchase volumes) of balancing/regulating electricity due to a lower demand of the balancing energy suppliers and lower allocated capacity (i.e. the volume of electricity traded on the electricity exchange) of the power links with Sweden and Poland.

Revenue from system services grew by 25.4% to EUR 42.5 million. The main growth driver was the tariff for system services which had been increased by 23% by the National Commission for Prices and Energy Control compared to 2016 as there was a significant increase in expenses for system services and the price for 2016 was lower due to the reason that the price included an estimation of a EUR 4.6 million prior period profit refund to consumers.

Congestion revenue from the Lithuanian-Polish, the Lithuanian-Swedish and the Lithuanian-Latvian interconnections decreased by 10.5% in 2017 compared to 2016 and amounted to EUR 10.2 million. Congestion revenue arises from different electricity market prices on the Lithuanian, Swedish, Polish and Latvian electricity exchanges as a result of insufficient capacity of electricity lines. 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 (proceeds) 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. In 2017, Litgrid recognised, in accordance with the Regulation, EUR 1.4 million as revenue, i.e. a part of congestion revenue received that was used for ensuring the allocated capacity of the power links. Congestion revenue received in an amount of EUR 10.2 million (also including from revenue of the prior periods) were used for the financing of the construction of a 330 kV overhead electricity line Kruonis PSHP-Alytus. The remaining part of revenue was reported under deferred revenue in the statement of financial position.

Other income related to transmission operations include: ITC transit income (Inter-Transmission Operator Compensation Mechanism, i.e. payment for electricity imported from or exported to countries other than the EU) – EUR 2.6 million; PSO income – EUR 8.5 million; reactive energy income – EUR 1.5 million; connection of new customers – EUR 0.7 million. Income from services provided by Tetas, a subsidiary of Litgrid, account for the largest part of income from repair works, investment projects, other income.

Expenses

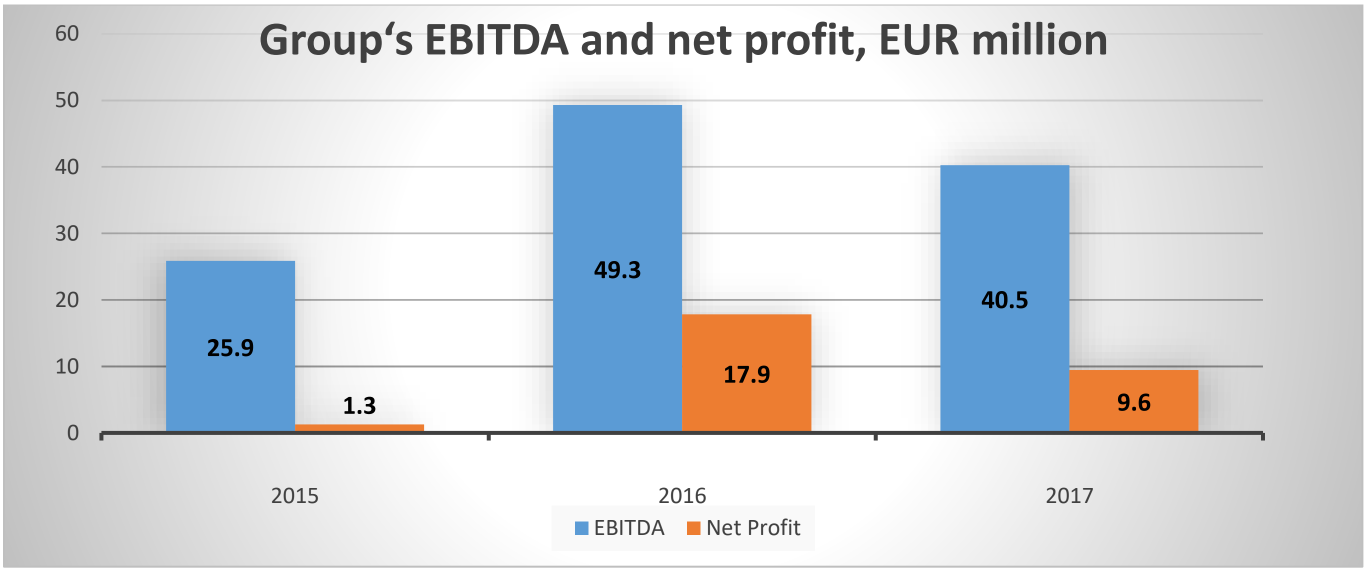


The Group's operating expenses totalled EUR 147.2 million in 2017, which is 0.9% more compared to 2016.

Costs of purchase of electricity and related services account for a major portion of the Group's operating expenses: EUR 80.1 million or 54% of total expenses. These costs decreased by 0.7% compared to 2016. Balancing (regulating) electricity costs decreased by 23.8% to EUR 12.7 million. The system service costs increased by 9.5% to EUR 40.4 million. Costs of compensating for electricity purchase technological losses in the transmission grid increased by 1.7% to EUR 15.7 million Transit (ITC) costs were EUR 1.4 million, PSO provision costs equalled EUR 8.4 million, and costs of ensuring the allocated capacity of the Swedish and Polish interconnections totalled EUR 1.4 million.

Depreciation and amortisation expenses decreased by 1% in 2017 compared to 2016 and amounted to EUR 26.4 million. Other expenses increased by 5.6% in 2017 compared to 2016 and amounted to EUR 40.8 million.

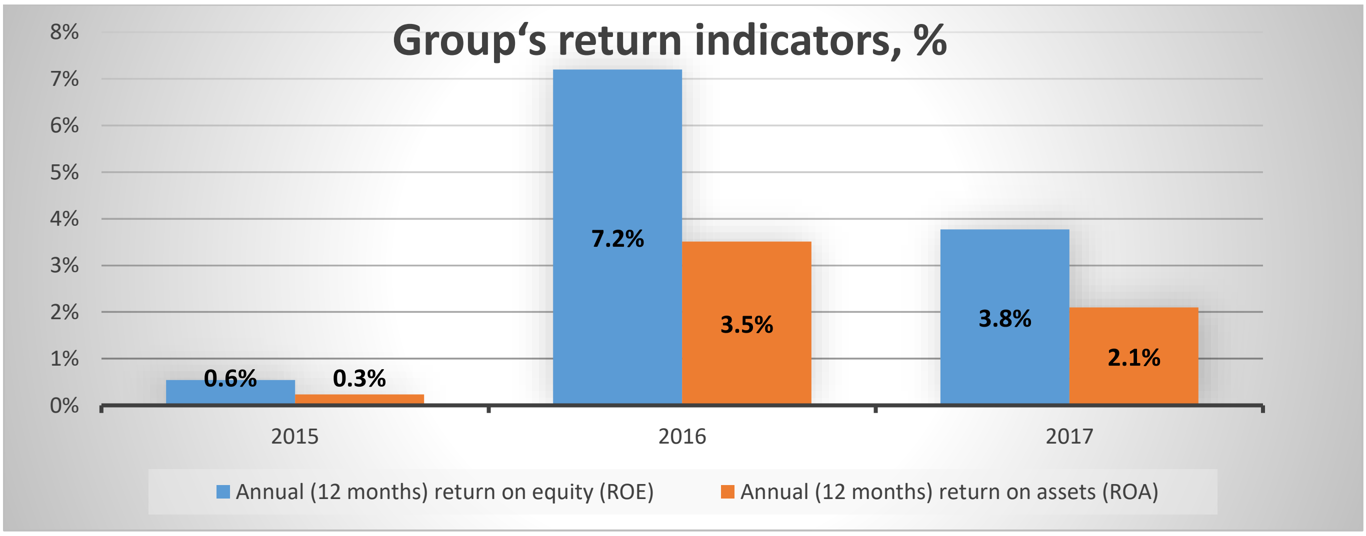
Profit



EBITDA for 2017 declined by EUR 8.8 million or 17.8% compared to 2016 and was equal to EUR 40.5 million in 2017. The EBITDA margin declined to 25.3% (2016: 29.5%). The Group's net profit for 2017 was EUR 9.6 million (2016: EUR 17.9 million).

The Group's operating profit for 2017 consisted of: a EUR 9.2 million profit of the transmission segment (2016: EUR 18.5 million profit), a EUR 1.7 million profit of the system services segment (2016: EUR 3.4 million loss), a EUR 4.8 million profit of the balancing (regulating) electricity segment (2016: EUR 5.1 million profit), a EUR 2.7 million loss from other activities (2016: EUR 1 million profit). The decrease in the transmission segment profit resulted from a EUR 6.5 million decline in income from interest on late payment and default charges, a EUR 2.2 million lower ITC transit income and a EUR 2 million lower income from new customer connection, yet a part of the decrease was compensated by a EUR 1.2 million decline in operating expenses. The change in the result of the system services segment was influenced by a EUR 4.6 million profit of the previous periods refunded to consumers by the Company in 2016 as a result of a lower price for system services and a EUR 0.5 million higher profit than in 2016 (before the refund of profit). The profit of the balancing (regulating) electricity segment decreased because of a 21.5% lower sales and purchase volume of balancing (regulating) electricity. The loss of other segments was determined by the results of operations of Tetas UAB.

Return indicators



In 2017, the annual ROE and ROA ratios decreased compared to 2016 from 7.2% to 3.8% and from 3.5% to 2.1%, respectively

Balance sheet and cash flows

As at 31 December 2017, the Group's assets amounted to EUR 439.2 million. The Group's non-current assets represented 87.6% of the Group's total assets. Shareholders' equity accounted for 56.1% of the total assets of the Group.

As at 31 December 2017, the Group's financial liabilities to credit institutions amounted to EUR 152.4 million (a decline of EUR 13.1 million during 2017). Financial liabilities to equity ratio was 61.8%. Financial debts repayable within one year accounted for 28.3% of the total financial debts. Cash and cash equivalents totalled EUR 0.7 million and the unwithdrawn overdraft balance was EUR 10.9 million.

The Group's net cash flows from operations in 2017 amounted to EUR 43.4 million, while payments for non-current tangible and intangible assets were EUR 26.2 million; EUR 8.1 million were received as subsidies.

The Group's net cash flows (excluding cash flows from financial activities) totalled EUR 34.2 million in 2017.

Investments in non-current assets

In 2017, investments of Litgrid (works performed and assets acquired irrespective of terms of payment) amounted to EUR 26.7 million, of which 56% were earmarked for the implementation of strategic electric energy projects of high economic importance to the State, and 44% for the reconstruction and development of the electricity transmission grid.

III. Governance

Litgrid complies with the essential governance principles of the Corporate Governance Code of companies listed on the NASDAQ Vilnius Stock Exchange (hereinafter "the Governance Code"). Compliance with the Governance Code according to the form approved by the stock exchange is disclosed in Annex 1 to this annual report.

Information on the share capital and the shareholders and their rights

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

Since 22 December 2010, Litgrid's shares are traded on the Secondary List on the NASDAQ OMX Vilnius exchange, ISIN code of securities: LT0000128415.

The authorised capital of Litgrid amounts to EUR 146,256,100.2, and it is divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. The number of shares granting voting rights is equal to 504,331,380.

As at 26 February 2018, the Company had 5,456 (five thousand four hundred and fifty-six) shareholders. EPSO-G UAB (A. Juozapavičiaus 13, LT-09310 Vilnius, company code 302826889), a company wholly-owned by the Ministry of Energy of the Republic of Lithuania, controls 97.5% of Litgrid's shares. EPSO-G UAB possesses a decisive vote in making decisions at the General Meeting of Shareholders.

The Company has not received any information on mutual agreements between the shareholders due to which restrictions on transfer of securities and/or voting rights may be imposed. There are no restrictions regarding voting rights at the Company.

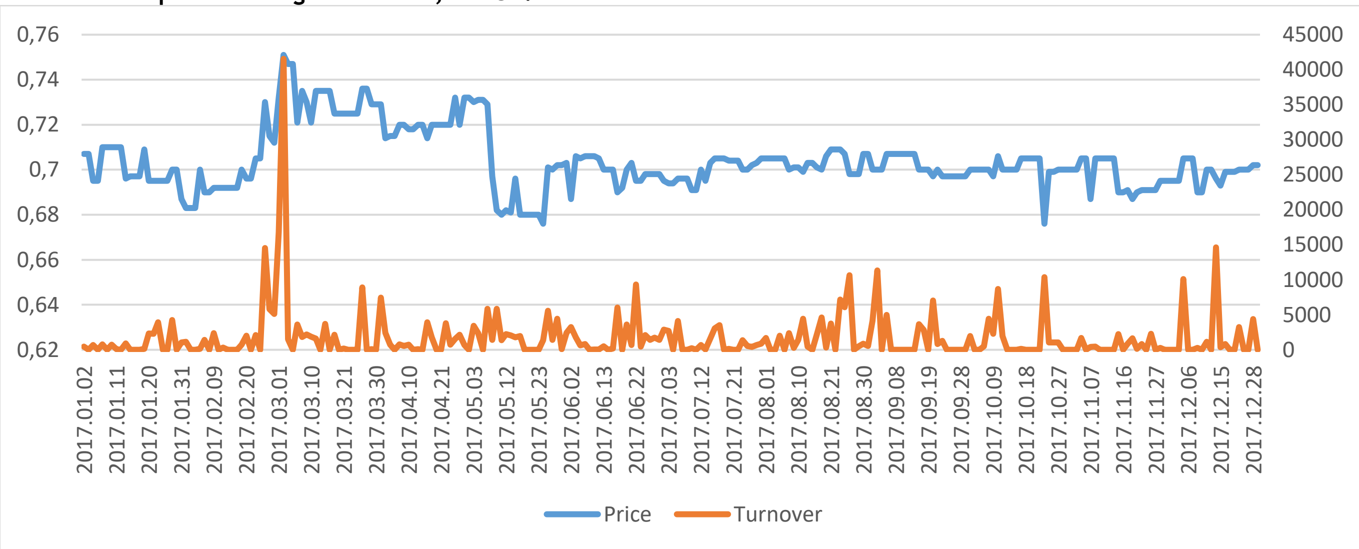
SEB Bankas AB is the provider of accounting and related services for Litgrid's securities for the period from 8 September 2017 until 7 September 2020.

Securities of the subsidiaries of the Company are not traded on securities exchanges.

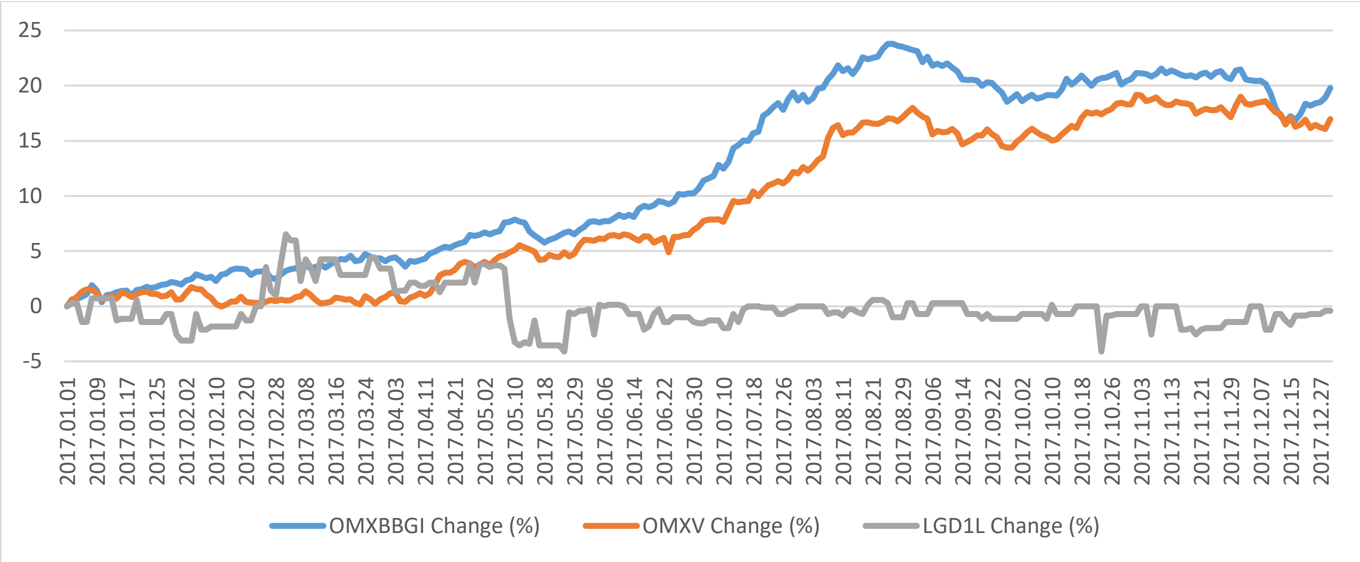
Data on trading in Litgrid's securities on the regulated markets:

Indicator	2015	2016	2017
Opening price, EUR	0.698	0.708	0.700
Highest price, EUR	0.740	0.745	0.751
Lowest price, EUR	0.550	0.676	0.676
Closing price, EUR	0.708	0.705	0.702
Turnover, units	656,613	788,916	608,001
Turnover, EUR million	0.45	0.56	0.43
Capitalisation, EUR million	357.07	355.55	354.04

Turnover and prices of Litgrid's shares, in EUR:



The comparison of the price of Litgrid's shares (LGD1L) with the OMX Baltic Benchmark GI (OMXBBGI) and OMX Vilnius (OMXV) indexes during the reporting period:



Dividend policy

On 18 August 2017, the Board of Litgrid passed a decision regarding the application of the EPSO-G UAB group dividend policy, which was approved by the Board of EPSO-G UAB on 14 July 2017, at Litgrid AB in its entirety.
Based on the EPSO-G UAB dividend policy the amount of dividends payable was directly linked with the effective use of the company's equity, i.e. the higher benefits created by the Company for the shareholder are, the larger portion of profit can be allocated by the Company for a further development or implementation of other significant projects.

On 25 April 2017, the ordinary General Meeting of Shareholders of Litgrid was held, during which it was decided to pay out dividends amounting to EUR 18.2 million or EUR 0.036 per share.

The Company's management bodies

The system of the Company's management bodies (Figure 1) is defined in the Articles of Association and it consists of the following bodies: the General Meeting of Shareholders, the Board and the General Manager (a single-person management body).

The Company's Articles of Association stipulate that since the Company is part of the group of companies and the Supervisory Board of the parent company carries out the review of the functioning of the internal control system and risk management at the group level, the Company's General Meeting of Shareholders and the Board may take into consideration proposals and comments of the Supervisory Board of the parent company that are presented on the issues relating to the competence of the respective management body of the Company. The Audit Committee formed at the parent company functions as the Audit Committee of the entire group and, also carries out the functions of the Company's Audit Committee.

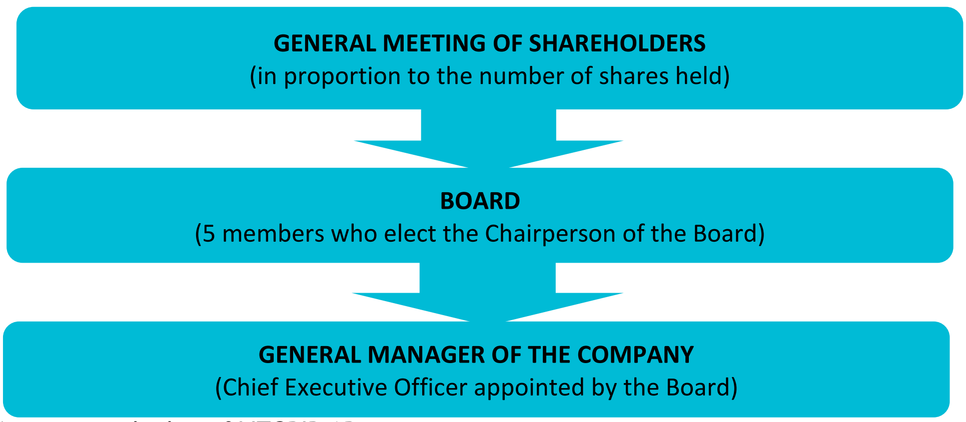


Figure 1. Management bodies of LITGRID AB

Corporate governance principles

The main corporate governance principles are established by the Civil Code of the Republic of Lithuania, the Law on Companies and the Company's Articles of Association. The following matters shall fall within the competence of the Company's General Meeting of Shareholders: amendment of the Company's Articles of Association and the authorised share capital, conversion of shares, election of the Board and the auditor, approval of the annual financial statements, appropriation of profit, adoption of decisions on the most significant transactions and other matters. The following matters shall fall within the competence of the Company's Board: establishment of the Company's organisational structure, election of the General Manager, approval of the operational strategy, budget, investments, adoption of decisions on the conclusion of significant transactions and other important management issues. The General Manager is a single-person management body of the Company. The General Manager organises the Company's business activities and conducts the Company's transactions. A detailed description of the competences of the Company's management bodies is presented in the Company's Articles of Association.

The Articles of Association

The Articles of Association of Litgrid shall be amended in the manner prescribed by the Republic of Lithuania Law on Companies. The decision is adopted by a 2/3 majority of the votes conferred by the shares of the shareholders present at the General Meeting of Shareholders.

The Articles of Association of Litgrid were registered on 16 May 2016.

The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Company.

The scope of competence of the General Meeting of Shareholders, the procedure of its convocation and decision-making are established by laws, other legal acts and the Articles of Association.

The Company's Board

The Board consists of five members and is elected for a four-year term of office. The term of office of the Board starts after the end of the General Meeting of Shareholders at which the Board was elected and ends on the date of the Ordinary General Meeting of Shareholders held in the last year of the Board's term of office.

Where the Board or its member is recalled, resigns or for any other reason ceases to perform its duties before the expiry of the term of office, a new Board/Board member is elected for the remainder of the Board's term of office. Candidates to the Board members should be proposed in view of creating the following structure of the Board: two members – representatives of executive staff of the parent company (EPSO-G), two members – representatives of executive staff of Litgrid, and one independent member.

The Chairperson of the Board is elected from the members of the Board.

The Board works in accordance with laws, other legal acts, the Articles of Association, decisions of the General Meeting of Shareholders and the Board's Rules of Procedure.

The Board is a collegial management body of the Company. The scope of competence of the Board, the procedure of decision-making, election and removal of its members are established by laws, other legal acts and the Articles of Association. The Board is accountable to the General Meeting of Shareholders.

Areas of activities of the Board

The Board considers and approves the Company's strategy, a three-year operational plan of the Company, a ten-year transmission grid development plan, the budget of the Company, the procedure for granting support and charity, and other documents governing strategic operations of the Company. The Board decides on the Company's undertaking of new types of activities or ceasing to carry out certain activities to the extent that this does not contradict the objective of the Company's operations. It also makes decisions on the issue of bonds, transfer of the Company's shares to other entities, and financial transactions exceeding EUR 3 million in value. The Board also decides other matters within its scope of competence as stated in the Articles of Association.

Areas of activities of the General Manager

The General Manager acts as a single-person management body of the Company. The General Manager organises and directs operations of the Company, acts on its behalf, and has the right to conclude transactions single-handedly. The scope of competence of the General Manager, the procedure of his/her election and removal are established by laws, other legal acts and the Articles of Association.

(All amounts are in EUR thousands unless otherwise stated)

Litgrid's Board members, the General Manager and the Chief Financier

Position	Full name	Start date	End date	Number of the issuer's shares held
Board				
Chairperson of the Board	Rimvydas Štilinis	2016 07 29		-
Board member	Daivis Virbickas	2013 09 10		-
Board member	Vidmantas Grušas	2013 09 10		-
Board member	Nemunas Biknius	2016 07 29		-
Board member	Domas Sidaravičius	2016 07 29		-
Chief Executive Officer	Daivis Virbickas	2013 09 10		-
Chief Financier	Žydrūnas Augutis	2017 06 05		
Chief Financier	Jūratė Vyšniauskienė	2015 10 19	2017 02 09	-
Acting Chief Financier	Raimonda Duobuvienė	2017 02 10	2017 06 04	

The detailed CVs of the Board members and the Company's CEO are publicly available on the website of Litgrid at www.litgrid.eu.

Governance and control

The requirements for the governance of the Company are set forth by the Lithuanian Government's resolutions on the governance of state-owned or state-controlled companies, insofar as they apply to the EPSO-G group companies, and the Governance Code, insofar as the Company's Articles of Association do not state otherwise.

In accordance with the integrated planning and monitoring policy of the EPSO-G group companies, which was approved at the meeting of the Board of the Company No 12 held on 19 May 2017 and which is directly applied at the Company in its entirety, the Company is preparing the strategy of the Company for a period of 5–10 years. The period of the strategy must coincide with the period of the parent company's strategy. The prepared strategy of the Company currently covers the period of 10 years up to 2027. The implementation of the strategic objectives set out in the strategy of the Company is ensured by the Company's performance, control, and risk management systems. The strategy of the Company is approved and its implementation is controlled by the Board. The Board of the Company prepares (updates) and approves the operational plan for a period of 3 years before the end of the current year. A monthly strategy implementation supervision system is introduced at the Company and is linked with the Company's administrative staff remuneration system. The composition of the Company's Board is disclosed on the Company's website.

The Company's activities of the transmission system operator are regulated by the national regulatory authority, i.e. the National Commission for Energy Control and Prices (hereinafter "the Commission"). Within its competence, the Commission performs the functions of the state regulation in the electricity sector in the Republic of Lithuania, by ensuring, *inter alia*, the supervision of and control over the performance of regulated activities in the energy sector, as well as the proper implementation of the rights and duties of electricity undertakings and consumers.

The strategy and operational plan of the Company are implemented by and the activities of the Company's administrative staff are organised by the Company's General Manager. The Company's administrative management consists of the General Manager, Finance Department Director, System Department Director, Transmission Network Department Director, Strategic Infrastructure Department Director, Strategy Department Director, and ITC and Administration Department Director. The composition of the Company's management is disclosed on the Company's website.

Corporate governance accommodates the principles of good governance practice and the policies on the governance of state-controlled companies. The Board of the Company approves the following policies, the implementation of which is to be ensured by the administrative staff of the Company: corruption prevention, remuneration, remuneration for activities in the management bodies of the group companies, assessment of employees' performance, project management, integrated planning and monitoring, corporate governance, accounting, support, dividends, transport, technological property, transparency and communication, protection of sensitive information, management of interests of collegial management bodies, management and employees, treasury management and financial risks, risk management, social responsibility, etc.

The internal control systems of the Company are supported by the organisational structure, management culture and implemented good governance practices, as well as process management which is currently being implemented. It should be noted that the supervisory functions are carried out by the Supervisory Board of EPSO-G UAB, meanwhile recommendations, proposals and conclusions on matters which are key to the Company's activities are provided by the Remuneration and Appointment Committee and the Audit Committee. The internal control system is initiated by the Company's Board and implemented by the administrative staff, assisted by the Audit Committee of EPSO-G UAB, the external independent audit, and divisions supporting the principal activity. The procedures and policies effective at the Company ensure the reliability of accounting and financial reporting, the compliance of the Company's activities to legal acts, operational efficiency, and achievement of operational objectives.

(All amounts are in EUR thousands unless otherwise stated)

The Minister of Energy of the Republic of Lithuania by Order No 1-212 of 7 September 2015 approved the Corporate Governance Guidelines for the State-Owned Group of Energy Companies (hereinafter “the Guidelines”). The Guidelines establish uniform principles of corporate governance to be applied to the entire EPSO-G group of companies and prescribe the purpose of the group of companies, its operational objectives, corporate governance organisation model, governance structure, as well as the system for accountability, supervision and control of operations. These Corporate Governance Guidelines are intended to support and further improve the procedures and policies of good governance practice applied at the Company.

Good governance practice of the EPSO-G group of companies

Upon the approval of the Guidelines by the Minister of Energy, the company controlling the EPSO-G group of companies is improving the governance practice in its operations and the operations of the group of companies, with reference to the recommendations set forth in the Governance Code and by implementing the recommendations of international institutions, such as the OECD, intended to enhance the governance of state-controlled companies.

The basis for the practical realisation of these Guidelines was created on 17 December 2015, with the approval of the newly revised Articles of Association of EPSO-G (hereinafter “the Articles of Association of EPSO-G”), as the company controlling the entire EPSO-G group of companies, by the Ministry of Energy, which is the owner of the shares of EPSO-G. The newly revised Articles of Association of EPSO-G lay the foundations for the establishment of new management bodies at the level of EPSO-G, i.e. the Supervisory Board and the Board, the Audit Committee, and the Remuneration and Appointment Committee, which, in turn, perform certain supervisory and management functions at the level of the entire group of companies. It should be noted that the Articles of Association of EPSO-G also regulate the change in the governance model at the level of the group of companies. The Company’s Articles of Association have been revised accordingly. The revised version was registered on 16 May 2016.

Information on transactions with related parties

Related-party transactions are disclosed in the notes to the financial statements.

The Company has not entered into significant agreements which would come into effect, change or would be terminated if the control of the Company changed.

During the reporting period the Company did not conduct any harmful transactions (transactions which do not meet the Company’s objectives or existing normal market conditions or which violate the interests of shareholders or other groups, etc.) or any transactions made in the event of a conflict of interests between duties of executives of the Company, controlling shareholders or other related parties with respect to the Company and their private interests and (or) other duties.

Entities controlled by the Company

Litgrid’s subsidiaries and their principal activities

As at 31 December 2017, the Litgrid group consisted of Litgrid AB and its subsidiaries Tetas UAB and Litgrid Power Link Service UAB.

Company name	Tetas UAB	Litgrid Power Link Service UAB
Legal form	Private limited liability company	Private limited liability company
Date and place of registration	8 December 2005, Register of Legal Entities of the Republic of Lithuania	24 February 2014, Register of Legal Entities of the Republic of Lithuania
Country of incorporation	Republic of Lithuania	Republic of Lithuania
Company code	300513148	303249180
Registered office address	Senamiesčio g. 102B, LT-35116, Panevėžys	A. Juozapavičiaus g.13, LT-09311, Vilnius
Telephone	+370 45 504 670	+370 707 02094l
Fax	+370 45 504 684	+370 5 272 3986
Profile of activities	Specialised services such as technical maintenance, repair and installation of transformer substations, distribution stations, testing works, engineering of energy facilities	Maintenance and operation of the electricity interconnections with the power systems of Poland and Sweden
Country of operation	Lithuania	Lithuania
Litgrid’s shareholding	100%	100%

(All amounts are in EUR thousands unless otherwise stated)

Litgrid's shareholding in other companies as at 31 December 2017:

Company name	LitPol Link Sp.z.o.o	Duomenų Logistikos Centras UAB	Nord Pool AS
Country of incorporation	Republic of Poland	Republic of Lithuania	Kingdom of Norway
Registered office address	ul. Wojciecha Gorskiego 9, 00-33 Warszawa, Poland	Žvejų g. 14, LT-09310 Vilnius	PO Box 121, NO-1325 Lysaker, Norway
Country of operation	Lithuania and Poland	Lithuania	Norway, Sweden, Finland, Denmark, Lithuania, Latvia, Estonia
Litgrid's shareholding	50% of shares and voting rights attached thereto	20.36% of shares and voting rights attached thereto	2% of shares and voting rights and a board member on rotation basis

Risk factors and their management

The Company has implemented a system for risk management that comprises the identification of risks, their analysis, assessment and determination of control measures, preparation of the risk management action plan and implementation of measures stipulated in the plan, monitoring and supervision of the risk management process. Risk factors at LITGRID AB are identified and managed in accordance with the provisions of the ERM (Enterprise Risk Management) standard published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Political, regulatory and compliance risks

The electric power sector is a vitally important part of the economy, with a considerable influence over national, political and economic interests. The structure and management of the electric power sector and the activities of the energy sector companies are governed by the Law on Electricity of the Republic of Lithuania and the relevant regulations. Any amendments to national or European Union energy sector legislation, effect of decisions passed by the public authorities can have impact on the results of operations of the Litgrid group and the reliability of the system. In order to reduce the impact of this risk on the operating results, the Company's representatives actively participate in discussions, inform about decisions that need to be taken, possible consequences of decisions and/or submit proposals to institutions that draft legal acts. The Company also responds effectively to any issues raised by the public, regulatory authorities or other stakeholders regarding the Company's activities.

Prices for electricity are regulated, with the price ceilings set by the Commission. These regulator's decisions have a direct impact not only on the operating results of Litgrid, but also on funds that the Company allocates to cover necessary operating costs, investments for the maintenance of the reliability of the transmission grid, as well as opportunities for financing strategic projects from the Company's own or borrowed funds. In order to reduce the impact of regulatory risks on operating results, the Company actively cooperates with the Commission and participates in discussions on projected amendments to legal acts, with its argumentation based on the impact of future decisions and the importance of long-term, strategic objectives of the Company.

Aiming to reduce the compliance risk, i. e. the probability that the Company will be in breach of the requirements set for the regulated activities, and to ensure a proper assessment of decisions being made, the Company's legal team carefully supervises the processes of decision-making, drafting of internal legal acts, setting of contractual obligations followed by management and closely monitors changes in legal regulations relevant to the Company.

In view of the Company's important role for national security and application of strict security requirements as well as aiming to ensure fully transparent operations of the Company, great attention is directed towards corruption prevention, respective updates of the policies of transparency and communication, protection of sensitive information, management of interests of executives and employees were made.

Operational risk

Ensuring the reliability of electricity transmission and preventing disruptions of energy supply is one of the main functions and responsibilities of the Company. Main operational risks that could affect the reliability of the transmission are caused by external environmental factors: natural disasters, disruptions in the operations of main contractors, criminal acts of third parties, as well as internal factors such as information systems' failures. The Company has implemented solutions which meet the requirements of physical and information technology security set for enterprises that have strategic or important role for national security, and modern information systems. Taking into consideration the Company's status and global tendencies a large attention was devoted at the Company for the identification and management of cyberspace risks.

Emergency response plans that ensure business continuity are prepared and kept up to date.

In order to avoid potential delays in the fulfilment of projects on the grid reconstruction and construction of new objects of the grid, Litgrid has implemented the project management system in its operations, updated the project management policy. High standards are set by the qualification requirements for the selection of contractors aiming to ensure that contractors have necessary capacities to implement complex projects.

The Company endeavours to attract and retain highly-qualified employees who are able to implement ambitious operational and complex strategic plans. For that purpose, educational and substitutability plans are being developed and the employee remuneration, performance assessment policies have been updated.

Financial risk

The companies of the Litgrid group are exposed to financial risks in their operations including credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). In managing this risk, the Group companies seek to minimise the effects of factors that can have an adverse impact on financial results of the Group. The Company has a significant concentration of credit risk. To manage credit risk the Company requires its customers/third parties to provide adequate securities to ensure the execution of contracts (measures are applied in view of the customer's/third party's risk rating).

More detailed information on financial risks (liquidity, credit, interest rate and foreign exchange risks) is presented in the Company's financial statements. Litgrid does not use any hedging instruments.

Technological risk

The Lithuanian energy system has 15 interconnections with the neighbouring energy systems. The available means for capacity and energy balance control are limited, whereas the capacity and energy balance control process is complex.

Litgrid Power Link Service, a subsidiary of Litgrid employing highly qualified specialists, was established aiming to ensure a reliable operation of the new high-voltage direct current power (HVDC) links. The employees of the company have acquired their specialist skills and knowledge on the operation and repairs of the power links at training courses provided by the links' equipment manufacturers as well as by participating in the testing of the relevant equipment, systems and links and the analyses of the causes of disconnection of the links during the trial operation. The highly qualified team responsible for the operation of the HVDC power links has been fully formed and is ready to provide services to third parties.

More than a half of the high-voltage electricity transmission grid equipment is older than 45 years. Faults and failures of the most important technological equipment can have a negative impact on Litgrid's operations and financial result. In order to avoid disruptions in the electric power supply, the Company has approved the strategy for the restoration of overhead lines, monitors the condition of the transmission network on a continuous basis, develops monitoring plans and plans new investments in the network in due time. The Company currently implements the asset management system which will allow assessing the condition of the transmission grid and managing technological assets in a more effective manner. The system will establish indicators to be used for the monitoring of the grid's condition. Investments in equipment and materials has a direct impact on financial results. The Company ranks investments in the network based on objective criteria and by applying a specialised evaluation methodology with the aim to optimise investments and ensure a smooth investment process.

Ecological risk factors

The companies of the Group comply with the environmental regulations on appropriate labelling, use and storage of hazardous materials and ensure that equipment operated by the companies meets the established requirements.

Financial reporting risk and internal control system

The consolidated financial statements of the Litgrid group are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. Litgrid's internal control process includes the control of business processes related to service provision, IT system operations, and drawing up of financial statements.

The drawing up of the consolidated financial statements is governed by Litgrid's accounting policies and procedures, which ensure that accounting practices comply with International Financial Reporting Standards as adopted by the European Union and the laws of the Republic of Lithuania. The procedures identify potential risks associated with accounting and financial reporting and specify risk management methods and principles and the employees responsible for risk management.

Internal and external audit

In order to ensure transparency and efficiency of operations the centralised internal audit system has been implemented at the EPSO-G UAB group. The internal audit division carries out the assigned functions at the group level and is directly accountable to the Board of EPSO-G UAB, which mostly consists of independent members. The auditors of EPSO-G UAB are not subordinate to administrative staff of the audited company.

(All amounts are in EUR thousands unless otherwise stated)

The audit of the Company's financial statements for 2016 and 2017 was carried out by the external audit firm PricewaterhouseCoopers UAB.

Significant events of the reporting period

In executing its duties in accordance with the applicable legislation regulating the securities market, the Company publishes information on significant events and other regulated information on the EU-wide basis. This information is available on the website of the Company (www.litgrid.eu) and the website of NASDAQ Vilnius stock exchange (www.nasdaqbaltic.com).

Significant events of 2017 were as follows:

Date	Significant events
23/02/2017	Litgrid CEO Daivis Virbickas: We are focusing on sustainable long-term results Interim unaudited financial results of Litgrid for the twelve months of 2016
07/03/2017	EPSO-G group's strategy : strategic projects, regional development and efficiency
03/04/2017	Convocation of ordinary general meeting of Litgrid shareholders
05/04/2017	EPSO-G Supervisory council proposals to the ordinary general meeting of Litgrid shareholders
19/04/2017	Invitation. Inspired by deeds and aims: Litgrid annual report 2016 event – 27 April at ISM university and live on the web
21/04/2017	CORRECTION: Convocation of ordinary general meeting of Litgrid shareholders The record date of the rights of the ordinary general meeting has been corrected
25/04/2017	Decisions adopted at Ordinary General Meeting of Litgrid Shareholders, 25 April 2017
25/04/2017	Consolidated Annual Report of Litgrid and its Subsidiaries for 2016
25/04/2017	Procedure for the Payment of Litgrid Dividend for 2016
27/04/2017	Litgrid presents its annual report 2016 in an event "Inspired by deeds and aims" Litgrid CEO Daivis Virbickas presents company's activities and results for 2016
02/05/2017	Litgrid strategy and social responsibility report
09/05/2017	Convocation of Extraordinary General Meeting of Litgrid Shareholders
16/05/2017	Litgrid sold shares of Technologijų ir inovacijų centras to Lietuvos energija
25/05/2017	Litgrid Group's results point to steady growth in Q1
01/06/2017	Decisions adopted at Extraordinary General Meeting of Litgrid shareholders, 31 May 2017
14/06/2017	Litgrid's results for 2017 Q1: sustainable growth and value for society
14/07/2017	Regarding the management board decision of the parent company
07/08/2017	Lietuvos Energija and Litgrid Signed a Duomenų Logistikos Centras Sale Agreement with Telia Lietuva
09/08/2017	An internal check at Litgrid initiated due to the conclusions presented by the Public Procurement Office
17/08/2017	Litgrid will hold an Investor Conference Webinar to introduce the financial results for first-half year of 2017

(All amounts are in EUR thousands unless otherwise stated)

Date	Significant events
21/08/2017	Dividend policy applied in Litgrid
24/08/2017	Reminder of an Investor Conference Webinar
24/08/2017	Litgrid Group‘s Results for the First Six Months of 2017
25/08/2017	Litgrid holds a webinar on financial results of first half-year 2017
30/08/2017	Concerning the conclusions of Public procurement office and decision of Lithuanian Business Support Agency
11/09/2017	Regarding the change of service provider for Litgrid securities accounting
02/10/2017	Commission for Prices and Energy set the price cap for electricity transmission
09/10/2017	Regarding the agreement on the energy savings with the Ministry of Energy
16/10/2017	Regarding loan to UAB „TETAS“
30/10/2017	Electricity transmission rates for 2018 set
23/11/2017	Litgrid Group‘s Results for Nine Months of 2017
01/12/2017	Litgrid Investor's Calendar for 2018

Significant events subsequent to the end of the financial year

Date	Significant events
09/02/2018	Convocation of Extraordinary General Meeting of Shareholders of LITGRID AB
14/02/2018	Interim unaudited financial results of Litgrid for the twelve months of 2017
21/02/2018	CORRECTION: Convocation of Extraordinary General Meeting of Shareholders of LITGRID AB
05/03/2018	Decision adopted at the Extraordinary General Meeting of LITGRID AB, 5 March 2018

IV. Social Responsibility

Litgrid sees social responsibility as an integral part of its business operations.

Litgrid follows the principles of social responsibility, sustainable development, transparency, and advanced environmental protection in its activities. The Company's operations form an integral part of a successful functioning of the national economy, while its long-term strategic goals and the strategic electricity projects it is implementing help secure the country's energy independence.

The importance of the projects being implemented requires that the Company, its employees and management apply the highest professional and ethical standards, assume responsibility for promoting awareness, responsibility of the society and its separate groups, as well as willingness to be actively involved in welfare creation. Litgrid's social responsibility policy is focussed on ensuring fair and motivating working conditions, development of responsibility and civic qualities, and extensively strengthening the community in which the Company carries out its activities.

The Company implements strategic high-value projects of historic significance and it is therefore understandable that great works carries with them great responsibility. Support and promotion of a qualitative dialogue with the society is a key priority of Litgrid's daily operations.

Documents that define Litgrid's responsibility and are followed in its activities include:

- Social responsibility policy;
- Corporate governance policy;
- Transparency and communication policy;
- Corruption prevention policy;
- Remuneration policy;
- Interest reporting policy;
- Accounting policy;
- Interests management policy;
- Sensitive information protection policy;
- Sponsorship and charity policy;
- Code of conduct;
- List of implementation of environmental protection requirement at Litgrid;
- Litgrid's collective agreement.

The policies are published on the Company's internet website at www.litgrid.eu

Responsibility in the Market: Efficient and Transparent Business

Litgrid implements projects of regional and national significance. These are projects that require major investments. Their success depends on the understanding, trust and support of shareholders, partners, controlling and regulatory authorities, and the people of Lithuania. The Company therefore pays considerable attention to the supervision of procurement processes, the prevention of corruption, and dialogue with contractors and suppliers.

Dialogue with Contractors and Suppliers

In order to ensure fair competition, Litgrid gave contractors and suppliers a presentation in 2017 of the work and projects planned for 2018 that will require calls for tender. These meetings will also be held in 2018.

Corruption Prevention

Business decisions and actions are based on the principle of the greatest benefit to the Company, consumers and shareholders. We undertake to avoid any conflicts of interest which may negatively affect impartial and objective work with Litgrid. The Company has a regulated procedure for declaring private interests – declarations of interest are submitted by all Company employees.

The Company does not tolerate any forms of corruption, acceptance, granting, offer, promise or demand of inappropriate benefits by abusing the position held. The anti-corruption concept at Litgrid involves offer and acceptance of inappropriate privileges, trade in impact, inappropriate influence in relatives, spouses or friends protectionism because the aim is to eliminate the impact of personal interests and gain for personal advantage on decisions being made.

The Company encourages its employees, customers, business partners and other stakeholders to report violations of legal acts and breaches of principles of ethical behaviour by email pranesk@litgrid.eu or telephone number +370 615 62 290. This information is only accessible to the Company's employee responsible for corruption prevention who ensures anonymity and confidentiality of information.

In 2017, the Special Investigation Service of the Republic of Lithuania (STT) conducted an analysis of corruption prevention in the EPSO-G group of companies and published its findings in which it was concluded that corruption risks are being managed, and also made suggestions as to how this process could be improved. The EPSO-G group understands and adheres to the position that risk management is a continuous process, which is why it introduced additional measures to increase the effectiveness of its anti-corruption activities according to the recommendations made by specialists.

Environmental protection

Procedures for environmental impact assessment or screening are carried out for the electricity transmission lines to be constructed and their conclusions are taken into account in the preparation of technical designs. Environmental protection requirements are set in the design specifications for the construction of new or reconstruction of existing transformer substations and switchyards. In all cases, efforts are made to select such equipment which is less harmful to the environment. For example, in reconstructing substations, oil-consuming equipment is replaced with modern gas equipment. This both reduces the risk of pollution in case of an accident and cuts equipment operating costs. Contractors are obliged to organise works so as to eliminate or reduce any impact on the environment and to present document proving the management of construction waste. In service procurement process, contractors are required to have the Environmental Management Systems according to LST EN ISO 14001 in place. When accepting completed works, contractors' compliance with the requirements is checked including waste management and relevant documentation.

Environmental monitoring of LitPol Link, an interconnection between Lithuania and Poland, which was started in 2016, is continued. In spring, accumulations of migrating geese and waterfowl were recorded in the established monitoring points. The monitoring of protected amphibians, reptile, crayfish and their natural habitats was also carried out as required by the monitoring programme. Environmental monitoring of another electricity transmission line (Telšiai – Klaipėda) is continued: accumulations of migrating birds are observed in the Minija river valley at Dovilai, and density of predatory birds is being recorded in Mižuikai forest in Rietavas district.

In cooperation with the Lithuanian Ornithological Society, Litgrid is implementing a project *Implementation of Bird Protection Measures in the Lithuanian High-Voltage Electricity Transmission Grid*, which is co-financed by the European Commission and the Ministry of Environment. The objective of this project is to reduce the number of deaths of migrating birds, improve breeding conditions of kestrels in Lithuania, monitor bird death cases in the high-voltage electricity transmission network, and make recommendations for the bird protection. Electricity transmission lines are made more visible by equipping them with bird-diverting devices in places of the most intensive bird migration. In pre-migration accumulation areas of white stork, specific protection devices are installed, such as 'forks' preventing the birds from alighting over insulators, or upper insulators in insulator strings are replaced with ones of larger diameter thus reducing the short-circuit probability. Special nesting-boxes are installed for kestrels on 110 kV supports in locations selected by the ornithologists.

In 2017, means protecting residential areas from noise emitted by operating electricity equipment were implemented. Barriers were constructed near capacity transformers at the Alytus back-to-back converter station that helped significantly reduce the level of noise emitted. Similar solutions are planned to be implemented at the Klaipėda transformer substation that are to improve living conditions of inhabitant residing near the substation. The preparation of the technical project was completed in 2017 under which noise barriers will be constructed in 2018.

Energy savings

On 10 October 2017, Minister of Energy of the Republic of Lithuania Žygimantas Vaičiūnas and the companies of the state-owned energy transmission and exchange group EPSO-G signed the agreement on actions and measures that would help domestic consumers achieve energy savings of 269 GWh (0.27 TWh) by 2020. Litgrid committed to achieve energy savings of nearly 146.6 GWh (0.146 TWh).

The agreement stipulates that major attention will be focused on saving measures related to the principal activities of the power transmission operators. Possibilities to achieve savings can already be observed that could result from the modernisation of electricity systems, smart metering, etc. Savings are planned to be achieved through cooperation with the largest energy consumers.

Waste Management and Sorting

The Company sorts waste: special containers are used for sorting glass, plastic and paper.

Support and social initiatives

The Company's Support Policy was approved by the Litgrid Board on 30 June 2017. The policy allows support to be allocated to:

- projects aimed at developing cooperation with the communities in the areas where the Company operates, as well as with other groups of society whose interests the Company touches upon in carrying out its activities;
- educational activities and students enrolled in university and other higher education programmes closely related to the activities of the group of companies.

The Company did not allocate support in 2017.

Public Education

The current flowing through the power transmission lines that Litgrid oversees is approximately 500 times higher than that at home. It can be dangerous even without touching the actual lines. An electric discharge can also occur if a safe distance is not maintained and you come too close.

Litgrid constantly reminds contractors working on the power grid of the necessity to observe employee safety requirements.

The Company conducts information campaigns in the regional media and through social networks (with actors presenting safe behaviour in videos).

In 2017, the Company commissioned videos about safe visitor and contractor behaviour at transformer substations and switchyards.

Tours

The Company's guides present the activities of the Lithuanian electric power system to people of different ages and professional interests in an attractive manner. Tours are organised for groups of 8 to 20 people. They take place at the System Control Centre in Vilnius and at the high-voltage transformer substations in Kaunas, Utena, Panevėžys and Šiauliai.

Tree Planting – a Company Tradition

In April 2017, more than 50 of the Company's employees planted 2,500 fir tree seedlings in the surroundings of Punia (Alytus District).

Developing a Dialogue Culture in Communities

In 2017, Litgrid cooperated with the Centre for Civic Initiatives Association: 40 meetings/discussions were held with well-known people in different cities and towns of Lithuania, including Druskininkai, Kėdainiai, Ignalina, Visaginas, Lazdijai, Birštonas and Gargždai, among others. The objective of the project, which was launched in 2012, is to establish a dialogue with communities in the vicinity of which important energy infrastructure projects are being implemented or will be in the future.

Meetings with prominent members of society, such as Alfredas Bumblauskas, Marijonas Mikutavicius, Justė Arlauskitė-Jazzu, Martynas Starkas, Giedrius Savickas, Haroldas Mackevičius, Viktoras Diawara, and Rafailas Karpis, feature a very constructive atmosphere – people are learning how to discuss. When they come to the meetings, people have a lot of questions, and heated discussions take place on various topics. Meeting participants express their concerns and look for answers to the questions that trouble them. Informal discussion clubs are even emerging in the communities.

(All amounts are in EUR thousands unless otherwise stated)

LITGRID AB Notice of Compliance with the Code of Corporate Governance for Companies Listed on NASDAQ OMX

According to provisions of Article 21(3) of the Republic of Lithuania Law on Securities and the provisions under the Code of Corporate Governance for Companies Listed on NASDAQ OMX Vilnius approved by the Board of NASDAQ OMX Vilnius AB, this Notice issued by LITGRID AB discloses how the Company complies with the provisions of the Code of Corporate Governance approved by the AB NASDAQ OMX Vilnius for companies whose securities are traded in the regulated market. If the Code or any provision thereof is not complied with, the specific provisions and the reasons for non-compliance are explained.

PRINCIPLES/RECOMMENDATIONS	YES/NO	COMMENTS
PRINCIPLE I: MAIN PROVISIONS **The main purpose of the company should be the satisfaction of the shareholders' interests, at the same time ensuring constant increase in the value of shareholders' equity.**		
1.1. The company should formulate and publish the corporate development strategy and objectives, clearly stating how it plans to act in the interests of the shareholders and augment the shareholders' equity	YES	The main development lines and strategies of the Company are published in the Company's website www.litgrid.eu and in the Annual Report and Interim Reports of the Company.
1.2. Activities of all corporate management bodies should be focussed on the achievement of strategic goals taking account of the need to augment the shareholders' equity.	YES	The Board of the Company adopts key strategic decisions leading to an increase in the shareholders' equity (optimisation of operating functions and structure of the Company, other actions increasing the operating efficiency and cutting costs). The CEO of the Company organises and implements the Company's business, commercial and financial activities.
1.3. Corporate supervision and management bodies should closely cooperate in order to maximise the benefits for the company and the shareholders.	YES	On 11 May 2016, the General meeting of EPSO-G shareholders elected EPSO-G Supervisory Board (hereinafter – Supervisory Board) of five members for a 4 year term. It performs it's functions at the level of whole EPSO-G Group. On 29 July 2016 the General meeting of Litgrid shareholders elected the Board of the company of five members for a term of 4 years.
1.4. Corporate supervision and management bodies should ensure that rights and interests of other parties participating in or related to the Company's operations (employees, creditors, suppliers, customers and members of local community) are respected in addition to the rights and interests of the shareholders.	YES	On 26th of December 2016 the Board of the company approved the Code of Ethical Conduct, which defines the general responsibilities of the Company and it's representatives and norms of conduct, which the Company uses conducting its daily operations. On 23rd October 2017 the Board of the company adopted EPSO-G Group's Transparency, Sustainability and Communication policy in full scope. The goals are to increase the awareness and understanding of stakeholders about the operations of EPSO-G and its's subsidiaries, to ensure employee engagement, create and maintain sustainable relationship with stakeholders based on the mutual respect.
PRINCIPLE II: CORPORATE GOVERNANCE SYSTEM **The corporate governance system should ensure strategic management of the company, effective supervision over corporate management bodies, due balance and division of functions between corporate bodies, and safeguarding of shareholders' interests.**		

2.1. Apart from the bodies mandatory under the Republic of Lithuania Law on Companies – the general meeting of shareholders and the head of the company, it is recommended that both collegiate supervisory body and collegiate management body is formed by the company. Formation of the said bodies enable a clear division of management and supervision functions in a company and accountability and control of the head of the company, which leads to a more effective and transparent corporate governance process.	YES	The Supervisory Board as a collegiate supervisory body is formed in the company. The company has the Board and the Chief Executive Officer.
2.2. The collegiate management body is responsible for the strategic management of the company and performance of other key corporate management functions. The collegiate supervisory body is responsible for the effective supervision of the corporate management bodies.	YES YES	The competencies of Supervisory Board are regulated by the articles 7.13-7.14 of the EPSO-G Articles of Association and the Rules of procedure for the Supervisory Board. The competencies of the Board are regulated by articles 7.11 through 7.12 of the Articles of Association. The competencies of the CEO are regulated by the articles 8.21 and 8.10 – 8.12 of Articles of Association of the Company
2.3. Should the company decide to form only one collegiate body, it is recommended that this body is a supervisory one, i. e. the supervisory council. In this case, the supervisory council is responsible for the effective supervision over the functions performed by the head of the company	YES	The Company has two collegiate bodies: the Supervisory Board and the Board.
2.4. The collegiate supervisory body elected by the general meeting of shareholders should be formed and act according to the procedures laid down under Principles III and IV. Should the company decide to form a collegiate management body – the board – only, Principles III and IV should apply to the board to the extent to which this does not contradict the substance and purpose of this body.	YES	The Supervisory Board as a collegiate supervisory body has been formed in the Company. It should be noted that the Company carries out the electricity transmission activities, therefore, its operations are strictly governed by legal acts and supervised by the relevant authorities (State Commission on Control of Prices and Energy etc.). This ensures that transparent and effective decisions are taken and the principles of non-discrimination of customers, reduction of costs etc. are implemented.
2.5. The numbers of members of the corporate management body (executive directors) and supervision body (consulting directors) should be such that an individual or a small group of individuals is/are not able to dominate the decision-adoption process.	YES	The Supervisory Board consists of 4 (four) members from 17 January 2017. Two members are independent. A meeting of the Supervisory Board is considered to be valid if more than a half members of the Supervisory Board are present. The Board consists of 5 (five) members from 29 July 2016. One member is independent. A meeting of the Board is considered to be valid if 2/3 (two-thirds) of members are present.
2.6. Consulting directors or members of the supervisory board should be appointed for a defined term, with the opportunity for individual re-election for a maximum term allowed by the Lithuanian legislation in order to ensure the growth in professional experience and sufficient re-approval of their status. In addition, dismissal should be provided for, however, this procedure should not be easier that the procedure for the dismissal of an executive director or a member of the board.	YES	The Supervisory Board is elected for the maximum term of office permitted by the Lithuanian law, i. e. 4 (four) years. The Board is elected for the term of office of 4 (four) years. This term is the maximum term permitted under the Republic of Lithuania Law on Companies. The general meeting of shareholders may recall the Supervisory Board and the Board in full or in part according to the procedure established by the law.

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2.7. The chairman of a collegiate body elected by the general meeting of shareholders must be a person whose current or previous position is not an obstacle to independent and unbiased supervision. Where only the board and not the supervisory council is formed in the company, it is recommended that the chairman of the board and the head of the company are different persons. Former head of the company should not be immediately appointed as a chairman of a collegiate body elected by the general meeting of shareholders. Where the company decides not to follow these recommendations, information about measures taken to ensure unbiased supervision should be provided.	YES	The article 7.19 of the Articles of the Association of EPSO-G defines that the Supervisory board elects the Chairman of the Supervisory Board from its members. The candidates for the position of the Chairman of the Supervisory board are selected from the independent members of the Supervisory board. The current Chairman of the Supervisory board is the independent member. The article 7.17 of the he Articles of Association of EPSO-G defines that the Board elects the Chairman of the board from it's members. The Chairman of the board cannot be elected from the representatives of the company, elected to the Board. The uninterrupted term of the office for the Chairman of the Board cannot be longer than 4 (four) subsequent years.
PRINCIPLE III: PROCEDURE FOR THE FORMATION OF A COLLEGIATE BODY ELECTED BY THE GENERAL MEETING OF SHAREHOLDERS **The procedure for the formation of a collegiate body elected by the general meeting of shareholders should ensure representation of interests of minority shareholders, accountability of the body to shareholders, and objective supervision over activities of the company and its management bodies.**		
3.1. The mechanism of formation of a collegiate body (hereinafter for the purposes of this Principle – "collegiate body") elected by the general meeting of shareholders should ensure objective and unbiased supervision over corporate management bodies as well as proper representation of interests of minority shareholders.	YES	The Supervisory Board is elected by the general meeting of EPSO-G shareholders according to the provisions of the Republic of Lithuania Law on Companies. The General meeting of shareholders of the Company elects the Board.
3.2. Names, education information, qualifications, professional experience, information on current position, other important professional obligations and potential conflicts of interests of candidates to members of collegiate management bodies should be disclosed to the company's shareholders prior to the general meeting so that the shareholders have enough time to decide on the voting on the candidates. In addition, any circumstances that may affect the candidate's independence (a model list is provided in Recommendation 3.7) should be disclosed. The collegiate body should be informed about any subsequent changes in the information disclosed under this p. 3.2. The collegiate body should collect the disclosed information on members and include them in its annual report.	YES	Information about candidates for Members of the Supervisory Board is presented to the shareholders according to the procedure established by the Republic of Lithuania Law on Companies prior to the start of the general meeting of shareholders the agenda of which contains an item of election of Members of the Supervisory Board. According to the Articles of Association of EPSO-G (article 7.9), each candidate to the position of the Member of the Supervisory Board must submit to the general meeting of shareholders a declaration of the candidate's interests, stating therein any circumstances that could give rise to a conflict of interests between the candidate and the Company. In case if such circumstances arise, the Supervisory Board Member must immediately notify such new circumstances to the Supervisory Board in writing.
3.3. Where a proposal is made for the election of a member of a collegiate management body, his competences necessary for the work in the body must be specified. In order that the shareholders and investors can assess whether the competences remain valid, in every annual report the collegiate body must include information on its composition and specific competences of its members related to their work in the body..	YES	Information about the candidates to the Members of the Supervisory Board is presented to the general meeting of shareholders according to the procedure established in the Republic of Lithuania Law on Companies (see Comment on Item 3.2). The information on candidates the Members of the Supervisory Board presented to the general meeting of

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		shareholders includes work experience, positions held and other information on the candidate's competences.
3.4. In order to maintain a proper balance of qualifications of members in a collegiate body, the composition of the body should be set in line with the structure and type of operations of the company and should be subjected to period review. The body should ensure that its members as a whole should possess comprehensive knowledge, views and experience for the proper performance of their tasks. Members of an audit committee as a whole should have latest knowledge and relevant experience in finance and accounting and/or audit of the listed companies. At least one of the members of payroll committee should have knowledge and experience in the wage setting policy.	YES YES YES	The Supervisory Board is elected and its members' qualifications is evaluated by the general meeting of EPSO-G shareholders. The Supervisory Board may not determine its own composition. There is an operating audit committee in EPSO-G, its members are elected in the accordance with the law - the decision of the Board of the Lithuanian Bank Nr. 03-14 „About the confirmed requirements for the audit committees", dated 24th January 2017, coming into effect 1st March 2017; and the decision Nr. 383 of the Government of the Republic of the Lithuania of 24th May 2017 "Confirmation of the description of the procedure for audit committees in state owned companies and municipalities". EPSO-G has a Remuneration and Nomination Committee, the members of it ensure competence in wage setting policy. Collegiate bodies of the company and it's members have yearly evaluation of performance based on the EPSO-G Wage setting and payroll Committee decision dated 15th February 2017, guidelines for the evaluation of the yearly activities of collegiate bodies.
3.5. An individual programme aimed at familiarisation with the duties and organisation and operations of the company should be offered to every new member of a collegiate body. The body should carry out annual checks to determine the areas in which its members should refresh their skills and knowledge.	YES	The newly elected Members of the Supervisory Board are granted an opportunity to meet with the Board Members and managers of the Company's structural divisions and to familiarise themselves with the Company's operations. It should be noted that the Supervisory Board Members are informed about the Company's operations on a regular basis – at the meetings of the Supervisory Board and individually as requested by the member.
3.6. In order to ensure proper resolution of any conflicts of interests of members of a collegiate body, the body should contain sufficient number of independent members.	YES	Refer to the comment 2.5.
3.7. A member of a collegiate body should be considered to be independent only if is not linked with the company, its controlling shareholder or administration of the company/ shareholder by any business, kinship or other relations which give or could give rise to a conflict of interest and which could influence the member's views. As it is impossible to list all the cases when a member of a collegiate body may lose independence, in addition, relations and circumstances relate to the determination of independence may differ from company to company, and the best practice of resolution of the problem may form in time, an assessment of independence of the member should be based on the content and not the form of the relations and circumstances. Main criteria on which determination of the member's independence should be based:	YES	The article 7.2 of EPSO-G Articles of Association provide that the Supervisory Board consists of 5 (five) members out of which 2 (two) are independent members. Their independence is determined by the criteria listed in the rules of procedure of State property and non-property rights in state-owned enterprises, the Nasdaq listed companies management code and other applicable legislation. The independence of Collegiate bodies is defined by the description of the procedure of the Government of the

1) he may not be executive director or member of the board of the company or an associated company (if the collegiate body elected by the general meeting of shareholders is a supervisory council) and may not have occupied such position during the past five years); 2) he may not be employee of the company or an associated company and may not have occupied such position during the past three years except for cases when the member of the collegiate body is not part of top management and was elected to the body as a representative of employees; 3) he must not be receiving or received significant additional remuneration from the company or an associated company except for remuneration received as a member of a collegiate body. Such additional remuneration includes participation in share options or other remuneration systems based on the operating results; this does not include compensation benefits under a pension plan (including deferred compensations) for previous work in the company (on condition that such benefit is not related in any way to subsequent positions); 4) he may not be a controlling shareholder and may not represent such shareholder (control is determined according to Article 1(1) of Council Directive 83/349/EEC); 5) he may not have or have had in the previous years any significant business relations with the company or an associated company directly or as a partner, shareholder, director or senior manager of an entity having such relations. An entity is considered to be having business relations if it is an important supplier of goods or services (including financial, legal, advisory and consulting services), significant customer or organisations receiving significant payments from the company or the group to which the company belongs; 6) he may not be and may not have been in the past three years a partner or employee of the current or previous external auditor of the company or an associated company; 7) he may not be executive director or member of the board of another company in which the executive director or member of the company (in case of a supervisory council elected by the general meeting of shareholders) is a consulting director or member of a supervisory council, an may not have other significant relations with the company's executive directors that arise in the process of participation in the activities of other companies or bodies; 8) he may not have occupied the position of a member of a collegiate body longer than 12 years; 9) he may not be a member of the closest family of the executive director or a member of the board (in case of a supervisory council elected by the general meeting of shareholders) or of persons referred to in items 1 to 8 above. Close family includes spouses/partners, children and parents.		Republic of Lithuania of State property and non-property rights in state-owned enterprises, the Nasdaq listed companies management code and other applicable legal acts and the Board decision of 10th November 2017 to apply in full scope EPSO-G group's collegial body members, management and employee interest management policy, which has all recommended criteria for independence of the article 3.7 including.
3.8. The content of the notion of independence is determined by the collegiate body itself. The body mat decide that a certain member cannot be considered independent due to particular personal or company-related circumstances, even though he meets all the independence criteria set in this Code.	YES / NO	Starting with 10 November 2017, based on the Board decision to adopt the EPSO-G policy on the managing interests of collegiate bodies, management and employess in full scope, it is decided that the evaluation of independence is carried out by the member of the collegiate body himself/herself and the collegiate body to which the member belongs to. Both the formal and the informal criteria of independence must be met, taken into account self assesment, also other circumstances the body is aware of, and the the decision is made whether the member of a collegiate body can be

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		aannounced an Independent member of a collegiate body.
3.9. Information on the conclusions drawn by the collegiate body in determining whether a member can be considered independent should be disclosed. Where appointment of a member of a collegiate body is proposed, the company should announce whether the member is considered independent. Where a member of the body does not meet any independence criteria set in this code, the company should announce reasons why it still considers that member independent. In addition, the company should state in every annual report which members of the collegiate body are considered independent..	YES	10th November 2017 the Board decided to adopt EPSO-G policy on managing interests of collegiate bodies, management and employees in full scope. The policy defines that until the Independent collegiate member is appointed there is a preliminary evaluation of the candidates to members performed, the evaluation is performed by the collegiate assigning or electing body.
3.10. Where one or more of the independence criteria set out in this Code have not meet throughout the year, the company should announce reasons why a member of the collegiate body is considered independent. In order to ensure accuracy of information about independence, the company should demand that independent members would confirm their independence on a regular basis..	YES	10th November 2017 the Board decided to adopt EPSO-G policy on managing interests of collegiate bodies, management and employees in full scope. The policy defines: - The member of collegiate bodies are obligated to provide declarations of interest; - Declarations of interest must reveal all the circumstances which may start the conflict of interests for the perso submitting the declaration. The evaluation of independence of the Independent member of the collegiate body is made at the moment of his/her appointment, then periodically once a year and at a change of any of the circumstances that may cause the independent member to lose his/her independence.
3.11. Independent members of a collegiate body may be remunerated for their work and attendance of meetings of the body out of the company's funds. The size of the remuneration should be approved by the general meeting of shareholders.	YES	On 20th February 2018 the Board of the company adopted guidelines on remuneration for the work at the collegiate bodies of EPSO-G and EPSO-G Group's companies. Independent members of collegiate bodies are remunerated based on the guidelines. The terms of the contract with the independent members of the supervisory Board are approved by EPSO-G AGM.
PRINCIPLE IV: DUTIES AND RESPONSIBILITIES OF A COLLEGIATE BODY ELECTED BY THE GENERAL MEETING OF SHAREHOLDERS **The corporate governance system should ensure that the collegiate body elected by the general meeting of shareholders functions properly and effectively and the rights granted to the body should endure effective supervision over the corporate management bodies and protection of the shareholders' interests.**		
4.1. The collegiate body elected by the general meeting of shareholders ("the collegiate body") should ensure integrity and transparency if the financial accounting and control system of the company. The collegiate body should constantly make recommendations to the company's management bodies and supervise and control their activities in the area of management of the company.	YES	The Supervisory Board submits to the general meeting of Litgrid shareholders or the Board its feedback and proposals for the Company's operating strategies, the annual financial statements, the profit allocation project, the Annual Report of the Company, and the work of the Company's CEO and makes proposals concerning a draft decision on declaring dividend for a period shorter than the financial year and the interim

		financial statements and the interim report prepared for this purpose..
4.2. Members of the collegiate body should act for the benefit and in the interests of the company and shareholders in good faith, carefully and responsibly, taking account of the employees' interests and public welfare. Independent members of a collegiate body should: a) maintain independence of their analyses, decision adoption and actions under any circumstances; b) do not seek and do not accept unjustified preferences that might compromise their independence; c) clearly express their objections in cases when, in their opinion, decision by the collegiate body may be harmful to the company. Where the collegiate body has adopted decisions with respect to which an independent member has serious doubts, in such a case the member should draw conclusions accordingly. In case of resignation of an independent member he should explain the reasons therefor in a letter to the collegiate body or audit committee and, if necessary, to a relevant external body (institution).	YES	Members of the Supervisory Board act for the benefit and in the interests of the company and shareholders in good faith, carefully and responsibly, taking account of the company' interests and public welfare. Members of the Supervisory Board have the right to express their opinion on all issues on the agenda of the meeting, which, according to the Supervisory Board work regulations have to be properly reflected in the minutes of the meeting..
4.3. Each member of a collegiate body should devote sufficient timeand efforts to the performance of his duties in a collegiate body. Each member of a collegiate body should undertake to limit his other professional obligations (in particular the duties of a director of another company) so that they do not hinder the performance of his duties as a member of the collegiate body. If a member has attended less than one half of the meetings of the collegiate body during the company's financial year, the shareholders should be notified thereof.	YES	Members of the Supervisory Board take an active part in the meetings of the collegiate body and devote sufficient time for the performance of their functions as Members of the collegiate body. The participants in the meetings are recorded in the minutes. Agreements are signed with the members of collegiate bodies to devote sufficient time to the performance of their duties.
4.4. Where decisions by the collegiate body may have different effects on different shareholders, the collegiate body must treat all the shareholders in good faith and without bias. It should ensure that the shareholders are duly informed about the company's affairs, strategies, risk management and resolution of conflicts of interest. The company must have clearly defined the role of the members of the collegiate body in the relations with shareholders and in their obligations to the shareholders.	YES	The shareholders are informed about the Company's strategies, risk management and resolution of conflicts of interests according to the procedure established by the law. The role of the Supervisory Council Members in the communication with and obligations to the shareholders is determined according to provisions of the Lithuanian Law on Companies and the Articles of Association.
4.5. It is recommended that transactions (except low value transactions or transactions concluded in the normal course of business of the company) between the company and its shareholders or members of supervisory or management bodies or other natural or legal persons that may have influence over the company's management should be certified by a collegiate body. Decision on the approval of such transactions should be deemed to be adopted only if the majority of the independent members of the collegiate body vote for it.	YES/ NO	Management bodies of the Company con clude and approve transactions according to provisions of the legal acts and Articles of Association of the Company. The general meeting of shareholders of EPSO-G takes decisions on standard terms and conditions of agreements with the Supervisory Board Members and on payment of remuneration to the Supervisory Board Members. The general meeting of company's shareholders takes decisions on standard terms and conditions of agreements with the Board Members and on payment of remuneration to the Board Members. The Board of the Company sets of standard conditions for contracts to be concluded with the company, as well as decide on the payment of remuneration. The managing bodies conclude and approve transactions following the legislation and the Company's articles of association..

4.6. The collegiate body should be independent in adopting decisions that are significant for the company's activities and strategies. In addition, the collegiate body should be independent from management bodies of the company. Work and decisions by the collegiate body should not be influenced by the persons that elected it. The company should ensure that the collegiate body and its committees are provided with sufficient resources (including financial) necessary for the performance of their duties including the right to obtain – in particular from the employees of the company – all the requisite information and the right to approach external law, accounting or other professionals for advice on the matters falling within the scope of competence of the collegiate body and its committees. The remuneration committee, while using the consultants'/ experts' services in order to get information about market standards on setting of remuneration rates, must ensure that the same consultant would not provide consulting on personnel division or executive director or members of management bodies of a related company at the same time.	YES YES YES	The Supervisory Board is independent of the Company's management bodies and in makes decisions that are significant for the Company's operations and strategy, independently, in accordance with the law and the Articles of Association of EPSO-G. EPSO-G ensures proper working conditions for the Supervisory Council and its Members and furnishes them with organisational resources necessary for work. The CEO of EPSO-G appoints a secretary for the Supervisory Council who services its meetings. The regulations of the Supervisory Board provides for the opportunity to purchase the adequate resources.
4.7. Work of the collegiate body should be organised in such a way that independent members of the collegiate body would have significant influence in the most important areas with a high potential of conflicts of interest. Such areas include issues related to the appointment of directors, setting of remuneration to directors, and audit control over the company. Therefore, in the case where these issues fall within the scope of competence of a collegiate body, it is recommended that the collegiate body forms committees on appointment, remuneration and audit. The company should ensure that functions assigned to the appointments, remuneration and audit committees are performed, however, they may be combined and less than three committees may be formed. In such a case the company must provide a detailed explanation why an alternative approach was selected and how it complies with the objectives of the three individual committees. Where the collegiate body has a small number of members, the functions of the three committees may be performed by the collegiate body itself, provided that it meets the composition requirements set for the committees and the requisite information on this issue is disclosed. In such a case the provisions of this Code related to the said committees of the collegiate body (in particular, to their role, activities and transparency) should apply to the collegiate body as whole, where applicable.	YES	The Remuneration and Nomination Committee is established at EPSO-G. It's jurisdiction is governed by its rules of procedure and the Articles of Association of EPSO-G. The Audit Committee is established in EPSO-G. It's jurisdiction is governed by its rules of procedure and the Articles of Association of EPSO-G.
4.8. The main purpose of the committees is to increase efficiency of work of the collegiate body to ensure that decisions are adopted upon proper consideration and to assist in the organisation of work so that conflicts of interest do not influence decisions adopted by the collegiate body. The committees should act in an independent manner and adhere to their principles and provide to the collegiate body recommendations on decision-adoption by the collegiate body, however, the final decision shall be adopted by the collegiate body itself. The recommendation on the formation of committees is not aimed at narrowing the scope of competence of the collegiate body or delegate it to the committees. The collegiate body remains fully responsible for the decisions adopted within the scope of its competence.	YES	The Remuneration and Nomination Committee at EPSO-G serves as the advisory body to the Supervisory board, it's main functions are: - Helps to select the candidates for collegiate bodies for the Group companies; - Provides recommendations for Group companies for the appointment of the members of of collegiate bodies, contract management and setting their remuneration policy. The Audit committee at EPSO-G performs these functions: - supervises the audit and financial reporting of Group companies;

		- is responsible for the ensuring the principles of independence and non bias for the Group audit companies and auditors; - is responsible for the internal control, risk management and internal audit systems, work process efficiency control; - is responsible for the Group companies auditor and (or) non audit service provision control.
4.9. Committees formed by the collegiate body should normally consist of at least three members. In companies whose collegiate body has a small number of members a committee may be formed of two persons by way of exception. The majority of the members of any committees should consist of independent members of the collegiate body. In case if no supervisory council is formed in the company, the salaries committee and the audit committee should be formed exclusively of consulting directors. In deciding on the chairman and members of a committee, account should be taken of the fact that membership of committees should be renewed and excessive trust should not be placed on any person.	YES	According to the item 7.24.1 of EPSO-G Articles of Association, the Audit Committee shall consist of not less than 3 members, who are appointed by the General meeting of EPSO-G shareholders for the term not longer than 4 years with a reasoned decision to be taken with regard to the Remuneration and nomination committee's recommendations. According to the item 7.25.1 of EPSO-G Articles of Association, the Remuneration and Nomination Committee shall consist of not less than 3 members, who are appointed by the Supervisory Board from the selected candidates for the term not longer than 4 years with a reasoned decision.
4.10. Authorisations of any committee should be established by the collegiate body. Committees should perform their duties within the scope of their authorisations and inform the collegiate body about its activities and results on a regular basis. Authorisations of each committee, with the roles, rights and responsibilities defined, should be published at least once in a year (as part of the information that the company publishes on its management structure and practices every year). The annual report of the company should also include notices of published by the committees stating information about their composition, number of meetings and attendance by members during the past year as well as about main lines of activities. The audit committee should certify that is it satisfied with the independence of the audit process and briefly describe actions taken to arrive to this conclusion.	YES	The rules of procedures of the Remuneration and Nomination Committee at EPSO-G, approved by the Supervisory board, make it an obligation to make a report for the Supervisory board about its activities not less than once a year and publish its annual report. The rules of procedures of the EPSO-G Audit committee, confirmed by AGM, include the obligation for the Committee to report to the Supervisory board at least 4 times per year and provide written reports; once per year to provide written reports to the Supervisory board and EPSO-G AGM. The Supervisory Board is provided wth technical means to read the protocols of Committees. The members of the Committees, who are also the members of the Supervisory board, inform the Supervisory board in their meetings about the issues discussed in the Committee meetings and decisions taken. The composition The annual Company report discloses information about the members of the Supervisory board and Committees.
4.11. In order to ensure independence and objectivity of committees, members of the collegiate body that are not members of the committees should normally have the right to attend the meetings of the committee only subject to invitation by the committees, The committee may invite or demand that certain employees or experts attend the meetings. Chairman of each committee should be enabled to maintain direct relations with	YES	This possibility has been provided for the Rules for the operation of the Audit Committee and the rules of operation of the Remuneration and Nomination Committee.

the shareholders. Cases when this should be done should be stated in the committee's regulations.		
4.12. Appointments Committee. 4.12.1. The main functions of the Appointments Committee should be as follows: 1) select candidates to vacant positions of members of management bodies and recommend them to the collegiate body for consideration. The committee should assess the balance of skills, knowledge and experience in a management body, prepare a description of functions and abilities required for a specific position, and assess the time necessary for the discharge of obligations. The committee may also evaluate the candidates to members of the collegiate body proposed by the shareholders; 2) on a regular basis, evaluate the structure, size, composition and activities of supervisory and management bodies, make recommendations for changes to the collegiate body; 3) on a regular basis, evaluate skills, knowledge and experience of individual director and notify the collegiate body; 4) devote sufficient attention to the continuity planning; 5) review management bodies' policies on election and appointment of top management. 4.12.2. The appointments committee should consider proposals received from other persons including administration and shareholders. Where issues related to executive directors or members of the board (where the collegiate body elected by the general meeting of shareholders is the supervisory council) and top management, the committee should consult the CEO, entitling him to make proposals to the committee.	YES	Refer to the comment 4.8
4.13. Remuneration Committee 4.13.1. The main functions of the Remuneration Committee should be as follows: 1) make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) review, on a periodic basis, the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;	YES	Refer to the comment 4.8 The required functions of the Remuneration Committee are described in the Operating regulations of EPSO-G Remuneration of Nomination Committee, adopted by the Supervisory Board of EPSO-G on 10th June 2016.

6) assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/ or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee 4.14.1. The main functions of the Audit Committee should be as follows: 1) monitor the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) at least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the in-ternal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be re-viewed at least annually; 4) make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meet-ing) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resigna-tion	YES	Refer to the comment 4.8. The required functions of Audit Committee are described in the Operating regulations of EPSO-G Audit Committee, adopted by the decision 36 of EPSO-G AGM on 12th September 2016.

of the audit firm/auditor and make recommendations on required actions in such situations; 5) monitor the independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit part-ners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines estab-lished in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) review the efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to compa-ny's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justifica-tion of such operations. 4.14.3. The audit committee should decide whether participa-tion of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all rela-tionships between the independent auditor and the company and its group. The committee should be timely furnished infor-mation on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.		

4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegiate body should make a self-assessment, which should include an assessment of the structure, organisation of work, and ability to act as a team of/by the collegiate body, an assessment of competence and efficiency of each member and committee of the body, and an assessment whether the body has achieved its objectives. The collegiate body should publish, at least once in a year (as part of information published annually by the company on its management structures and practices), relevant information on its internal organisation and operating procedures, specifying any material changes resulting from the self-assessment..	YES	Both Articles of Association of the Company and EPSO-G oblige the Supervisory Board and the Board to perform assessments of its operations at least once a year.
PRINCIPLE V: WORKING PROCEDURES OF COLLEGIATE BODIES OF THE COMPANY **The working procedures of the collegiate supervisory and management bodies should ensure effective operation and decision-adoption by these bodies and encourage active cooperation between corporate bodies.**		
5.1. Collegiate supervisory and management bodies of the company (for the purposes of this Principle, collegiate bodies include both supervisory and management bodies) are headed by chairmen. A chairman is responsible for the proper convening of meetings of a collegiate body. The chairman should ensure proper notification of all members of the body including the agenda of the meeting. He should also ensure proper chairing of the meetings, order at the meetings and working atmosphere during the meeting.	YES	The rules of procedures regulate the activities of the Supervisory Board and the Board. The Company provides all the required resources for the proper progress of meetings.
5.2. It is recommended that meetings of collegiate bodies of the company are convened at relevant intervals under an approved schedule. A company decides itself on the periodicity of the meetings, however, it is recommended that the periodicity should ensure continues resolution of key issues of corporate management. Meetings of the supervisory council should be convened at least quarterly and meetings of the board – at least monthly..	YES	The item 7.17 of EPSO-G Articles of Association provide that the meetings of Supervisory Board shall be held at least once quarterly. The Supervisory Board draws up a schedule of the Supervisory Board's meetings at the beginning of the calendar year in accordance with the Regulations of the Supervisory Board. According to Article 7.16 of the Articles of Association, meetings of the Board are held at least once in a month. The Board draws up a schedule of the Board's meetings at the beginning of the calendar year in accordance with the Regulations of the Board.
5.3. Members of a collegiate body should be notified of a meeting in advance so that they have enough time to prepare for the consideration of issues at the meeting and the discussions are fruitful and followed by adoption of proper decisions. A notice of the meeting to the members of the collegiate body should be accompanied by any requisite materials related to the agenda. The agenda should not be amended or supplemented during the meeting except for cases when all the members of the body are present at the meeting or where issues material to the company must be urgently resolved.	YES	According to the Regulations of the Supervisory Board, the Members of the Supervisory Board and the invited persons are given a 7 (seven) working days' notice of the meeting, and are furnished with all the requisite information related to the agenda. According to the Regulations of the Board, the Board Members and the invited persons are given a 4 (four) working days' notice of the meeting, and are furnished with all the requisite information related to the agenda 2 (two) working days ahead the meeting.
5.4. In order to coordinate work of collegiate bodies of the company and ensure an effective decision-adoption process, chairman of the collegiate supervisory and management bodies should agree on dates of meetings and agendas and	YES	The Company complies with this recommendation. Chairman of the Supervisory Board and Chairman of the Board is working closely together on

cooperate closely in resolving other issues related to the company's management. Meetings of the supervisory council should be open to members of the board, in particular where issues related to recalling or liability of the latter or setting of remuneration for the latter are resolved.		issues of corporate governance.
PRINCIPLE VI: UNBIASED TREATMENT OF SHAREHOLDERS AND SHAREHOLDERS' RIGHTS **The corporate governance system should ensure unbiased treatment of all shareholders including minority shareholders and foreign shareholders. The corporate management governance should protect the shareholders' rights.**		
6.1. It is recommended that the company's capital consists only of those shares that grant equal right in terms of voting, ownership, dividend etc. to their holders.	YES	The authorised capital of the Company consists of ordinary registered shares of EUR 0,29 par value. The shares grant equal property and non-property rights to their holders.
6.2. It is recommended that investors are afforded the opportunity of early (i. e. prior to purchase of shares) familiarisation with the rights attached to newly issued or existing shares.	YES	The rights attached to the shares are specified in the Articles of Association of the Company, which are published in the Company's website.
6.3. Transactions that are material to the company and its shareholders such as transfer of the company's assets, investments, mortgage or other encumbrance should be approved by the general meeting of shareholders in advance. All shareholders should be afforded equal opportunities for familiarisation with and participation in the adoption of decisions important for the company including approval of the said transactions.	YES	Item 7.12.3 of the Articles of Association of the Company establish the criteria for material transactions requiring approval of the general meeting of shareholders.
6.4. Procedures for the convening and holding of general meetings of shareholders should provide equal opportunities for the shareholders to take part in the meeting and should not infringe the shareholders' rights and interests. The selected place, date and time of the meeting should not prevent the shareholders from active participation in the meeting.	YES	The Company convenes general meetings of shareholders and implements other procedures related to such meetings according to the provisions of the Republic of Lithuania Law on Companies.
6.5. In order to ensure the foreign shareholders' right to get conversant with the information, it is recommended that the documents prepared for the general meeting of shareholders, where possible, are published in advance in a publicly accessible website of the company in Lithuanian and English and/or other languages. The signed minutes of the meeting and/or decisions should also be published in a publicly accessible website of the company in Lithuanian and English and/or other languages. A document may be published on the company's website in a reduced scope if full publication could damage the company or trade secrets of the company would be disclosed..	YES	Pursuant to the Republic of Lithuania Law on Companies, the Company publishes draft decisions of the general meeting of shareholders in its website, in Lithuanian and English. Decisions taken by the general meeting of shareholders are published in the Company's website in Lithuanian and English. This information is also published, pursuant to the Articles of Association of the Company and other legal acts in the NASDAQ OMX Vilnius and the Centre of Registers' electronic newsletter.
6.6. The shareholders should be provided the opportunity to vote at the general meeting by attending or not attending the meeting in person. There should be no obstacles for the shareholders to vote in advance by completing the general ballot.	YES	The shareholders of the Company may exercise the right of attending the general meeting of shareholders either in person or through a proxy, provided that the latter holds a properly executed power of attorney or has signed an agreement on the transfer of the voting right. The Company enables the shareholders to vote by completing a ballot as provided for by the Republic of Lithuania Law on Companies.
6.7. In order to increase the shareholders' opportunities for participation in the general meetings, the companies should seek to more widely apply modern technologies and to enable the shareholders to attend and vote at the general meetings by means of electronic communications. In such cases security of the information transmission and the possibility of	NO	The Company has no practice of voting by means of electronic communications.

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identification of the participants and voters must be ensured. Furthermore, companies should enable shareholders, in particular those residing abroad, to observe the general meetings by means of modern technologies.		
PRINCIPLE VII: AVOIDING AND DISCLOSING CONFLICTS OF INTEREST **The corporate governance system should encourage members of the bodies to avoid conflicts of interests and ensure a transparent and effective mechanism of disclosing conflicts of interests of members of the bodies.**		
7.1. A member of a management or supervisory body of the company should avoid a situation where his personal interests conflict or may conflict with the company's interests. If such situation arises, the member should notify, within a reasonable time limit, other members of the same body or the body of the company that has elected him or the shareholders of the situation of conflict of interests, specifying the nature and, where possible, value of the interests.	YES	The duty has been set to members of the Supervisory Board by article 7.9 of EPSO-G Articles of Association and to members of the management board by article 7.6 of the Company's Articles of Association.
7.2. A member of a management or supervisory body of the company may not mix the corporate assets the use of which has not been specifically considered with him with his personal assets or use the asset or the information that he receives as a member of a collegiate body for personal or third-party benefit unless the general meeting of shareholders or another body of the company authorised by the meeting gives its consent.	YES	The duty has been set in operation regulations of both the supervisory and the management bodies as well as in the EPSO-G policy on managing interests of collegiate bodies, management and employees adopted by the board of the Company on 10th November 2017.
7.3. A member of a management or supervisory body of the company may conclude a transaction with the company having formed the relevant body. The shareholder must immediately notify the transaction (except for low value transactions or transactions concluded in the normal course of business of the company and on standard terms and conditions) to other members of the same body or the body that has elected him or the shareholders; the notice may be in writing or oral, with an entry in the minutes of the meeting. Recommendation 4.5 also applies to the transactions referred to above.	YES	The supervisory and management bodies of the company concludes and approves a transaction pursuant to the requirements established by the legis-lation and the Articles of Association of Litgrid and EPSO-G.
7.4. A member of a management or supervisory body of the company should refrain from voting when decisions on trans-actions or other matters with which he is connected by person-al or business interests are being adopted.	YES	Rules of Procedure of the Supervisory Board and the Board work regulations specify that if a conflict of interests arise between the Supervisory Board member or member of the Board and the Company, such member must inform other members and withdraw from further participation in preparation, adoption and implementation of the decision.
PRINCIPLE VIII: CORPORATE REMUNERATION POLICY **The remuneration policy and the procedure for approving, reviewing and publishing of remuneration for di-rectors in place in the company should prevent potential conflicts of interest and abuse in setting remuneration for directors and should ensure publicity and transparency of the corporate remuneration policy and directors' remuneration.**		
8.1. The company should publish a report on its remuneration policy ("the remuneration report") which should be clear and understandable. The remuneration report should be published in the company's website and not only as part of the annual report.	YES	On 1st December 2017 the Board of the Company adopted EPSO-G Group's Remuneration policy in full scope. On 10th November 2017 the Board of the Company adopted Performace evaluation policy of LITGRID AB. Information about the policy and average salaries is disclosed in the Annual Report In compliance with the clause 25(5) of the Law of Energy of the Republic of Lithuania, the Company discloses the salaries and other remuneration of the members of the governing bodies.

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8.2. The remuneration report should be focussed on the directors' remuneration policy in next year and where applicable in subsequent financial years. It should also contain an overview of the implementation of the remuneration policy in previous financial years.	NO	The Annual Report does not contain information on the policy of remuneration to the Company's directors for next year and subsequent years. The Annual Report contains information on amounts calculated for the members of the Company's management bodies (salaries, other payments, tantiemes, other distributions from profit).
8.3. The remuneration report should contain at least this information: 1) relationship between the variable and fixed components of the directors remuneration and explanation thereof; 2) sufficient information on criteria for the evaluation of performance results on which the entitlement to share options, to shares or to variable components of remuneration is based; 3) explanation of why the selected criteria are beneficial for long-term interests of the company; 4) explanation of the methods applied in determining whether the performance evaluation criteria are met; 5) sufficiently detailed information on periods of deferring the payment of the variable component of remuneration; 6) sufficient information on the link between remuneration and performance; 7) main criteria underlying the annual bonus system and other non-cash benefits; 8) sufficiently detailed information on the severance pay policy; 9) sufficiently detailed information on the period of granting of share-based payment as stated in item 8.15; 10) sufficiently detailed information on retaining shares upon granting of rights under item 8.15; 11) sufficiently detailed information on composition of similar groups of companies whose remuneration policies were ana-lysed in order to formulate the remuneration policy for an asso-ciated company; 12) description of main features of an additional pension scheme or early retirement scheme intended for directors; 13) the remuneration report should not contain information that ought not to be published for commercial considerations.	NO	The Annual Report contains information on amounts calculated for the Members of the Company's management bodies (salaries, other payments, tantiemes, other distributions from profit), information on assets transferred and guarantees issued to the Members as well as other information related to the remuneration to the Members. Refer to the comment 8.1.
8.4. The remuneration report should also summarise and explain the company's policy for agreements concluded with executive directors and members of management bodies. This should include, inter alia, information on the terms of agreements with executive directors and members of management bodies and periods of notice of resignation as well as detailed information on severance pay and other benefits related to the early termination of agreements with executive directors and members of management bodies.	NO	The Company has no practice of publishing such information. Refer to the comment 8.1.
8.5. The full amounts of remuneration and other benefits received by individual directors in the relevant financial year should be detailed in the remuneration report. This document should contain at least information referred to in items 8.5.1–8.5.4 for each person that had occupied the position of a director in the company in any period of the financial year. 8.5.1. The following information related to remuneration and/or other service income should be provided: 1) total amount of remuneration paid or payable to the director for the services provided in the past financial year including, where applicable, participation fees set in the general meeting of shareholders;	NO	The Company has no practice of publishing such information. Refer to the comment 8.1.

2) remuneration and benefits received from any company of the same group; 3) remuneration paid as allocation from profit and/or bonuses and reasons for granting of such bonuses and/or allocations from profit; 4) if permitted by the laws, each type of material extra pay paid to directors for special services not included in normal functions of directors; 5) compensation payable or paid to each executive director or member of management bodies who has resigned in the previous financial year; 6) total value of the benefit which is treated as remuneration and which is given in a form other than cash, if such benefit is not covered by items 1 to 5. 8.5.2. The following information related to shares and/or rights to take part in share options and/or any other rights to take part in the share-based incentive systems should be provided: 1) number of share options offered or shares allocated previous financial year and the terms and conditions thereof; 2) number of share options exercised during previous financial year specifying the number and price of the shares in each option, or the value of participation in the share-based employee incentive system as of the end of previous year; 3) number of share options unrealised as of the end of financial year, their realisation price, realisation data and main terms of exercise of the rights; 4) any changes in the terms of share options in the next financial year. 8.5.3. The following information related to the additional pension schemes should be provided: 1) in case defined benefit schemes – changes in benefits accumulated for the directors in the relevant financial year; 2) in case of defined contribution schemes – detailed information on contributions paid or payable for the director by the company in the relevant financial year; 8.5.4. Amounts paid by the company or its subsidiary or any company included in the company's consolidated financial statements as a loan, prepayment or guarantee to any person who has occupied the position of a director in any period of the relevant financial year, including outstanding amounts and interest rates.		
8.6. Where the remuneration policy provides for variable components of remuneration, the company should set the limits of the variable components. The fixed component should be sufficient to allow the company not to pay the variable component in case if the performance criteria are not met.	YES	Remuneration policy of the company provides for the limits of the respective variable components of remuneration.
8.7. The payment of the variable component should depend on pre-set and measurable performance evaluation criteria.	YES	The annual goals are set both for CEO and other employees of the Company according to the Company's performance evaluation policy.
8.8. Where the variable component of the remuneration is paid, payment of the larger part of this component should be deferred for a reasonable period. The size of the deferred part of the variable component should be set based on the relative value of the variable part as compared with the fixed part of the remuneration.	YES	According to the Remuneration and Performance Assesment policies, the variable components of remuneration are paid to the employees following the approval of financial statements by the general meeting of shareholders.
8.9. Agreements with executive directors or members of management bodies should include a provision enabling the company to recover the variable part that has been paid based on the data which later appeared to be untrue.	YES	The provision is included into contracts with the board members.

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8.10. Severance pay should not exceed a set amount or a set number of annual pay amounts and generally should not be higher than the sum of the fixed remuneration component for two years or an equivalent.	YES	
8.11. Severance pay should not be paid if employment contract is terminated on the grounds of poor performance.	YES	
8.12. Furthermore, information on the preparatory and decision-adoption processes whereby directors' remuneration policy is formulated should be disclosed. The information should include data, if applicable, on the powers and composition of the remuneration committee, names of external consultants whose services were used in the formulation of the remuneration policy, and the role of the annual general meeting of shareholders.	NO	The Company has no practice of publishing such information.
8.13. In cases where remuneration is share-based, the right to shares should not be granted during at least three years after allocation thereof.	YES	N/A
8.14. Share options or other rights to acquire shares or to receive remuneration based on share price fluctuations should not be exercised earlier than on expiry of three years after allocation. The granting of the right to the shares and the right to exercise share options or other rights to acquire shares or receive remuneration based on share price fluctuations should depend on pre-set and measurable performance evaluation criteria.	YES	N/A
8.15. Upon allocation of the rights the directors should retain a certain number of shares until the end of the term of office depending on the need to cover any expenses related to the share acquisition. The number of shares to be acquired should be pre-set, e. g. the value of annual remuneration (variable plus fixed) multiplied by two.	YES	N/A
8.16. Remuneration to consulting directors or members of the supervisory council should not include share options.	YES	Share options are not included into remuneration for the members fo collegiate bodies.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to take part in the annual meetings of shareholders and vote on the issue of setting remuneration for the directors.	YES	On 20th February 2018 the Board of the company adopted guidelines on remuneration for the work at the collegiate bodies of EPSO-G and EPSO-G Group's companies. The remuneration of the members of is fixed according to the guidelines.
8.18. Without diminishing the role of bodies responsible for the setting of remuneration, remuneration policy and any material change therein should be included in the agenda of the annual meeting of shareholders. The remuneration report should be submitted to the general meeting of shareholders for voting. The voting results may have mandatory or advisory effect.	YES	Refer to the comment 8.1.
8.19. Schemes under which remuneration to directors is paid in shares, share options or other rights to acquire shares or receive remuneration based on share price fluctuations should be approved in advance by a decision adopted by the general meeting of shareholders. The consent should be given to the scheme itself and shareholders should not decide on the benefit received by individual directors under that scheme. Any material amendments to the scheme proposed prior to the scheme introduction date should also be approved by the decision of a general meeting of shareholders. In such cases the shareholders should be informed in detail about the proposed amendments and the potential effects thereof.	NO	Such schemes are not applied and the Company does not publish such information.
8.20. Consent of the general meeting of shareholders should be obtained for the following matters: 1) remuneration to directors under share-based schemes	NO	Such schemes are not applied and the Company does not publish such information.

including share options; 2) setting of the maximum number of shares and main terms and conditions of share allocation; 3) term within which share options must be exercised; 4) terms and conditions of changing the price for the exercise of each further share option; 5) any other long-term incentive schemes for directors that are not offered to any other employees of the company on similar terms. The general meeting of shareholders should also set the final time limit for the allocation of the above-said compensations to directors by the body responsible for director's' remuneration.		
8.21. If permitted by the national law or the Articles of Association of the company, the shareholders' approval should also be required for each model of option permitting subscription for the shares at a price lower than market price valid as of the price-setting day or at an average market price valid several days prior to the setting of the exercise price.	NO	Such schemes are not applied and the Company does not publish such information.
8.22. Items 8.19 and 8.20 should not be applied to schemes which are offered, on similar terms and conditions, to employees of the company or of any subsidiary entitled to participate in the scheme and which were approved by the general meeting of shareholders.	NO	Such schemes are not applied and the Company does not publish such information.
8.23. Prior to the date of the general meeting of shareholders at which the decision referred to in Item 8.19 is to be considered, the shareholders should be afforded the opportunity to familiarise themselves with the draft decision and the related notice (the documents should be published on the company's website). The notice should contain the full text describing the share-based scheme or a description of the main terms and conditions thereof as well as names of participants in the scheme. The notice should also specify the relationship between the schemes and the overall directors' remuneration policy. The draft decision should contain a clear reference to the scheme itself or a summary of the main terms and conditions. The shareholders should also be furnished with information on the way the company intends to secure the availability of the shares necessary for the discharge of obligations under the incentive scheme: it should be clearly indicated whether the company intends to buy the shares in the market, or keep them as a reserve, or issue new shares. In addition, an overview of the scheme costs to be incurred by the company due to the application of the scheme should be provided. The information under this item should be published in the company's website.	NO	Such schemes are not applied and the Company does not publish such information.
PRINCIPLE IX: ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE **The corporate governance system should recognise the statutory rights of stakeholders and promote active collaboration between them and the company in creating the company's welfare, jobs and financial stability. For the purposes of this principle, stakeholders include investors, employees, creditors, suppliers, customers, local community and other persons having interests in a specific company.**		
9.1. The corporate governance system should ensure respect for the statutory rights of stakeholders.	YES	On 23rd October 2017 the Board of the company adopted EPSO-G Group's Transparency, Sustainability and Communication policy in full scope. The goals are to increase the awareness and understanding of stakeholders about the operations of EPSO-G and its's subsidiaries, to ensure employee engagement, create and maintain sustainable relationship with stakeholders based on the mutual respect.

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9.2. The corporate governance system should enable stakeholders to participate in the governance according to procedures established by the law. Examples of stakeholders' involvement: participation of employees in adopting decisions significant for the company, consulting with the employees on matters of the company's management and other important matters, employees' participation in the share capital, involvement of creditors in the company's management in case of insolvency of the company etc.	YES	The Company complies with this recommendation: For example, consultations, negotiations etc. on the optimisation processes implemented in the Company are held with representatives of the Company's employees. Under the Collective Agreement concluded with the employee representatives, the Company informs the trade union representatives of projected changes, financial position of the Company etc. Stakeholders can take part in the corporate governance to the extent permitted by the laws.
9.3. Where stakeholders take part in the corporate governance process, they should be enabled to access requisite information.	YES	Refer to the comments 9.1. and 9.2.
PRINCIPLE X: DISCLOSURE OF INFORMATION **The corporate governance system must ensure that information on all material issues relevant to the company, including financial position, operations and management, is disclosed timely and accurately**		
10.1. The company should disclose information on: 1) operations and financial results of the company; 2) objectives of the company; 3) persons owning or controlling a block of shares of the company; 4) members of supervisory and management bodies of the company and the head of the company as well as their remuneration; 5) predictable key risks; 6) the company's transactions with related parties as well as transactions concluded in other way than the usual course of business; 7) main issues related to employees and other stakeholders; 8) management structure and strategies of the company. This list is a minimum list and companies are encouraged not to confine themselves to the disclosure of this information.	YES, except for the remuner-ation to the su-pervisory bodies of the company referred to under item (4).	On 23rd October 2017 the Board of the company adopted EPSO-G Group's Transparency, Sustainability and Communication policy in full scope. The goals are to increase the awareness and understanding of stakeholders about the operations of EPSO-G and its' subsidiaries to ensure employee engagement, create and maintain sustainable relationship with stakeholdersbased on the mutual respect. The information about the individual remuneration (item 4) of the members of collegiate bodies is not disclosed.
10.2. In disclosing the information referred to in (1) of Item 10.1, it is recommended that the controlling company discloses information on the consolidated results of the entire group of companies.	YES	
10.3. In disclosing the information referred to in (4) of Item 10.1, it is recommended to provide information on professional experience and qualifications of members of the company's supervisory and management bodies and the head of the company as well as potential conflicts of interests that could influence their decisions. It is also recommended to disclose remuneration and other income received by the said persons as detailed under Principle VIII.	YES	The information is disclosed in the Annual Report and on company's website.
10.4. In disclosing the information referred to in (7) of Item 10.1, it is recommended that information on relations between the company and its stakeholders such as employees, creditors, suppliers, local community etc. is disclosed including the company's human resources policy, programmes on employees' participation in share capital etc.	YES	The information is disclosed in the Annual Report and on company's website.
10.5. The information should be disclosed in such a way that no shareholder or investor is discriminated against with respect to the method and scope of information received. The information should be disclosed to all at the same time. It is recommended that notices of material events are published prior to or after a trading session at NASDAQ OMX Vilnius so that all shareholders and investors of the company have equal opportunities to familiarise themselves with the information and to adopt relevant investment decisions.	YES	The Company publishes information through the information system of the Vilnius Securities Exchange in Lithuanian and English simultaneously. The Company publishes information prior to, during and after each trading session at Vilnius Securities Exchange and presents it simultaneously to all the markets in which the Company's

(All amounts are in EUR thousands unless otherwise stated)

		securities are traded. The Company does not disclose information that may influence the price of its securities in any comments, interviews etc. before such information is published in the Vilnius Securities Exchange IS.
10.6. The methods of disclosing information should ensure unbiased, timely and inexpensive access to information to the information users including free access in cases established by the law. It is recommended that information technologies are used widely for the dissemination of information, e. g. publishing of information on the company's website. Information should be published on the company's website both in Lithuanian and English as well as in other languages if possible.	YES	Apart from the method of disclosure stated in item 10.5, the Company uses various media (an electronic newsletter published by VĮ Registrų centras, news agencies, the Company's website which is publicly available) in order to ensure that the information reaches the largest circle of stakeholders possible. Information in the Company's website is published in Lithuanian and English.
10.7. It is recommended that the annual report, the financial statements and other period reports of the company are published on its website, together with the company's notices of material events and changes in the prices of the company's shares in securities exchange.	YES	Refer to the comments 10.5 and 10.6.
PRINCIPLE XI: SELECTION OF THE COMPANY'S AUDITOR **The mechanism for the selection of an auditor for the company should ensure independence of the audit opinion.**		
11.1. In order to obtain an objective opinion of the interim and annual financial statements and the annual report of the company, they should be audited by an independent auditor.	YES	The duty has been set by Article 23.5 of the Articles of Association of the company.
11.2. It is recommended that the supervisory council proposes an auditor to the general meeting of shareholders, and if no supervisory council is formed, then the proposal should be made by the board.	NO	According to the item 8.18 of the EPSO-G Articles of Association, EPSO-G CEO has the right to take the decision on the election or cancellation of the certified auditor or the audit firm for carrying out the annual financial statements audit of the respective subsidiary, as well as audit service payment conditions, as these competences defined in the Lithuanian Act Respecting Public Limited Companies, and the decision of the Supervisory Board is unnecessary.
11.3. If the audit firm receives payment from the company for services other than audit services, the company should disclose this to its shareholders. This information should also be disclosed to the supervisory council, and if no supervisory council is formed – to the board for the purposes of selecting the auditor that it intends to propose to the general meeting of shareholders.	YES/ NO	The audit firm reports to the Audit Committee on income for non-audit services. The audit firm provides non-audit services only in compliance with the "Policy on procurement of non-audit services from the audit firm or other firm that is a part of the network of the audit firm" that was approved by EPSO-G Audit Committee on 17 November 2016. The company procures non-audit services from the audit firm only in the exceptional cases and these are minor transactions therefore The Company has no practice of publishing such information.

Litgrid

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(All amounts are in EUR thousands unless otherwise stated)

	Notes	Group		Company	
		At 31 Dec 2017	**At 31 Dec 2016**	**At 31 Dec 2017**	**At 31 Dec 2016**
ASSETS					
Non-current assets					
Intangible assets	4	3,650	1,491	3,647	1,486
Property, plant and equipment	5	378,126	398,433	375,751	397,542
Prepayments for property, plant, equipment		277	727	277	727
Investments in subsidiaries	6	-	-	174	4,089
Deferred income tax assets	23	33	66	-	-
Loans granted	7	-	-	1,203	-
Available-for-sale financial assets	8	2,693	2,693	2,693	2,693
Total non-current assets		**384,779**	**403,410**	**383,745**	**406,537**
Current assets					
Inventories	9	1,019	3,910	99	125
Prepayments		483	274	412	122
Trade receivables	10	22,210	19,041	17,022	14,552
Other amounts receivable	11	21,275	24,916	20,645	24,593
Prepaid income tax		12	3	-	-
Other financial assets	12	8,736	10,012	8,736	10,012
Cash and cash equivalents	13	696	798	434	608
Total current assets		**54,431**	**58,954**	**47,348**	**50,012**
TOTAL ASSETS		**439,210**	**462,364**	**431,093**	**456,549**
EQUITY AND LIABILITIES					
Equity					
Authorised share capital	14	146,256	146,256	146,256	146,256
Share premium	14	8,579	8,579	8,579	8,579
Revaluation reserve	15	5,380	5,608	4,999	5,533
Reserve for changes in fair value of financial assets	16	655	655	655	655
Legal reserve	16	14,790	14,726	14,626	14,626
Other reserves	16	62,767	62,747	62,767	62,747
Retained earnings (deficit)		8,171	16,234	8,257	18,175
Total equity		**246,598**	**254,805**	**246,139**	**256,571**
Liabilities					
Non-current liabilities					
Grants	18	22	38	22	38
Non-current borrowings	19	108,353	116,435	108,353	116,435
Finance lease liabilities	20	820	-	-	-
Deferred income tax liability	23	6,105	8,216	6,105	8,216
Deferred revenue	21	6,564	7,966	6,564	7,966
Other non-current amounts payable and liabilities	22	764	152	694	81
Total non-current liabilities		**122,628**	**132,807**	**121,738**	**132,736**
Current liabilities					
Current portion of non-current borrowings	19	8,082	8,082	8,082	8,082
Current borrowings	19	34,656	40,986	33,311	40,171
Current portion of finance lease liabilities	20	443	-	-	-
Trade payables	24	15,095	13,857	11,581	8,376
Advance amounts received	25	328	869	328	869
Income tax liability		1,468	1,360	1,468	1,360
Other current amounts payable and liabilities	26	9,912	9,598	8,446	8,384
Total current liabilities		**69,984**	**74,752**	**63,216**	**67,242**
Total liabilities		**192,612**	**207,559**	**184,954**	**199,978**
TOTAL EQUITY AND LIABILITIES		**439,210**	**462,364**	**431,093**	**456,549**

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

Litgrid

STATEMENTS OF COMPREHENSIVE INCOME FOR 2017
(All amounts are in EUR thousands unless otherwise stated)

	Notes	Group		Company	
		2017	2016	2017	2016
Continuing operations:					
Revenue					
Revenue from electricity transmission and related services	27	143,292	143,215	143,292	143,215
Other income	28	16,896	23,840	1,065	8,114
Total revenue		**160,188**	**167,055**	**144,357**	**151,329**
Expenses					
Expenses of electricity transmission and related services	29	(80,081)	(80,615)	(80,081)	(80,615)
Depreciation and amortisation	4,5	(26,360)	(26,616)	(26,055)	(26,394)
Wages and salaries and related expenses		(13,993)	(13,680)	(7,295)	(7,286)
Repair and maintenance expenses		(4,305)	(4,219)	(6,437)	(6,357)
Telecommunications and IT maintenance expenses		(1,563)	(3,098)	(1,419)	(2,951)
Property, plant and equipment write-off expenses		(1,212)	(912)	(1,209)	(911)
Impairment of property, plant and equipment	5	-	(502)	-	(502)
Impairment (reversal) of inventories and amounts receivable		79	(90)	103	(90)
Revaluation of property, plant and equipment	5	(71)	-	-	-
Impairment of investments		-	-	(4,312)	-
Other expenses		(19,734)	(16,142)	(6,296)	(6,027)
Total expenses	30	**(147,240)**	**(145,874)**	**(133,001)**	**(131,133)**
Operating profit/(loss)		**12,948**	**21,181**	**11,356**	**20,196**
Financing activities					
Finance income		221	106	226	201
Finance costs		(1,375)	(1,525)	(1,337)	(1,514)
Total finance costs		**(1,154)**	**(1,419)**	**(1,111)**	**(1,313)**
Share of profit/(loss) of associates and joint ventures	6	-	32	-	-
Profit/(loss) before income tax		**11,794**	**19,794**	**10,245**	**18,883**
Income tax					
Current year income tax expenses	23	(4,351)	(4,274)	(4,632)	(4,258)
Deferred income tax (expenses)/income	23	2,142	2,208	2,111	2,203
Total income tax		**(2,209)**	**(2,066)**	**(2,521)**	**(2,055)**
Profit/(loss) for the year from continuing operations		**9,585**	**17,728**	**7,724**	**16,828**
Discontinued operations					
Gain on disposal of discontinued operations		-	97	-	-
Profit from discontinued operations	33	-	32	-	-
Profit/(loss) for the year		**9,585**	**17,857**	**7,724**	**16,828**
Other comprehensive income that will not be reclassified to profit or loss					
Revaluation of property, plant and equipment		428	-	-	-
Change in fair value of financial assets		-	420	-	420
Effect of deferred income tax		(64)	(63)	-	(63)
Total other comprehensive income		**364**	**357**	**-**	**357**
Total comprehensive income/(expenses) for the year		**9,949**	**18,214**	**7,724**	**17,185**
Profit/(loss) for the year attributable to:					
Owners of the Parent		9,585	17,847	7,724	16,828
Non-controlling interest		-	10	-	-
		9,585	**17,857**	**7,724**	**16,828**
Total comprehensive income/(expenses) for the year attributable to:					
Owners of the Parent		9,949	18,204	7,724	17,185
Non-controlling interest		-	10	-	-
		9,949	**18,214**	**7,724**	**17,185**
Basic and diluted earnings/(deficit) per share (in EUR)	32	**0.019**	**0.035**	**0.015**	**0.033**

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

STATEMENTS OF CHANGES IN EQUITY FOR 2017
(All amounts are in EUR thousands unless otherwise stated)

Group		Attributable to owners of the Group									
		Share capital	Share premium	Revaluation reserve	Reserve of changes in fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	Total
Balance at 1 January 2016		**146,256**	**8,579**	**6,228**	**298**	**14,606**	**62,747**	**2,476**	**241,190**	**133**	**241,323**
Comprehensive income/(expenses) for the year		-	-	-	357	-	-	17,847	18,204	10	18,214
Depreciation of revaluation reserve and amounts written off	15	-	-	(620)	-	-	-	620	-	-	-
Transfer to reserves	16	-	-	-	-	120	-	(120)	-	-	-
Dividends	17	-	-	-	-	-	-	(4,589)	(4,589)	-	(4,589)
Change in interest in the subsidiary		-	-	-	-	-	-	-	-	(143)	(143)
Balance at 31 December 2016		**146,256**	**8,579**	**5,608**	**655**	**14,726**	**62,747**	**16,234**	**254,805**	**-**	**254,805**
Balance at 1 January 2017		**146,256**	**8,579**	**5,608**	**655**	**14,726**	**62,747**	**16,234**	**254,805**	**-**	**254,805**
Comprehensive income/(expenses) for the year		-	-	364	-	-	-	9,585	9,949	-	9,949
Depreciation of revaluation reserve and amounts written off	15	-	-	(592)	-	-	-	592	-	-	-
Transfer to reserves	16	-	-	-	-	64	20	(84)	-	-	-
Dividends	17	-	-	-	-	-	-	(18,156)	(18,156)	-	(18,156)
Balance at 31 December 2017		**146,256**	**8,579**	**5,380**	**655**	**14,790**	**62,767**	**8,171**	**246,598**	**-**	**246,598**

Company		Share capital	Share premium	Revaluation reserve	Reserve of changes in fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016		**146,256**	**8,579**	**6,138**	**298**	**14,606**	**62,747**	5,351	243,975
Comprehensive income/(expenses) for the year		-	-	-	**357**	-	-	16,828	17,185
Depreciation of revaluation reserve and amounts written off	15	-	-	**(605)**	-	-	-	605	-
Transfer to reserves	16	-	-	-	-	**20**	-	(20)	-
Dividends	17	-	-	-	-	-	-	(4,589)	(4,589)
Balance at 31 December 2016		**146,256**	**8,579**	**5,533**	**655**	**14,626**	**62,747**	**18,175**	**256,571**
Balance at 1 January 2017		**146,256**	**8,579**	**5,533**	**655**	**14,626**	**62,747**	**18,175**	256,571
Comprehensive income/(expenses) for the year		-	-	-	-	-	-	7,724	7,724
Depreciation of revaluation reserve and amounts written off	15	-	-	(534)	-	-	-	534	-
Transfer to reserves	16	-	-	-	-	-	20	(20)	-
Dividends	17	-	-	-	-	-	-	(18,156)	(18,156)
Balance at 31 December 2017		**146,256**	**8,579**	**4,999**	**655**	**14,626**	**62,767**	**8,257**	**246,139**

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

Litgrid

STATEMENTS OF CASH FLOWS FOR 2017
(All amounts are in EUR thousands unless otherwise stated)

	Notes	Group		Company	
		2017	**2016**	**2017**	**2016**
Cash flows from operating activities					
Profit/(loss) for the year		9,585	17,857	7,724	16,828
Adjustments for non-cash items and other adjustments:					
Depreciation and amortisation expenses	4,5	26,360	26,616	26,055	26,394
Impairment of financial assets		-	-	4,312	-
Revaluation of property, plant and equipment		71	-	-	-
(Reversal of)/impairment of assets		(816)	592	(840)	592
Written-off bad debts		737	-	737	-
Share of profit of associates and joint ventures	6	-	(32)	-	-
Income tax expenses	23	2,209	2,066	2,521	2,055
(Gain)/loss on disposal/write-off of property, plant and equipment		1,212	912	1,209	911
Elimination of results of financing and investing activities:					
Interest income		-	-	(5)	-
Interest expenses		1,365	1,482	1,327	1,471
Dividend income		(134)	(59)	(134)	(91)
Other finance (income)/costs		(77)	(101)	(77)	(67)
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		1,838	(5,791)	2,996	(5,787)
(Increase) decrease in inventories, prepayments and other current assets		2,845	(2,183)	(101)	355
Increase (decrease) in amounts payable, grants, deferred income and advance amounts received		1,393	(9,961)	2,552	(12,029)
Changes in other financial assets		1,276	(6,686)	1,276	(6,686)
Income tax (paid)		(4,448)	(1,469)	(4,424)	(1,463)
Net cash generated from (used in) operating activities		**43,416**	**23,243**	**45,128**	**22,483**
Net cash generated from (used in) operating activities of the discontinued operations		**-**	**4,623**	**-**	**-**
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets		(26,214)	(55,657)	(26,066)	(55,423)
Grants received	18	8,133	68,592	8,133	68,592
Loans granted	7	-	-	(1,600)	-
Revenue generated from congestion management	21	8,691	7,966	8,691	7,966
Disposal of subsidiaries (associates)	6	-	-	-	388
Interest received		-	4	-	4
Dividends received		134	59	134	91
Net cash generated from (used in) investing activities		**(9,256)**	**20,964**	**(10,708)**	**21,618**
Net cash generated from (used in) investing activities of the discontinued operations		**-**	**-**	**-**	**-**
Cash flows from financing activities					
Proceeds from borrowings		-	40,000	-	40,000
Repayments of borrowings		(8,082)	(48,083)	(8,082)	(48,083)
Overdraft		(6,330)	(29,852)	(6,860)	(29,671)
Finance lease payments		(160)	-	-	-
Interest paid		(1,528)	(1,639)	(1,490)	(1,628)
Dividends paid		(18,212)	(4,594)	(18,212)	(4,594)
Other cash flows from financing activities		50	-	50	-
Net cash generated from (used in) financing activities		**(34,262)**	**(44,168)**	**(34,594)**	**(43,976)**
Net cash generated from (used in) financing activities of the discontinued operations		**-**	**(4,655)**	**-**	**-**
Increase (decrease) in cash and cash equivalents		**(102)**	**7**	**(174)**	**125**
Cash and cash equivalents at the beginning of the period	13	798	791	608	483
Cash and cash equivalents at the end of the period	13	**696**	**798**	**434**	**608**

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

(All amounts are in EUR thousands unless otherwise stated)

1. General information

Litgrid AB (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is: A. Juozapavičiaus g. 13, LT-09311, Vilnius, Lithuania. The Company was established as a result of the unbundling of Lietuvos Energija AB operations. The Company was registered with the Register of Legal Entities on 16 November 2010. The Company's code is 302564383.

Litgrid is an operator of electricity transmission system, operating electricity transmissions in the territory of Lithuania and ensuring the stability of operation of the whole electric power system. In addition, the Company is responsible for the integration of the Lithuanian power system into the European electricity infrastructure and common electricity market.

On 27 August 2013, the National Control Commission for Energy and Prices granted a licence to the Company to engage in electricity transmission activities for indefinite term.

The Company was involved in the implementation of the projects for cross-border strategic power links NordBalt (Lithuania–Sweden) and LitPol Link (Lithuania–Poland).

The principal objectives of the Company's activities include ensuring the stability and reliability of the electric power system in the territory of Lithuania within its areas of competence, creation of objective and non-discriminatory conditions for the use of the transmission networks, management, use and disposal of electricity transmission system assets and its appurtenances.

As at 31 December 2017, the Company's authorised share capital amounted to EUR 146,256,100.20 and it was divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. All shares are fully paid.

As at 31 December 2017 and 2016, the Company's shareholder structure was as follows:

Company's shareholders	Number of shares held (items)	Number of shares held (%)
EPSO-G UAB	491,736,153	97.5
Other shareholders	12,595,227	2.5
Total:	**504,331,380**	**100**

The ultimate controlling shareholder of EPSO-G UAB (company code 302826889, address A. Juozapavičiaus g. 13, Vilnius, Lithuania) is the Ministry of Energy of the Republic of Lithuania.

As from 22 December 2010, the shares of the Company are listed on the additional trading list of NASDAQ OMX Vilnius Stock Exchange, issue ISIN code LT0000128415.

As at 31 December 2017 and 2016, the Group consisted of Litgrid and its subsidiaries, associates and joint ventures listed below:

Company	Address of the company's registered office	Shareholding as at 31 December 2017	Shareholding as at 31 December 2016	Profile of activities
Tetas UAB	Senamiesčio g. 102B, Panevėžys, Lithuania	100%	100%	Transformer substation, distribution station and electricity line design, reconstruction, repair and maintenance services
Litgrid Power Link Service UAB	A. Juozapavičiaus g. 13, Vilnius, Lithuania	100%	100%	Management and operation of electricity interconnection facilities
Duomenų Logistikos Centras UAB	Žvejų g. 14, Vilnius, Lithuania	20%	20%	Provision of IT services
LitPol Link Sp.z.o.o	Wojciecha Gorskiego 900-033 Warsaw, Poland	50%	50%	Implementation and co-ordination of joint assignments in relation to operation of current interconnection Lithuania–Poland, planned development of the network and other fields of co-operation

Until 28 April 2016, Litgrid Power Link Service UAB acted under the name of Tinklo Priežiūros Centras UAB.

On 27 January 2017, the Company's Board gave its consent to the arrangement of sale of 20.36% shares held under the title of ownership by Litgrid UAB in Duomenų Logistikos Centras UAB, together with the shares held in Duomenų Logistikos Centras UAB by Lietuvos Energija UAB. On 7 August 2017, the shareholders of Duomenų Logistikos Centras UAB – the Company and Lietuvos Energija UAB – signed an agreement on sale/purchase of shares with Telia Lietuva UAB. The process of sale of Duomenų Logistikos Centras UAB is expected to be finalised in the beginning of 2018, i.e. upon receipt of concentration permit from the Competition Council. Until that moment, the amount of the transaction will not be announced. The Company's investment in associate was classified within current assets as 'Other financial assets'.

Investments in subsidiaries and associates are described in Note 6.

As at 31 December 2017, the Group had 633 employees (31 December 2016: 685), and the Company had 229 employees (31 December 2016: 235).

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 2017 are set out below:

2.1 Basis of preparation

The Company's and the Group's financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment losses, and available-for-sale financial assets which are carried at fair value.

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

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

The Company's management approved these financial statements on 21 March 2018. The shareholders of the Company have a statutory right to approve or not to approve those and request for a preparation of the new financial statements.

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

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

IFRSs and their amendments adopted by the Group and the Company for the first time in the financial year ended 31 December 2017 are as follows:

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12. The amendments have clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax assets for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Company and the Group did not assess the impact of adoption of this standard because it did not use any debt instruments with definite maturity (redemption) term.

Disclosure Initiative – Amendments to IAS 7. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. Reconciliation of liabilities arising from financing activities is disclosed in Note 19.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2017 are not relevant to the Company and the Group

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

IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company and the Group will apply IFRS 9 starting from 1 January 2018 using the modified retrospective approach.
The Company and the Group believes the standard will have no impact or will have insignificant impact on its financial statements prepared after 1 January 2018, since historically the impairment loss of amounts receivable has been insignificant, and its cash and cash equivalents and other current financial assets are held with credit institutions with high credit rating.

Based on estimates of the Group and the Company the standard will not have any impact on the classification of financial assets as at 31 December 2017: loans and amounts receivable will continue to be classified as measured at amortised cost, financial assets at fair value through profit or loss will continue to be measured using the same method. The new standard will have no impact on the classification of financial liabilities because changes are introduced only with respect to the classification of financial liabilities reported through profit or loss and the Company has no such financial liabilities.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). 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.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the commitment to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Company and the Group will apply IFRS 15 starting from 1 January 2018 using the modified retrospective approach. The Company and the Group has assessed the impact of amendments to this standard on the Company's and the Group's financial statements. With the help of analysis and the 'Five Step' approach, the Company and the Group performed an assessment and determined that the amendments to the standard will have no impact or will have insignificant impact on the Company's and the Group's financial stataments to be prepared as from 1 January 2018. The Company and the Group does not have any long-term contracts with multiple-element modifications, nor has it take-or-pay arrangements, sale incentives, material contracting costs or material prepayments. The main sale contracts are signed for the term of one year and coincide with the reporting period. All subsequent value adjustments for previous periods are not made, and contract modifications are rare.
The adoption of IFRS 15 will not affect recognition of revenue from the services of the connection of electricity producers ("the Producers") to the electricity transmission network, relocation (reconstruction) of electricity equipment, and the expansion (reconstruction) of electricity equipment capacities.
The Producer's connection is a separate performance obligation under IFRS 15, because the purpose of the connection is to transmit electricity produced to potential energy consumers free of charge. Although upon the connection of the Producer the agreements on electricity transmission, balancing and regulating electricity services are concluded, however the provision of these services is not directly related to the main objective of the Producer's connection. The transmission service is provided to the Producer when it is not active as a producer of electricity – electricity is supplied for technological needs; the Producer uses electricity balancing and regulating services when its actions distort the electricity production and consumption balance. Following the relocation of electricity equipment due to construction-expansion works carried out by the client, the scopes of electricity transmission services remain unchanged.

In view of the above-presented arguments, based on judgement of the Company's management the services of the Producer's connection, electricity equipment relocation, and expansion of electricity equipment capacities are in principle separated from other services rendered by the Company and therefore the entry into force of IFRS 15 will not affect the recognition of connection revenue.

***IFRS 16, Lease*s** (effective for annual periods beginning on or after 1 January 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company and the Group plans to adopt IFRS 16 starting from 1 January 2019. The Company and the Group is currently assessing its impact on the financial statements. A detailed analysis of the adoption of the standard will be performed in 2018.

Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. The amendment will have no impact on the Company's and the Group's financial statements since it is not engaged in any insurance activities.

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Company and the Group believes the amendments will have no significant impact on its financial statements.

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Company and the Group believes the amendments will have no impact on its financial statements since it does not conduct any share-based payment transactions.

Annual improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or 2018 (changes to IFRS 1 and IAS 28)); not yet adopted by the EU). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their

intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value.
Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The Company and the Group has not assessed the impact of these amendments on its financial statements.

***Transfers of Investment Property - Amendments to IAS 4*0** (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. The Company and the Group has not assessed the impact of the standard on its financial statements.

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. The Company and the Group has not assessed the impact of the interpretation on its financial statements.

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

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company and the Group plans to adopt the interpretation as soon as it becomes effective.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company and the Group has not assessed the impact of the amendment to the standard on its financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Company and the Group has not assessed the impact of the amendment to the standard on its financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company and the Group has not assessed the impact of the improvements on its financial statements.

2.2 Principles of consolidation

Subsidiary is an entity directly or indirectly controlled by the Company. The Company controls an entity when it can or has a the 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 Litgrid AB and its subsidiaries. The financial statements of the subsidiaries have been prepared for the same reporting periods, using uniform accounting policies.

Subsidiaries are consolidated from the date from which effective direct or indirect 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 between entities under common control

Business combinations between entities under common control

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. The Group does not restate assets and liabilities to their fair value as at the acquisition date, instead the Group combines the acquired assets and liabilities at their carrying amounts. No goodwill arises and the excess of the consideration paid or the carrying amount of net assets transferred over the consideration received or the carrying amount of net assets acquired is recorded directly in equity in the financial statements.

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

2.5 Investments in subsidiaries (in the Company's separate financial statements)

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

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

The Group's share of post-acquisition profit or loss is recognized in profit (loss), and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of investment.

Goodwill related to investments in associates and joint ventures is included in the carrying amount of the investment and it is evaluated for impairment as the part of the investment.

Losses of an associate or joint venture in excess of the Group's interest in that associate/joint venture, including any other unsecured receivables, are not recognized, unless the Group had incurred legal or constructive obligations or made payments on behalf of the associate/joint venture.

Unrealized gain on transactions between the Group and associates and joint ventures is eliminated to the extent of the Group's interest in the associate or joint venture. Unrealized loss is also eliminated, unless it provides evidence of an impairment of assets transferred.

If the Group's ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

Gain or loss on decrease in 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.

2.7 Property, plant and equipment and intangible assets

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

All 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 subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

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

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

Intangible assets

Intangible assets are initially recognized at cost. Intangible assets are recognized only if they are expected to provide economic benefit to the Group and the Company in future periods and their cost can be measured reliably.

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

(All amounts are in EUR thousands unless otherwise stated)

Depreciation and amortization

Depreciation (amortization) 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/amortization method are reviewed at each year-end to ensure that they are consistent with the expected pattern of economic benefits from these assets. The effect of changes in estimates, if any, is accounted for on a prospective basis. Estimated useful lives of property, plant and equipment and intangible assets are as follows:

Categories of property, plant and equipment and intangible assets	**Useful lives (in years)**
Buildings	20 - 75
Plant and machinery, whereof:	
- Constructions of transformer substations	30
- Structures, machinery and equipment, whereof:	
- 330, 110, 35 kV electricity transmission lines	40 - 55
- 330, 110, 35, 6-10 kV electricity distribution equipment	30 - 35
- 330, 110, 35, 6-10 kV capacity transformers	35
- electricity and communication devices	20 - 25
- electricity equipment, whereof:	15 - 35
- Relay security and automation equipment	15 - 35
- Technological and dispatch control equipment	8
- Other equipment	5 - 20
Motor vehicles	4 - 10
Other property, plant and equipment, whereof:	
- computer hardware and communication equipment	3 - 10
- inventory, tools	4 - 10
Intangible assets	3 - 4

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

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. Repair costs for the category of air an cable line assets are accounted for as component of item of assets by estimating the useful life of new asset. 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.

2.8 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).

2.9 Financial assets

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

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Financial assets are initially recognized 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, trade and other amounts receivable, and investments in securities.

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

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

When available-for-sale financial assets are disposed or impaired, the related accumulated fair value revaluation previously recognized directly in equity is recognized in the statement of comprehensive income as profit or loss.

After initial recognition available-for-sale financial assets are measured at fair value based on available market prices or quotes of brokers closest to the financial statements date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

Held-to-maturity financial assets.
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 measured at amortized 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 derecognized, impaired or amortized.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and cash at banks, demand deposits and other short-term highly liquid investments (up to 3 months 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 amounts 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.

2.10 Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realizable value. Acquisition cost of inventories includes acquisition price and related taxes, and costs associated with bringing inventory into their current condition and location. Cost is determined on the first-in, first-out (FIFO) basis. Net realizable value is the estimated selling price, less the estimated costs of completion and selling expenses.

2.11 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.

2.12 Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings
Other financial liabilities, including borrowings, are recognized initially at fair value, less transaction costs.

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense is recognized using the effective interest rate method as disclosed in paragraph 2.9 of the notes to 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 derecognized when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the respective amounts of financial liabilities is recognized in the statement of comprehensive income.

Trade payables
Trade payables represent 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.

2.13 Dividend distribution

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

2.14 Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency – the euro). In the consolidated financial statements, results of operations and financial position of each entity of the Group are presented in the euro, which is the functional currency of the Company and the presentation currency of the consolidated Group's financial statements. All financial information presented in the euro has been rounded to the nearest thousands, except when otherwise indicated. Some of the amounts in the tables may not coincide due to rounding.

Foreign currency transactions are recorded in the euro using the exchange rates of the euro against other 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 euro using the exchange rate prevailing at the date of preparation of financial statements. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised as the profit or loss of the reporting period.

2.15 Grants

Asset-related grants

The Government and the European Union grants received in the form of property, plant and equipment or intended for the purchase of property, plant and equipment are considered as asset-related grants. Grants are recorded as a deduction of value of the respective asset and subsequently recognized as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

Public service obligation (hereinafter "PSO") service fees allocated to the Company for the development and implementation of strategic plans are recognized as asset-related grants. They are also recorded as a deduction of value of related assets and subsequently recognized as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

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

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

2.16 Provisions

Provisions are recognized 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 based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance costs.

2.17 Employee benefits

(a) Social security contributions

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

(b) Bonus plans

The Company and the Group recognize a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Payments to retiring employees of retirement age

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such payments is recognized in the balance sheet and it reflects the present value of these payments at the date of the financial statements. The aforementioned non-current liability for payments to employees at the date of the financial statements is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current liability for payments to employees 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.

2.18 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 specified in the EU Regulation, congestion revenue is recognised as follows:

a) when revenue is used for guaranteeing the actual availability of the allocated capacity – revenue is recognised in the period when related expenditure is incurred. 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 Company.

b) when revenue is used for maintaining or increasing interconnection capacities – for the purpose of the financial statements, congestion revenue is reconised following the principles of accounting for grants, i.e. initially congestion revenue is recognised as deferred income, then recorded as a deduction of the value of relevant asset, and subsequently recognised as revenue by reducing depreciation expenses of related asset over the useful life of the asset.

c) when revenue is used for reducing the tariff – revenue is recognised in the period during which the Company generates lower revenue due to lower tariffs.

2.19 Leases

Lease is recognized 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 recognized on a straight-line basis over the lease term.

The Group and the Company as a lessee

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

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2.21 Revenue and expense recognition

Revenue is recognized 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 recognized:

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 recognized after 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.

Tariffs regulation
Tariffs for the electricity transmission services are regulated by the National Control Commission for Prices and Energy ("the NCC") by establishing the upper limit of the tariff for the transmission service. Specific prices and tariffs for the transmission services are established by the supplier of the service within the limits approved by the NCC.
Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for capacity reserves are not regulated except the cases when the producer or supplier holds more than 25 per cent of the market. In latter case, the tariff setting is supervised by the NCC.
The Group purchases a capacity reserve service from electricity suppliers in accordance with capacity reserve agreements and subsequently renders this service to the distribution system operators and electricity consumers using a tariff established by the NCC. The Group recognizes gross revenue as it acts as a principal in the provision of these services.

Connection of new consumers and producers to electricity transmission network
From 2010 (applicable to assets received from customers on or after 1 July 2009) to the date of spin-off, Lietuvos Energija AB, later on the Company, recognizes 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 initially recognized in non-current assets caption as reducing the carrying value of related assets. In the statement of comprehensive income from these fees is recognised over the estimated useful life of the related assets, reducing depreciation expenses.

Repair service income
Income under individual contracts/projects with customers, for instance for repair services, is recognized 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 recognized in the statement of comprehensive income when such change is established. The projects are reviewed regularly and the provisions are established when it is determined that the project will result in a loss.

Other income
Interest income is recognized on accrual basis considering the outstanding balance of debt and the applicable interest rate. Interest received is recorded in the statement of cash flows as cash flows from investing activities.
Gain from sale and lease of property, plant and equipment is recognized by the Group and the Company as other revenue.

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

Recognition of expense
Expenses are recognized in the statement of comprehensive income as incurred by the accrual method.

Recognition of income and expenses from PSO services
PSO service funds are the fees paid to the suppliers of electricity under the public service obligations scheme, with the list of such suppliers established by the Lithuanian Government or other institution authorised by it. The annual quantities of PSO service funds are established by the National Control Commission for Prices and Energy (the NCC).

The Company/Group recognizes as revenue from PSO services the following:

- PSO service funds allocated by the NCC to the Company/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 NCC for balancing electricity produced from the renewable energy resources.

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 capitalized as part of the cost of that asset until the asset is ready for use or sale in full. Interest income on the temporary investment of borrowed funds until they will be used for the acquisition of the asset is deducted from the cost of the asset.

Other borrowing costs are recognized 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.

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 company changes its activities due to which these losses were incurred except when the company does not continue its activities due to reasons which do not depend on the company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. 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 realized or settled.

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

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 Earnings per share

Earnings per share are calculated by dividing the net profit for the period attributed to shareholders by the weighted average number of ordinary shares in issue during the period. When the number of shares changes and such change does not result in change of economic resources, the weighted average number of ordinary shares in issue is adjusted in proportion to change in the number of shares as if that change had occurred in the beginning of the previous period.

The Company has no dilutive potential shares; therefore its basic earnings per share are the same as diluted earnings per share.

2.25 Contingencies

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

2.26 Subsequent events

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

2.27 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.

2.28 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.

In the financial statements as at 31 December 2017 and 2016, the Group and the Company did not have significant assets or liabilities measured or re-measured at fair value, except for the available-for-sale financial assets (Notes 2.9 and 8) and property, plant and equipment (Notes 2.7 and 5).

Assets and liabilities for which fair value is disclosed in the financial statements comprise cash and cash equivalents, trade receivables, trade and other payables and borrowings. The management assessed the fair value of the borrowings as at 31 December 2017 and 2016 (Note 36) and the fair value of other mentioned financial assets and liabilities is approximate their carrying amounts largely due to the short-term maturities of these instruments as at 31 December 2017 and 2016.

3. Significant accounting estimates and assumptions

The preparation of financial statements according to International Financial Reporting Standards requires management to make judgements, 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 judgements and assumptions and the main sources for uncertainties used in the preparation of these financial statements that might cause important corrections to the carrying amounts of the related assets and liabilities in the next accounting year are indicated below:

Impairment of investments

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

As at 31 December 2017, the recoverable amount of investment into TETAS UAB was calculated using the discounted cash flow approach, by taking into consideration the deterioriating results of operations for 2017. Impairment of EUR 4,312 thousand was recognised for the investment, and the discount rate applied (WACC after tax) was 9%.

Valuation of property, plant and equipment

As disclosed in Note 5, the Company performed the valuation of property, plant and equipment. The determination of the assets' fair value is mainly affected by assumptions used in assessing the transmission service income for the future periods. The assumptions used in the determination of the fair value of property, plant and equipment are described in greater detail in the mentioned note.

Congestion revenue

Based on the accounting policy described in Note 2.18, accounting for congestion revenue depends on the purpose for which revenue is used. The purposes are described in Regulation (EC) No 714/2009 of the European Parliament and of the Council. Based on the Company's judgement, as at 31 December 2017 deferred congestion revenue will be used for investments into interconnections in future periods. In 2017, the Company incurred costs of EUR 1,445 thousand to guarantee the availability of the allocated capacity, and recognised congestion revenue of the same amount in its statement of comprehensive income (also see Note 21).

(All amounts are in EUR thousands unless otherwise stated)

4. Intangible assets

Group	Patents and licences	Computer software	Other intangible assets	Total
At 31 December 2015				
Cost	32	2,551	14	2,597
Accumulated amortisation	(30)	(1,677)	(14)	(1,721)
Net book amount	**2**	**874**	**-**	**876**
Net book amount at 31 December 2015	**2**	**874**	**-**	**876**
Additions	-	1,232	-	1,232
Transfer to/from PP&E	20	(166)	-	(146)
Transfer between categories	80	(80)	-	-
Amortisation charge	(7)	(464)	-	(471)
Net book amount at 31 December 2016	**95**	**1,396**	**-**	**1,491**
At 31 December 2016				
Cost	114	3,128	2	3,244
Accumulated amortisation	(19)	(1,732)	(2)	(1,753)
Net book amount	**95**	**1,396**	**-**	**1,491**
Net book amount at 31 December 2016	**95**	**1,396**	**-**	**1,491**
Additions	56	2,090	-	2,146
Transfer to/from PP&E	188	580	-	768
Amortisation charge	(96)	(659)	-	(755)
Net book amount at 31 December 2017	**243**	**3,407**	**-**	**3,650**
At 31 December 2017				
Cost	358	5,797	2	6,157
Accumulated amortisation	(115)	(2,390)	(2)	(2,507)
Net book amount	**243**	**3,407**	**-**	**3,650**

Company	Patents and licences	Computer software	Other intangible assets	Total
At 31 December 2015				
Cost	32	2,513	14	2,559
Accumulated amortisation	(30)	(1,645)	(14)	(1,689)
Net book amount	**2**	**868**	**-**	**870**
Net book amount at 31 December 2015	**2**	**868**	**-**	**870**
Additions	-	1,230	-	1,230
Transfer to/from PP&E	20	(166)	-	(146)
Transfer between categories	80	(80)	-	-
Amortisation charge	(7)	(461)	-	(468)
Net book amount at 31 December 2016	**95**	**1,391**	**-**	**1,486**
At 31 December 2016				
Cost	114	3,091	2	3,207
Accumulated amortisation	(19)	(1,700)	(2)	(1,721)
Net book amount	**95**	**1,391**	**-**	**1,486**
Net book amount at 31 December 2016	**95**	**1,391**	**-**	**1,486**
Additions	56	2,090	-	2,146
Transfer to/from PP&E	188	580	-	768
Amortisation charge	(96)	(657)	-	(753)
Net book amount at 31 December 2017	**243**	**3,404**	**-**	**3,647**
At 31 December 2017				
Cost	358	5,760	2	6,120
Accumulated amortisation	(115)	(2,356)	(2)	(2,473)
Net book amount	**243**	**3,404**	**-**	**3,647**

(All amounts are in EUR thousands unless otherwise stated)

5. Property, plant and equipment

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
At 31 December 2015							
Cost	534	12,872	393,700	769	11,587	12,474	431,936
Accumulated depreciation	-	(737)	(18,622)	(676)	(2,753)	-	(22,788)
Net book amount	**534**	**12,135**	**375,078**	**93**	**8,834**	**12,474**	**409,148**
Net book amount at 31 December 2015	534	12,135	375,078	93	8,834	12,474	**409,148**
Additions	-	32	11	66	619	90,063	90,791
Disposals	-	(8)	-	-	-	-	(8)
Write-offs	-	-	(1,152)	-	(23)	-	(1,175)
Impairment	-	-	(434)	-	-	(68)	(,502)
Transfer from inventories	-	-	-	-	947	64	1,011
Transfer to/from intangible assets	-	-	-	-	(28)	174	146
Transfer to grants not received	-	-	(2,404)	-	-	-	(2,404)
Transfers between categories	-	(258)	50,911	-	2,157	(52,810)	-
Set-off of grants with non-current assets	-	-	(32,790)	-	(120)	(39,514)	(72,424)
Depreciation charge	-	(585)	(23,150)	(53)	(2,362)	-	(26,150)
Net book amount at 31 December 2016	**534**	**11,316**	**366,070**	**106**	**10,024**	**10,383**	**398,433**
At 31 December 2016							
Cost	534	12,634	407,733	835	15,132	10,383	447,251
Accumulated depreciation	-	(1,318)	(41,663)	(729)	(5,108)	-	(48,818)
Net book amount	**534**	**11,316**	**366,070**	**106**	**10,024**	**10,383**	**398,433**
Net book amount at 31 December 2016	**534**	**11,316**	**366,070**	**106**	**10,024**	**10,383**	**398,433**
Additions	-	-	-	1,410	582	24,617	26,609
Disposals	-	100	24	198	35	-	357
Write-offs	-	(36)	(1,223)	-	(7)	-	(1,266)
Transfer to inventories	-	-	-	-	(43)	-	(43)
Transfer to assets held for sale	-	(14)	-	-	-	-	(14)
Transfer to intangible assets	-	-	-	-	-	(768)	(768)
Transfers between categories	-	174	6,999	-	1,073	(8,246)	-
Set-off of grants with non-current assets	-	-	(1,281)	-	-	(18,296)	(19,577)
Depreciation charge	-	(595)	(22,547)	(117)	(2,346)	-	(25,605)
Net book amount at 31 December 2017	**534**	**10,945**	**348,042**	**1,597**	**9,318**	**7,690**	**378,126**
At 31 December 2017							
Cost	534	12,841	411,654	2,423	16,731	7,690	451,873
Accumulated depreciation	-	(1,896)	(63,612)	(826)	(7,413)	-	(73,747)
Net book amount	**534**	**10,945**	**348,042**	**1,597**	**9,318**	**7,690**	**378,126**

(All amounts are in EUR thousands unless otherwise stated)

Company	Land	Buildings	Structures and machinery	Other PP&E	Construction in progress	Total
At 31 December 2015						
Cost	534	12,399	393,324	10,391	12,474	429,122
Accumulated depreciation	-	(523)	(18,454)	(1,883)	-	(20,860)
Net book amount	**534**	**11,876**	**374,870**	**8,508**	**12,474**	**408,262**
Net book amount at 31 December 2015	534	11,876	374,870	8,508	12,474	408,262
Additions	-	32	1	463	90,063	90,559
Write-offs	-	-	(1,152)	(22)	-	(1,174)
Impairment	-	-	(434)	-	(68)	(502)
Transfer from inventories	-	-	-	947	64	1,011
Transfer to/from intangible assets	-	-	-	(28)	174	146
Transfer to grants not received	-	-	(2,404)	-	-	(2,404)
Transfers between categories	-	(258)	50,911	2,157	(52,810)	-
Set-off of grants with non-current assets	-	-	(32,790)	(120)	(39,514)	(72,424)
Depreciation charge	-	(552)	(23,110)	(2,270)	-	(25,932)
Net book amount at 31 December 2016	**534**	**11,098**	**365,892**	**9,635**	**10,383**	**397,542**
At 31 December 2016						
Cost	534	12,173	407,347	13,853	10,383	444,290
Accumulated depreciation	-	(1,075)	(41,455)	(4,218)	-	(46,748)
Net book amount	**534**	**11,098**	**365,892**	**9,635**	**10,383**	**397,542**
Net book amount at 31 December 2016	534	11,098	365,892	9,635	10,383	**397,542**
Additions	-	-	-	545	24,617	25,162
Write-offs	-	(36)	(1,223)	(4)	-	(1,263)
Transfer from inventories	-	-	-	(43)	-	(43)
Transfer to intangible assets	-	-	-	-	(768)	(768)
Transfers between categories	-	174	6,999	1,073	(8,246)	-
Set-off of grants with non-current assets	-	-	(1,281)	-	(18,296)	(19,577)
Depreciation charge	-	(553)	(22,506)	(2,243)	-	(25,302)
Net book amount at 31 December 2017	**534**	**10,683**	**347,881**	**8,963**	**7,690**	**375,751**
At 31 December 2017						
Cost	534	12,305	411,244	15,421	7,690	447,194
Accumulated depreciation	-	(1,622)	(63,363)	(6,458)	-	(71,443)
Net book amount	**534**	**10,683**	**347,881**	**8,963**	**7,690**	**375,751**

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

Interest expenses satisfying the criteria for capitalisation at the Company amounted to EUR 543 thousand for the period ended 31 December 2017 (EUR 1,631 thousand for the period ended 31 December 2016). This amount was reduced by the amount of EUR 386 thousand (EUR 1,481 thousand for the period ended 31 December 2016). The total amount of capitalised interest was EUR 157 thousand (EUR 150 thousand for the period ended 31 December 2016). The annual interest rate of capitalisation was 0.2% (0.2% for the period ended 31 December 2016).

The last time the Company performed revaluation of its property, plant and equipment and recognised impairment as a result of impairment test was as at 31 December 2014. In 2015 the Company implemented the changes stipulated by legal acts in the field of regulation, and determined that there was no need to perform additional revaluation or impairment test as at 31 December 2015.

As at 31 December 2016, the Company assessed whether the carrying amount of its property, plant and equipment did not differ significantly from the amount that would have been determined based on the fair value as at the end of the reporting period. In 2016, there were no changes in legal acts and/or events that might have significant impact on the value of assets.

The valuation corresponded to Level 3 of fair value measurement (Note 2.28). The Company estimated the fair value of the assets as at 31 December 2016 under the income method using the discounted cash flows calculation technique. The assets' value was calculated as the present value of net future cash flows.
The Company assessed its assets as a business, but the assessment excluded all activities related to the transmission network development (and not related to the present assets being assessed), i.e. investments in development projects, connection of new consumers/producers, grants intended for development projects.

The value of assets was calculated as follows:
- Cash flows from the Company's operations in 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 Company's financial accounting, 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 terminal value (beyond 2025) was added.
- Value of non-current intangible assets was deducted.

Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 4.38%.

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 Company's assets exceeded the carrying amount (EUR 386,070 thousand), thereby leading to no impairment. The carrying amount of assets was within the value range between EUR 384,792 thousand and EUR 412,762 thousand, while the estimated value of optimized assets during 20121-2025 ranging between 75% and 125%. In addition, while the share of congestion revenue was ranging between 50% and 125% compared to forecast revenue, the carrying amount of assets was within the value range between EUR 382,460 thousand and EUR 411,153 thousand. Having taken into account the sensitivity of assumptions, the Company 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 the LRAIC model (a normal interval of +- 25%, however as the optimized value will depend on the decision of the National Commission for Prices and Energy Control, the sensitivity analysis floor was increased to -75%), to changes in the discount rate (in view of a relatively stable interest rate within the interval of +-1%), and to the amount of congestion revenue (as the Company does not affect congestion revenue, the change interval floor is 0% and the ceiling - normal change of +25%):

Share of value of assets optimized 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
100%	398,777
125%	411,153

Similarly in 2017, there were no changes in legal acts and/or events that might have significant impact on the value of assets. The valuation technique applied by the Company was the same as at 31 December 2016. The valuation corresponded to Level 3 of fair value measurement (Note 2.28).

The Company estimated the fair value of the assets as at 31 December 2017 under the income method using the discounted cash flows calculation technique. The value of assets was estimated as the present value of net future cash flows.

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

The value of assets was calculated as follows:
- Cash flows from the Company's operations in 2018-2025 were calculated.
- These cash flows were adjusted by the grants receivable for Nordbalt project and because in the Company's financial accounting, the value of assets of Nordbalt project had already been reduced by the amount of accrued but not yet received grants, also cash flows were adjusted by the cash flows of PSO funds and compensation of connection costs of producers using renewable energy resources, as connection of producers using renewable energy resources and assets were accounted for in 2015-2016.
- Adjusted cash flows for 2017-2025 were aggregated.
- Discounted terminal value (beyond 2025) was added.
- Value of non-current intangible assets was deducted

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

The outcome of the fair value estimation performed in respect of property, plant and equipment as at 31 December 2017 amounted to EUR 371,794 thousand. The estimated value of the Company's assets exceeded the carrying amount (EUR 366,646 thousand), thereby leading to no impairment and the difference between the estimated value and the carrying amount of assets was 1.4%. Having taken into account the sensitivity of assumptions, for the purpose of its financial statements the Company did not account for the outcome of valuation of assets.

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

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

Change in discount rate (with the rate of return on investments recalculated beyond 2021), %	Value of assets, EUR thousand
-2,0%	394,710
-1,0%	382,936
0,0%	371,794
0,5%	366,443
1,0%	361,233

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

As at 31 December 2017, the Group and the Company had contractual commitments to purchase property, plant and equipment in amount of EUR 17,441 thousand (31 December 2016: EUR 36,170 thousand) to be fulfilled in the upcoming periods.

The table below includes the net book amounts of the Group‘s and the Company‘s property, plant and equipment that would have been recognised, had these assets been carried at historical cost as at 31 December 2017 and 2016:

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2017	520	10,753	450,751	1,419	9,338	7,701	480,482
Net book amount at 31 December 2016	520	11,182	477,950	106	10,084	10,462	510,304

Company	Land	Buildings	Structures and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2017	520	10,654	450,612	-	9,008	7,701	478,495
Net book amount at 31 December 2016	520	11,054	477,772	-	9,695	10,462	509,503

(All amounts are in EUR thousands unless otherwise stated)

Property, plant and equipment is stated at acquisition cost reduced by the amount of grants received/receivable for the purpose of acquiring the related assets. Grants include the EU structural funds, the funds of connecting new consumers (producers) to electricity transmission network (based on the accounting policy applicable until 1 July 2009), the PSO funds and congestion revenue funds. Had the value of property, plant and equipment not been reduced by the amount of grants, the carrying amount would by higher by EUR 297,649 thousand as at 31 December 2017 (EUR 285,745 thousand as at 31 December 2016). Below is information about property, plant and equipment, the value of which was reduced by the amount of grants received/receivable:

	Group		Company	
	2017	2016	2017	2016
Opening balance	**285,745**	**218,128**	**285,745**	**218,128**
Additions	19,577	74,858	19,577	74,858
Depreciation	(7,673)	(7,191)	(7,673)	(7,191)
Write-offs	-	(50)	-	(50)
Closing balance	**297,649**	**285,745**	**297,649**	**285,745**

6. Investments in subsidiaries (the Company's) and investments in associates and joint ventures (the Company's and the Group's)

Investments in subsidiaries in the Company's financial statements

As at 31 December 2017 and 2016, the Company's investments comprised as follows:

Subsidiaries	**Investment cost**	**Impairment**	**Carrying amount**	**Ownership interest, %**
At 31 December 2017				
TETAS UAB	4,754	(4,754)	-	100
Litgrid Power Link Service UAB	174	-	174	100
Total	**4,928**	**(4,754)**	**174**	
At 31 December 2016				
TETAS UAB	4,356	(441)	3,915	100
Litgrid Power Link Service UAB	174	-	174	100
Total	**4,530**	**(441)**	**4,089**	

Based on the decision of the Company, which is the sole shareholder of TETAS UAB, part of the loan was capitalised in amount of EUR 397,477 upon registration of increase in share capital on 29 December 2017.

Due to the effects of changes in the market on the peformance of TETAS UAB, the recoverable amount of investment in 100% shares of TETAS UAB was calculated as at 31 December 2017 and additional impairment of EUR 4,312 thousand was recognised. The recoverable amount was determined using the discounted cash flow technique, based on forecast financial result for future periods and post-tax discount rate (WACC) of 9%. The forecast financial results for future periods indicate that the recoverable amount of TETAS UAB should be higher than that reflected in the financial statements for 2017. However, due to the absence of actual data necessary to justify the forecast results, the recoverable amount was determined using the conservative approach.

Based on the decision passed at the Extraordinary General Meeting of Shareholders of Litgrid on 28 January 2016, a sale-purchase agreement of shares was signed between the Company and EPSO-G UAB on 5 February 2016. Under the agreement, the Company sold 478,800 ordinary registered intangible shares of Baltpool UAB (representing 67% of its shares) to EPSO-G UAB. The title of ownership was passed to EPSO-G UAB as from 1 March 2016. The shares of Baltpool UAB were sold for the price of EUR 387,828 that was determined by an independent property valuer.

Investments in associates and joint ventures in the Company's and the Group's financial statements
Movement in the account of investments in associates and joint ventures is given in the table below:

	Group		Company	
	2017	2016	2017	2016
Opening balance	**-**	**720**	**-**	**752**
Investment in associate reclassified to financial assets held for sale	-	(752)	-	(752)
Share of profit/(loss) of associates and joint ventures	-	32	-	-
Closing balance	**-**	**-**	**-**	**-**

(All amounts are in EUR thousands unless otherwise stated)

As described in Note 1, on 27 January 2017, the Company's Board gave its consent to the arrangement of sale of all 20.36% shares held under the title of ownership by Litgrid UAB in Duomenų Logistikos Centras UAB, together with the shares held in Duomenų Logistikos Centras UAB by Lietuvos Energija UAB. For the purpose of these financial statements, the Company's investment in associate was reclassified to financial assets held for sale, and was recorded within current assets under the caption 'Other financial assets' (Note 12).

During the Extraordinary General Meeting of Shareholders of LitPol Link SP.z.o.o. on 28 September 2016, the decision was made to suspend the operations of LitPol Link SP.z.o.o. for the period until Polskie Sieci Elektroenergetyczne S.A. and LITGRID AB decides on the execution of a joint project, but no longer than 24 months. As at 31 December 2017 and 2016, the impairment for investment in LitPol Link Sp.z.o.o., which was equal to acquisition cost of EUR 295 thousand.

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

	Assets	Liabilities	Sales revenue	Net profit (loss)
Duomenų Logistikos Centras UAB	5,577	672	3,836	436
LitPol Link Sp.z.o.o.	195	79	-	-

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

	Assets	Liabilities	Sales revenue	Net profit (loss)
Duomenų Logistikos Centras UAB	6,233	1,688	4,359	159
LitPol Link Sp.z.o.o.	195	79	242	(222)

7. Loans granted

On 25 October 2017, Litgrid AB and TETAS UAB entered into a loan agreement. Based on the agreement, Litgrid AB granted a loan of EUR 1.6 million to TETAS UAB for the purpose of balansing the cash flows. Annual interest rate is 2.09% and loan repayment date is 25 October 2020.

As described in Note 6, upon the registration of increase in share capital by EUR 397,477 on 29 December 2017, the total issue price of shares was settled in the form of monetary contribution by way of setoff against the loan. As a result of setoff, the outstanding balance of the loan amounted to EUR 1,202,523.

8. Available-for-sale financial assets

The Group's and the Company's financial assets classified as available for sale comprised the shares of the following entities:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
NordPool (2%)	2,693	2,693	2,693	2,693
Carrying amount	**2,693**	**2,693**	**2,693**	**2,693**

As at 31 December 2017 and 2016, the Company measured the shares of NordPool at fair value determined using the discounted cash flow method. The Company used a discount rate of 7.5% as at 31 December 2017 and 2016. There were no changes in the fair value as at 31 December 2017. As at 31 December 2016, the change in the fair value amounted to EUR 420 thousand and it was accounted for as gain in other comprehensive income.

9. Inventories

The Group's and the Company's inventories comprised as follows:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Materials and consumables	1,323	4,128	354	318
Less: impairment	(304)	(218)	(255)	(193)
Carrying amount	**1,019**	**3,910**	**99**	**125**

As at 31 December 2017, the carrying amount of inventories stated at net realisable value amounted to EUR 394 thousand (31 December 2016: EUR 224 thousand) and EUR 318 thousand (31 December 2016: EUR 193 thousand) at the Group and the

(All amounts are in EUR thousands unless otherwise stated)

Company, respectively. As at 31 December 2017, the Group's and the Company's inventories recognised as expenses amounted to EUR 8,513 thousand (31 December 2016: EUR 6,265 thousand) and EUR 136 thousand (31 December 2016: EUR 184 thousand), respectively.

Movements in write-down allowance for inventories in 2017 and 2016 are indicated below:

	Group		Company	
	2017	2016	2017	2016
Carrying amount at 1 January	218	278	193	252
Change in write-down allowance	86	(60)	62	(59)
Carrying amount at 31 December	**304**	**218**	**255**	**193**

10. Trade receivables

Trade receivables comprised as follows:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Receivables from transmission of electricity	20,538	19,823	20,538	19,823
Receivables for contractual works and other services	5,267	4,489	-	-
Other trade receivables	2,887	2,041	2,886	2,041
Less: impairment allowance for trade receivables	(6,482)	(7,312)	(6,402)	(7,312)
Carrying amount	**22,210**	**19,041**	**17,022**	**14,552**

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

In 2017, the Group and the Company accounted for the reversal of impairment allowance of EUR 173 thousand (2016: EUR 79 thousand) for the amounts settled, and write-off of EUR 737 thousand for individually assessed doubtful receivables related to debts for the purchased electricity.

The ageing analysis of trade receivables that were not impaired:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Not overdue	20,965	18,293	16,986	14,356
Overdue up to 30 days	1,112	648	36	153
Overdue from 30 to 60 days	77	7	-	5
Overdue from 60 to 90 days	-	-	-	-
Overdue more than 90 days	56	93	-	38
Carrying amount	**22,210**	**19,041**	**17,022**	**14,552**

11. Other amounts receivable

Other amounts receivable were as follows:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
PSO funds receivable	-	1,632	-	1,632
Grants receivable	20,168	18,869	20,168	18,869
Receivables for lease of assets	-	86	-	-
Other receivables	1,116	4,330	486	4,093
Less: impairment of other receivables	(9)	(1)	(9)	(1)
Carrying amount	**21,275**	**24,916**	**20,645**	**24,593**

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

(All amounts are in EUR thousands unless otherwise stated)

Movements in impairment allowance during the year:

	Group		Company	
	2017	2016	2017	2016
Carrying amount at 1 January	**1**	**14,499**	**1**	**14,499**
Change in impairment allowance	8	(14,498)	8	(14,498)
Carrying amount at 31 December	**9**	**1**	**9**	**1**

In 2016, the reveral of impairment had no impact on the Company's statement of comprehensive income, because the Company assigned claim rights of Baltpool UAB in respect of debtors of PSO funds under the agreements on assignment of rights and obligations.

The ageing analysis of other amounts receivable not impaired:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Not overdue	21,270	22,214	20,640	21,891
Overdue up to 30 days	5	2	5	2
Overdue from 30 to 60 days	-	-	-	-
Overdue from 60 to 90 days	-	-	-	-
Overdue more than 90 days	-	2,700	-	2,700
Carrying amount	**21,275**	**24,916**	**20,645**	**24,593**

As at 31 December 2016, EUR 2,700 thousand amounts overdue more than 90 days included VAT receivable from Baltpool UAB, which was paid to the Company in 2017 based on the arrangements with Baltpool UAB.

12. Other financial assets

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Funds deposited for guarantees and deposits	1,877	1,499	1,877	1,499
Fund received for congestion management (Note 2.18)	6,107	7,761	6,107	7,761
Financial assets held for sale	752	752	752	752
Carrying amount	**8,736**	**10,012**	**8,736**	**10,012**

As described in Note 1, financial assets held for sale include the value of 20.36% shareholding in Duomenų Logistikos Centras UAB.

On 15 May 2017, Litgrid AB and Lietuvos Energija UAB entered into agreement on sale/purchase of shares. Based on the agreement, Ligrid AB sold to Lietuvos Energija UAB 1,000 ordinary registered intangible shares of Technologijų ir Inovacijų Centras UAB, representing 0.004% of total shareholding in Technologijų ir Inovacijų Centras UAB. The shares of Technologijų ir Inovacijų Centras UAB were sold for the amount of EUR 847.

The fair value of other financial assets approximated their carrying amount as at 31 December 2017 and 2016.

13. Cash and cash equivalents

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Cash at bank	696	798	434	608
Carrying amount	**696**	**798**	**434**	**608**

The fair value of cash and cash equivalents approximated their carrying amount.

14. Share capital and share premium

As at 31 December 2017 and 2016, the share capital of the Company amounted to EUR 146,256,100.20 and it was divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

Share premium established during the of spin-off amounted to EUR 8,579 thousand. Prior to the spin-off, share premium resulted from increase in the share capital of Lietuvos Energija AB and represented a difference between the nominal value of shares and consideration paid.

(All amounts are in EUR thousands unless otherwise stated)

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 2017 and 2016, 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 provide returns for shareholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. There were no changes in the capital management objectives compared to the previous year.

15. Revaluation reserve

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

Group	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 31 December 2015	**7,326**	**(1,098)**	**6,228**
Depreciation of revaluation reserve	(691)	104	(587)
Write-offs of property, plant and equipment	(37)	4	(33)
Balance at 31 December 2016	**6,598**	**(990)**	**5,608**
Depreciation of revaluation reserve	(630)	94	(536)
Write-offs of property, plant and equipment	(65)	9	(56)
Revaluation of property, plant and equipment	428	(64)	364
Balance at 31 December 2017	**6,331**	**(951)**	**5,380**

Company	**Revaluation reserve**	**Deferred income tax**	**Net of deferred income tax**
Balance at 31 December 2015	**7,221**	**(1,083)**	**6,138**
Depreciation of revaluation reserve	(678)	102	(576)
Write-offs of property, plant and equipment	(33)	4	(29)
Balance at 31 December 2016	**6,510**	**(977)**	**5,533**
Depreciation of revaluation reserve	(569)	85	(484)
Write-offs of property, plant and equipment	(59)	9	(50)
Balance at 31 December 2017	**5,882**	**(883)**	**4,999**

16. Legal reserve, reserve of changes in fair value of financial assets, 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% of the share capital. The legal reserve can be used only to cover future losses. The Company's accumulated legal reserve meets the legislative requirements of the Republic of Lithuania and consists of 10% of the share capital.

Reserve of changes in fair value of financial assets

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

Other reserves

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

During the Ordinary General Meeting of Shareholders of LITGRID AB held on 25 April 2017, the decision was made to approve the proposed profit appropriation and to transfer EUR 20 thousand from retained earnings to other reserves.

(All amounts are in EUR thousands unless otherwise stated)

17. Dividends

During the Ordinary General Meeting of Shareholders of Litgrid AB held on 25 April 2017, the decision was made to pay out dividends in amount of EUR 18,155,930 thousand. Dividends per share amounted to EUR 0.036.

18. Grants received in advance

The grants received in advance consist of grants intended for the acquisition of non-current assets. Movements in grants in 2017 and 2016 were as follows:

	Group	Company
Balance at 31 December 2015	**3,870**	**3,870**
Grants received during the period	68,592	68,592
Transferred to property, plant and equipment	(72,424)	(72,424)
Balance at 31 December 2016	**38**	**38**
Grants received	8,133	8,133
Additionally recognised grants	1,281	1,281
Congestion income	10,163	10,163
Transfer to property, plant and equipment	(19,577)	(19,577)
Grants used for expenditure compensation	(16)	(16)
Balance at 31 December 2017	**22**	**22**

19. Borrowings

Borrowings of the Group/Company were as follows:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Non-current borrowings				
Borrowings from banks	108,353	116,435	108,353	116,435
Current borrowings				
Current portion of non-current borrowings	8,082	8,082	8,082	8,082
Overdraft	34,656	40,986	33,311	40,171
Total borrowings	**151,091**	**165,503**	**149,746**	**164,688**

Maturity of non-current borrowings:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Between 1 and 2 years	14,225	8,082	14,225	8,082
From 2 to 5 years	42,676	42,676	42,676	42,676
After 5 years	51,452	65,677	51,452	65,677
Total	**108,353**	**116,435**	**108,353**	**116,435**

As at 31 December 2017 and 2016, no significant assets were pledged as collateral by the Group/Company.

As at 31 December 2017, the weighted average interest rate on the Group's and the Company's borrowings was 0.87% (31 December 2016: 0.83%).

As at 31 December 2017, the Group's unwithdrawn balance of loans and overdrafts amounted to EUR 10,944 thousand (31 December 2016: EUR 36,014 thousand), the Company's – EUR 9,689 thousand (31 December 2016: EUR 34,829 thousand).

Under the loan agreements signed with Nordic Investment Bank and European Investment Bank, the Company is committed to comply with the net debt to EBITDA ratio, which should not exceed 4.5 in 2017 and 2016. The outstanding balance of non-current borrowings from Nordic Investment Bank, which was subject to this requirement, amounted to EUR 43,353 thousand as at 31 December 2017 (31 December 2016: EUR 51,435 thousand), and the outstanding balance of non-current borrowings from European Investment Bank amounted to EUR 65,000 thousand as at 31 December 2017 and 2016, without taking into account the current portion of non-current borrowings. As at 31 December 2017 and 2016, the Company complied with this requirement.

In addition, under the above-mentioned loan agreements with both banks, the Company is committed to comply with interest coverage ratio, which should not exceed 3 in 2017 and 2016. The Company complied with this requirement.

(All amounts are in EUR thousands unless otherwise stated)

Reconciliation of net debt balances and cash flows from financing activities of 2017 and 2016:

	Grupė		Bendrovė	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Cash and cash equivalents	696	798	434	608
Non-current borrowings	(108,353)	(116,435)	(108,353)	(116,435)
Finance lease liabilities	(820)	-	-	-
Current portion of non-current borrowings	(8,082)	(8,082)	(8,082)	(8,082)
Current borrowings	(34,656)	(40,986)	(33,311)	(40,171)
Current portion of finance lease liabilities	(443)	-	-	-
Net debt	**(151,658)**	**(164,705)**	**(149,312)**	**(164,080)**

Group	Cash	Borrowings	Financial lease liabilities	Total
Net debt as at 31 December 2016	**798**	**(165,503)**	**-**	**(164,705)**
Additions	-	-	(1,423)	(1,423)
(Decrease) in cash and cash equivalents	(102)	-	160	58
Change in overdraft	-	6,330	-	6,330
Repayment of borrowing	-	8,082	-	8,082
Net debt at 31 December 2017	**696**	**(151,091)**	**(1,263)**	**(151,658)**

Company	Cash	Borrowings	Total
Net debt as at 31 December 2016	**608**	**(164,688)**	**(164,080)**
(Decrease) in cash and cash equivalents	(174)	-	(174)
Change in overdraft	-	6,860	6,860
Repayment of borrowing	-	8,082	8,082
Net debt at 31 December 2017	**434**	**(149,746)**	**(149,312)**

20. Finance lease liabilities

Group	At 31 December 2017		At 31 December 2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Finace lease payments:				
Within one year	462	443	-	-
After one year, but no later than within five years	849	820	-	-
Minimum finance lease payment	**1,311**	**1,263**	**-**	**-**
Less: future finance charges	(48)	-	-	-
Present value of minimum finance lease payments	**1,263**	**1,263**	**-**	**-**

In 2017, the Group company TETAS UAB acquired motor vehicles under finance lease with the net book value of EUR 1,332 as at 31 December 2017.

(All amounts are in EUR thousands unless otherwise stated)

21. Deferred revenue

	Group		Company	
	2017	2016	2017	2016
Opening balance of congestion management revenue	**7,966**	**-**	**7,966**	**-**
Congestion management revenue received during the period	10,206	11,405	10,206	11,405
Reclassified to property, plant and equipment	(10,163)	-	(10,163)	-
Congestion management revenue recognised as income during the period	(1,445)	(3,439)	(1,445)	(3,439)
Closing balance of congestion management revenue	**6,564**	**7,966**	**6,564**	**7,966**

Deferred revenue includes congestion revenue as described in Note 2.18. As at 31 December 2017, deferred revenue of EUR 6,564 thousand will be used for investments into interconnections in future periods. In the statement of comprehensive income for 2017, congestion revenue of EUR 1,445 thousand (2016: EUR 3,469 thousand) was recognised, which was intended to compensate expenditure incurred to guarantee availability of allocated capacity.

22. Other non-current amounts payable and liabilities

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Advances received from connection of new users	609	-	609	-
Provisions for pension benefits to employees	150	152	85	81
Provisions for guarantees	5	-	-	-
Carrying amount	**764**	**152**	**694**	**81**

Provisions for pension benefits to employees represent amounts calculated according to the Lithuanian laws and to be paid under the collective agreement effective at the Company (Note 2.17).

23. Current income tax and deferred income tax

Income tax expense components:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Current year income tax	4,351	4,274	4,632	4,258
Deferred income tax expenses (benefit)	(2,142)	(2,208)	(2,111)	(2,203)
Current year income tax expenses (benefit)	**2,209**	**2,066**	**2,521**	**2,055**

In 2017, the Group's current income tax expenses were lower than those of the Company due to EUR 280 thousand tax losses to be taken over from TETAS UAB in 2017 in return for a consideration, following the provisions of the Law on Corporate Profit Tax.

(All amounts are in EUR thousands unless otherwise stated)

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

Group

Deferred income tax assets	PPE revaluation (impairment)	Impairment of assets	Accrued expenses/ income	Other	Total
At 31 December 2015	**19,586**	**1,282**	**478**	**60**	**21,406**
Recognised in profit or loss	(1,462)	82	1,081	(8)	(307)
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2016	**18,124**	**1,364**	**1,559**	**52**	**21,099**
Recognised in profit or loss	(1,542)	(248)	(181)	1,527	(444)
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2017	**16,582**	**1,116**	**1,378**	**1,579**	**20,655**

Deferred income tax liabilities	PPE revaluation (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PPE	Effect of interest capitalisation	Total
At 31 December 2015	**(29,282)**	**(101)**	**(2,138)**	**(180)**	**(31,701)**
Recognised in profit or loss	2,331	112	156	(84)	2,515
Recognised in other comprehensive income	(63)	-	-	-	(63)
At 31 December 2016	**(27,014)**	**11**	**(1,982)**	**(264)**	**(29,249)**
Recognised in profit or loss	2,368	78	156	(16)	2,586
Recognised in other comprehensive income	(64)	-	-	-	(64)
At 31 December 2017	**(24,710)**	**89**	**(1,826)**	**(280)**	**(26,727)**

Deferred income tax assets, net, at 31 December 2016	**66**
Deferred income tax assets, net, at 31 December 2017	**33**
Deferred income tax liability, net, at 31 December 2016	**(8,216)**
Deferred income tax liability, net, at 31 December 2017	**(6,105)**

Company

Deferred income tax assets	PPE revaluation (impairment)	Impairment of assets	Accrued expenses/ income	Other	Total
At 31 December 2015	**19,586**	**1,278**	**452**	**-**	**21,316**
Recognised in profit or loss	(1,462)	82	1,074	-	(306)
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2016	**18,124**	**1,360**	**1,526**	**-**	**21,010**
Recognised in profit or loss	(1,533)	(251)	(195)	1,524	(455)
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2017	**16,591**	**1,109**	**1,331**	**1,524**	**20,555**

Deferred income tax liabilities	PPE revaluation (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Effect of interest capitalisation	Total
At 31 December 2015	**(29,266)**	**(88)**	**(2,138)**	**(180)**	**(31,672)**
Recognised in profit or loss	2,329	110	154	(84)	2,509
Recognised in other comprehensive income	(63)	-	-	-	(63)
At 31 December 2016	**(27,000)**	**22**	**(1,984)**	**(264)**	**(29,226)**
Recognised in profit or loss	2,359	67	156	(16)	2,566
Recognised in other comprehensive income	-	-	-	-	-
At 31 December 2017	**(24,641)**	**89**	**(1,828)**	**(280)**	**(26,660)**

Deferred income tax liability, net, at 31 December 2016	**(8,216)**
Deferred income tax liability, net, at 31 December 2017	**(6,105)**

(All amounts are in EUR thousands unless otherwise stated)

The changes in deferred income tax assets and liabilities are analysed below:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Deferred income tax assets:				
Deferred income tax assets to be realised after 12 months	19,233	19,616	19,151	19,533
Deferred income tax assets to be realised within 12 months	1,422	1,483	1,404	1,477
Total	**20,655**	**21,099**	**20,555**	**21,010**
Deferred income tax liabilities:				
Deferred income tax liabilities to be settled after 12 months	(24,321)	(26,880)	(24,264)	(26,861)
Deferred income tax liabilities to be settled within 12 months	(2,406)	(2,369)	(2,396)	(2,365)
Total	**(26,727)**	**(29,249)**	**(26,660)**	**(29,226)**

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		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Profit (loss) before income tax	**11,794**	**19,794**	**10,245**	**18,883**
Income tax calculated at a rate of 15%	1,769	2,969	1,537	2,832
Unrecognised deferred income tax on tax losses	(44)	(7)	(44)	-
Impact of take-over of tax losses	(280)		-	
Deferred income tax not recognised on tax losses	(43)		-	
Tax effect of non-taxable income and non-deductible expenses	807	(896)	1,028	(777)
Income tax expenses/(benefit) recognised in profit or loss	**2,209**	**2,066**	**2,521**	**2,055**

24. Trade payables

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Amounts payable for electricity	6,705	4,754	6,705	4,754
Amounts payable for contractual works, services	5,359	6,558	1,849	1,086
Amounts payable for property, plant and equipment and inventories	3,031	2,436	3,027	2,427
Amounts payable for electricity transit	-	109	-	109
Carrying amount	**15,095**	**13,857**	**11,581**	**8,376**

The fair value of trade payables approximated their carrying amount.

25. Advance amounts received

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Guarantee to secure fulfilment of obligations	-	869	-	869
Advance amounts received from new users*	328	-	328	-
Carrying amount	**328**	**869**	**328**	**869**

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

As at 31 December 2017, the guarantee to secure fulfilment of obligations wad reclassified to 'Other amounts payable', whereas advance amounts received from new users were reclassified from 'Other amounts payable' (Note 26).

(All amounts are in EUR thousands unless otherwise stated)

26. Other amounts payable

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Difference between PSO funds received and paid	116	274	116	274
Advance amounts received from new users	-	660	-	660
Employment-related liabilities	697	653	166	175
Accrued expenses of vacation reserve	1,184	1,010	634	513
VAT payable	1,782	1,284	1,400	1,178
Immovable property tax payable	510	548	508	546
Dividends payable	470	401	470	401
Accrued other expenses	1,275	2,034	1,091	1,812
Accrued liabilities for electricity	-	1,125	-	1,125
Guarantee to secure fulfilment of obligations	1,477	-	1,477	-
Other amounts payable and current liabilities	2,401	1,609	2,584	1,700
Carrying amount	**9,912**	**9,598**	**8,446**	**8,384**

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

As at 31 December 2017, the guarantee to secure fulfilment of obligations wad reclassified from 'Advance amounts received, whereas advance amounts received from new users were reclassified to 'Advance amounts received' (Note 25).

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

27. Revenue from electricity transmission and related services

Electricity revenue comprised as follows:

	Group		Company	
	2017	2016	2017	2016
Electricity transmission services	68,269	67,968	68,269	67,968
Trade in balancing/regulating electricity	17,779	22,066	17,779	22,066
Capacity reserve services	42,530	33,923	42,530	33,923
Other sales of electricity and related services	4,063	6,041	4,063	6,041
Services under PSO scheme	8,487	7,105	8,487	7,105
Income from connection of new users	719	2,674	719	2,674
Congestion revenue	1,445	3,438	1,445	3,438
Total	**143,292**	**143,215**	**143,292**	**143,215**

Revenue from electricity transmission increased by 0.4% to EUR 68.3 million compared to 2016. Revenue from electricity transmission accounted for 43% of the Group's total revenue. Increase in revenue was driven by higher volume of electricity transmission, because the actual electricity transmission price was 2.2% lower than in 2016.

Revenue from sale of electricity balancing/regulating decreased by 19.4% to EUR 17.8 million. Such decrease was mostly caused by a 21.5% lower volume of sales of electricity balancing/regulating due to a lower demand for the suppliers of electricity balancing/regulating and lower demand for assuring allocated capacities of power links with Sweden and Poland (i.e. the volume of electricity traded on power exchange).

Revenue from system services increased by 25.4% to EUR 42.5 million largely due to 23% higher system service tariff established by the National Control Commission for Prices and Energy as from 1 January 2017, compared to 2016.

(All amounts are in EUR thousands unless otherwise stated)

28. Other income

	Group		Company	
	2017	2016	2017	2016
Repair and other services	15,906	15,404	-	-
Income from lease of assets	709	1,230	703	1,219
Design works	280	405	-	-
Other income	1	6,801	362	6,895
Total	**16,896**	**23,840**	**1,065**	**8,114**

In 2016, other income mostly (EUR 6,773 thousand) comprised interest on late payment and default charges for a delayed performance of works by contractors.

29. Expenses of electricity transmission and related services

Electricity expenses comprised as follows:

	Group		Company	
	2017	2016	2017	2016
Expenses of compensation for technological losses of electricity	15,674	15,409	15,674	15,409
Expenses of system services	40,391	36,900	40,391	36,900
PSO expenses (balancing of production from renewable energy sources)	8,409	7,006	8,409	7,006
Expenses of electricity balancing and regulating	12,714	16,678	12,714	16,678
Expenses of participation in ENTSO-e ITC mechanism	1,448	1,184	1,448	1,184
Expenses of guaranteeing the use of allocated capacities of interconnections	1,445	3,438	1,445	3,438
Total	**80,081**	**80,615**	**80,081**	**80,615**

Compared to 2016, electricity expenses decreased by 0.7%. Expenses of electricity balancing and regulating decreased by 23.8% to EUR 12.7 million. Expenses of system services increased by 9.5% to EUR 40.4 million. Expenses of compensation for technological losses in the transmission network on purchase of electricity increased by 1.7% to EUR 15.7 million.

30. Segment reporting

The Group has distinguished the following 5 segments:

- electricity transmission;
- trade in balancing/regulating electricity;
- provision of system (capacity reserve) services;
- provision of services under PSO (public service obligation) scheme;
- repair and maintenance activities.

The Company's segments coincide with the electricity transmission, trade in balancing/regulating electricity, provision of system (capacity reserve) services and provision of services under PSO (public service obligation) scheme segments distinguished within the Group. Segments of the Group and the Company are not aggregated.

The electricity transmission segment is engaged in transmitting electricity over high voltage (330-110 kV) networks from producers to users or suppliers not in excess of the limit established in the contract. The main objective of these activities is to ensure a reliable, effective, high quality, transparent and safe electricity transmission to distributions networks, large network users from power stations and neighbouring energy systems.

Trade in balancing/regulating electricity is a service ensuring the balancing of electricity generation/import and demand/export levels.

Provision of system (capacity reserve) services. In order to ensure a reliable work of the system, the Company purchases from electricity producers the service of ensuring capacity reserve for power generation facilities, reaction power and voltage control, breakdown and disorder prevention and its liquidation and provides capacity reserve services to users. The capacity reserve is required in case of unexpected fall in electricity generation volumes or increase in electricity consumption.

(All amounts are in EUR thousands unless otherwise stated)

The Company's/Group's services provided under PSO scheme comprise as follows:

- development and implementation of strategic projects for the improvement of energy security, installing interconnections between the electricity transmission systems abroad and (or) connecting the electricity transmission systems in the Republic of Lithuania with the electricity transmission systems in foreign countries (interconnections Lithuania-Sweden and Lithuania-Poland, connection of the Lithuanian electric energy system to continental Europe networks);
- connection of power generation facilities that use the renewable energy resources to transmission networks; optimisation, development and/or reconstruction of transmission networks ensuring the development of power generation that uses the renewable energy resources;
- balancing of electricity generated using the renewable energy resources.

Repair and maintenance services are carried out by the Company's subsidiaries TETAS UAB and Litgrid Power Link Service UAB. The core line of business of Tetas UAB is provision of medium-voltage transformer substation and distribution station reconstruction, repair and maintenance services. The purpose of Litgrid Power Link Service UAB is a centre of competence of high qualification and specific engineering fields, and operation and management of HVDC (High Voltage Direct Current) links.

The Group's information on segments for the period ended 31 December 2017 is presented in the table below:

2017	Operating segments					
	Electricity transmission	Trade in balancing/ regulating electricity	Provision of system services	Provision of services under PSO scheme	Repair and maintenance activities	Total
Revenue	75,561	17,779	42,530	8,487	20,172	164,529
Inter-segment revenue	-	-	-	-	(4,341)	(4,341)
Revenue after elimination of intercompany revenue within the Group	**75,561**	**17,779**	**42,530**	**8,487**	**15,831**	**160,188**
Operating profit/(loss)	9,159	4,769	1,741	(1)	(2,720)	**12,948**
Finance income/(cost), net*	x	x	x	x	x	**(1,154)**
Profit/(loss) before income tax	x	x	x	x	x	**11,794**
Income tax*	x	x	x	x	x	**(2,209)**
Profit/(loss) for the year	x	x	x	x	x	**9,585**
Depreciation and amortisation expenses	25,797	64	193	-	306	26,360
Write-offs of property, plant and equipment	1,209	-	-	-	3	1,212
Impairment of property, plant and equipment	-	-	-	-	-	-

* Income tax and finance income and costs are not allocated between the Company's operating segments and are attributed to electricity transmission operations.

The Group's information on segments for the period ended 31 December 2016 is presented in the table below:

2016	Operating segments					
	Electricity transmission	Trade in balancing/ regulating electricity	Provision of system services	Provision of services under PSO scheme	Repair and maintenance activities	Total
Revenue	88,236	22,065	33,923	7,105	19,937	171,266
Inter-segment revenue	-	-	-	-	(4,211)	(4,211)
Revenue after elimination of intercompany revenue within the Group	**88,236**	**22,065**	**33,923**	**7,105**	**15,726**	**167,055**
Operating profit/(loss)	18,522	5,084	(3,409)	(2)	986	**21,181**
Finance income/(cost), net*	x	x	x	x	x	**(1,419)**
Share of result of associates and joint ventures*	x	x	x	x	x	32
Profit/(loss) before income tax	x	x	x	x	x	**19,794**
Income tax*	x	x	x	x	x	**(2,066)**
Discontinued operations	x	x	x	x	x	**129**
Profit/(loss) for the year	x	x	x	x	x	**17,857**
Depreciation and amortisation expenses	26,077	79	238	-	222	26,616
Write-offs of property, plant and equipment	911	-	-	-	-	911
Impairment of property, plant and equipment	502	-	-	-	-	502

* Income tax and finance income and costs are not allocated between the Company's operating segments and are attributed to electricity transmission operations.

The Group operates in Lithuania and its revenue generated from customers in Lithuania accounts for 95% of total revenue.

(All amounts are in EUR thousands unless otherwise stated)

In 2017 and 2016, the Group's and the Company's revenue by geographical location of customers:

	Group		Company	
	2017	2016	2017	2016
Lithuania	152,829	147,830	136,998	132,104
Norway	1,510	4,283	1,510	4,283
Sweden	3,132	11,074	3,132	11,074
Latvia	441	714	441	714
Estonia	1,571	1,544	1,571	1,544
Poland	559	524	559	524
Other	146	1,086	146	1,086
Total	**160,188**	**167,055**	**144,357**	**151,329**

All assets of the Group and the Company are located in Lithuania.

The Group's/Company's revenue in 2017 from the largest clients, for which sales in the Group's segments exceeded 10%:

Name of the company	Transmission activity	Trade in balancing/ regulating electricity	Provision of system services	Total
Energijos Skirstymo Operatorius AB	60,898	1,668	37,540	100,106
Orlen Lietuva AB	3,667	29	1,908	5,604
Lietuvos Energijos Gamyba AB	169	1,765	99	2,033

The Group's/Company's revenue in 2016 from the largest clients, for which sales in the Group's segments exceeded 10%:

Name of the company	Transmission activity	Trade in balancing/ regulating electricity	Provision of system services	Total
Energijos Skirstymo Operatorius AB	61,081	1,034	29,970	92,085
Energijos Tiekimas UAB	-	5,401	-	5,401
Lietuvos Energijos Gamyba AB	171	2,607	80	2,858

31. Related-party transactions

The Company's/Group's related parties in 2017 and 2016 were as follows:
- EPSO-G (the parent company of the Company). 100% of EPSO-G share capital is owned by the Ministry of Energy of the Republic of Lithuania;
- Subsidiaries of the Company;
- Associates and joint ventures of the Company;
- Amber Grid AB (common shareholders);
- Baltpool UAB (common shareholders);
- Management.

Transactions with related parties are carried out in accordance with market conditions and the tariffs approved under legislation or in accordance with the requirements of the Law on Public Procurement.

The Group's transactions conducted with related parties in 2017 and balances arising from these transactions as at 31 December 2017 were as follows:

Related parties	Trade payables	Trade receivables	Purchases	Sales	Finance income
The Group's parent company (EPSO-G UAB)	-	-	89	-	-
EPSO-G UAB group companies	-	646	158	5,274*	51
	-	**646**	**247**	**5,274**	**51**

The Company's transactions conducted with related parties in 2017 and balances arising from these transactions as at 31 December 2017 were as follows:

Related parties	Trade payables	Trade receivables	Purchases	Sales	Finance income	Loans granted
The Group's parent company (EPSO-G UAB)	-	-	81	-	-	-
EPSO-G UAB group companies	-	646	158	5,274*	51	-
The Company's subsidiaries	746	14	4,408	137	5	1,203
	746	**660**	**4,647**	**5,411**	**56**	**1,203**

* PSO service funds received from related parties (PSO funds administrator).

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 parties	Trade payables	Trade receivables	Purchases	Sales
The Group's parent company (EPSO-G UAB)	15	-	17	388
EPSO-G UAB group companies	-	4,871	(652)	24,001*
Group's associates and joint ventures	38	85	361	1,218
	53	**4,956**	**(274)**	**25,607**

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 parties	Trade payables	Trade receivables	Purchases	Sales
The Group's parent company (EPSO-G UAB)	14	-	15	388
EPSO-G UAB group companies	-	4 871	(652)	24,001*
The Company's subsidiaries	345	332	4,576	113
Group's associates and joint ventures	38	85	361	1,218
	397	**5 288**	**4,300**	**25,720**

* PSO service funds received from related parties (PSO funds administrator).

Transactions with other companies controlled by the State were business transactions, which are regulated by legal acts, therefore such transactions were not disclosed.

Payments to the key management personnel

	Group		Company	
	2017	**2016**	**2017**	**2016**
Employment-related payments	826	813	537	556
Whereof: termination benefits	31	43	-	33
Number of the key management personnel (average annual)	13	12	7	7

Key management personnel consists of the Group's heads of administration and department directors.

32. Basic and diluted earnings per share

In 2017 and 2016, the Group's basic and diluted earnings per share were as follows:

	2017	2016
Net profit (loss) attributable to the Company's shareholders (EUR thousands)	9,585	17,847
Weighted average number of shares (units)	504,331,380	504,331,380
Basic and diluted earnings (deficit) per share (in EUR)	**0.019**	**0.035**

(All amounts are in EUR thousands unless otherwise stated)

33. Discontinued operations

Pursuant to the decision passed during the extraordinary general meeting of the Company's shareholders held on 28 January 2016, the Company and EPSO-G UAB signed the agreement on the purchase and sale of shares on 5 February 2016. Under this agreement the Company transferred to EPSO-G UAB 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 as from 1 March 2016. The shares of BALTPOOL UAB were sold for the market price of EUR 387,828 established by an independent property valuer. EPSO-G UAB has fully settled for the shares.

Due to the difference between the net asset value of BALTPOOL UAB and the sale price of shares, gain on disposal of discontinued operations in amount of EUR 97 thousand was recognised in the Group‘s statement of comprehensive income.

As at 29 February 2016, assets and liabilities of BALTPOOL UAB comprised as follows:

Condensed statement of financial position	**29 February 2016**
Intangible assets	21
Property, plant and equipment	7
Other non-current assets	2
Current assets	38,401
Cash and cash equivalents	460
Total assets (excluding transactions with the Group)	**38,891**
Amounts receivable from the Group companies	-
Total assets (excluding transactions with the Group)	**38,891**
Non-current liabilities	2
Financial liabilities	16,596
Other current liabilities	19,834
Total liabilities (excluding transactions with the Group)	**36,432**
Amounts payable to the Group companies	2,025
Total liabilities	**38,457**
Net assets	**434**
Non-controlling interest	143
Sales price	388
Gain on disposal	(97)

As a result of disposal of BALTPOOL UAB, all revenue/expenses generated/incurred during the two-month period in 2016 were attributed to discountinued operations.

Condensed income statement	**Two-month period in 2016**
Revenue	95
Expenses	(63)
Financing activity, net	-
Profit before income tax	32
Income tax	
Net profit (loss)	32
Non-controlling interest	10

The table below contains cash flows of BALTPOOL UAB during the two-month period in 2016.

Condensed cash flow statement	**Two-month period in 2016**
Net cash flows from operating activities	4,623
Net cash flows from investing activities	-
Net cash flows from financing activities	(4,655)

34. Additional information on cash flows

The change in the Company’s payables for non-current assets amounting to EUR 635 thousand (2016: EUR 19,355 thousand) and capitalised interest amounting to EUR 157 thousand (2016: EUR 150 thousand) were taken into account when calculating cash flows from investing activities in 2017.

(All amounts are in EUR thousands unless otherwise stated)

35. Financial risk factors

The Group and the Company are exposed to financial risks in their operations. In managing these risks the Group and the Company seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance results. Financial risk management is conducted by the Company's Finance Planning and Analysis Department in accordance with the description of LITGRID group treasury management procedure approved by LITGRID Board.

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

	Group		Company	
Financial assets	**At 31 Dec 2017**	**At 31 Dec 2016**	**At 31 Dec 2017**	**At 31 Dec 2016**
Trade receivables	22,210	19,041	17,022	14,552
Other receivables	21,274	24,916	20,645	24,593
Other financial assets	8,736	10,012	9,939	10,012
Cash and cash equivalents	696	798	434	608
Loans and receivables	**52,916**	**54,767**	**48,040**	**49,765**
Other financial assets				
Available-for-sale financial assets	2,693	2,693	2,693	2,693
Total	**55,609**	**57,460**	**50,733**	**52,458**

	Group		Company	
Financial liabilities	**At 31 Dec 2017**	**At 31 Dec 2016**	**At 31 Dec 2017**	**At 31 Dec 2016**
Borrowings	151,091	165,503	149,746	164,688
Trade payables	15,095	13,857	11,581	8,376
Other amounts payable and liabilities	3,045	3,719	2,311	3,000
Total	**169,231**	**183,079**	**163,638**	**176,064**

Credit risk

As at 31 December 2017 and 2016, exposure to credit risk was related to the following items:

	Group		Company	
	At 31 Dec 2017	**At 31 Dec 2016**	**At 31 Dec 2017**	**At 31 Dec 2016**
Financial assets (other than available-for-sale financial assets)	52,916	54,767	48,040	49,765

The Group and the Company have a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, which accounted for approximately 54% (31 December 2016: 59%) of the Group's and 68% (31 December 2016: 59%) of the Company's total trade and other amounts receivable as at 31 December 2017. Amounts receivable from the largest customer – distribution network operator Energijos Skirstymo Operatorius AB – accounted for 42% (31 December 2016: 33%) of the Group's and 53% (31 December 2016: 33%) of the Company's total amounts receivable as at 31 December 2017.

When entering into contracts with customers (suppliers of balancing electricity) Litgrid requires to pay a cash deposit of the established amount or to provide a bank guarantee in accordance with the procedure and conditions stipulated in the Description of the Procedure for Ensuring Fulfilment of Obligations of Balancing Electricity Suppliers of LITGRID AB approved by the Company's CEO. In other cases, since the main customers are trustworthy customers Energijos Skirstymo Operatorius AB, which is Lietuvos Energija UAB group company, and other large corporate customers, the Group/Company does not require any collateral from its customers.

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 trustworthy financial institutions, 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). In the table below, the ratings of the parent banks where the Group and the Company hold their cash and cash equivalents (Note 13) are provided:

Luminor	AA-
Danske bank	A
Swedbank	AA-
SEB	AA-
OP Corporate Bank	A+

(All amounts are in EUR thousands unless otherwise stated)

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 10 and 11.

Liquidity risk

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

The Group's cash flows from operating activities were positive in 2017, therefore its exposure to liquidity risk is insignificant. The Group's liquidity ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) as at 31 December 2017 were 0.78 and 0.76, respectively (31 December 2016: 0.79 and 0.74, respectively). The Company's liquidity and quick ratios as at 31 December 2017 were 0.75 and 0.75, respectively (31 December 2016: 0.74 and 0.74, respectively).

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	From 4 months up to one year	Within the second year	Within the third to the fifth year	After 5 years
At 31 December 2017					
Trade and other amounts payable	18,243	-	-	-	-
Borrowings	2,740	41,144	15,262	44,906	53,079
At 31 December 2016					
Trade and other amounts payable	17,576	-	-	-	-
Borrowings	1,396	7,839	50,142	45,200	67,859

Company	Up to 3 months	From 4 months up to one year	Within the second year	Within the third to the fifth year	After 5 years
At 31 December 2017					
Trade and other amounts payable	13,892	-	-	-	-
Borrowings	1,395	41,144	15,262	44,906	53,079
At 31 December 2016					
Trade and other amounts payable	11,376	-	-	-	-
Borrowings	1,396	7,839	49,327	45,200	67,859

Rinkos rizika

a) Interest rate risk

The Group's and the Company's revenue, 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 overdrafts with interest rates linked with EURIBOR. A +/- 0.1% shift in interest rate would result in EUR 177 thousand effect of interest of the Group's borrowings on profit before tax as at 31 December 2017 (31 December 2016: EUR 226 thousand).

b) Foreign exchange risk

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

36. Fair value of financial assets and financial liabilities

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade receivables and other amounts receivable, time deposits, cash and cash equivalents, loans, trade payables and other amounts payable, held to maturity investments and other financial assets.

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, other financial assets, 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 variableinterest rates approximates their carrying amounts (level 3). The fair value of The Group's and the Company's non-current borrowings with fixed interest rates was approximately lower by 683 thousand euros than their carrying amounts as at 31 December 2016 and 31 December 2017.
- The fair value of held to maturity investments is determined based on the estimated fair value of bonds in which the Company invested (level 3).

37. Contingent liabilities

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-offs 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 conclusions received from the expert examination, LITGRID AB's request for Tetas UAB to change the technical project was ungrounded, thereby resulting in delayed performance of construction works. On 30 October 2017, the court of first instance dismissed the claim and recognised LITGRI AB's set-off as legitimate and grounded. On 30 November 2017, Tetas UAB filed an appeal. Currently, the legal proceedings take place at the court of appeal.
Projected outcome: since the legal proceedings are still continued, the provision of EUR 201,707.73 was kept by the Company. The dispute has no impact on the consolidated results of the group.

On 6 March 2017, A.Žilinskis ir Ko UAB filed a claim against the Company with request to recognise the set-off of a homogeneous counter-claim as null and void and to award payment for construction works and interest on late payment. The claim amount was equal to EUR 1,021,804.16. The court of first instance satisfied the claim in full. The court awarded to A. Žilinskis ir Ko UAB as follows: amount of EUR 953,175.53 for the construction works, amount of EUR 68,628.63 for interest on late payment, 8% annual interest on amount awarded in relation to the civil case payable from the date of its initiation (9 March 2017) to the date the court decision has been executed in full, as well as litigation expenses of EUR 13,262.61. Litgrid AB filed an appeal. Currently, the legal proceedings take place at the court of appeal.
Projected outcome: since the legal proceedings are still continued, the provision of EUR 1,136,885.99 was kept by the Company.

Other disputes

On 3 September 2017, the Company filed a complaint to Vilnius Regional Administrative Court against the administrative statements passed by the Public Procurement Office and Lithuanian Business Support Agency in relation to the procurement of 'Construction of 110kV electricity transmission line Kretinga-Benaičiai WP' carried out by the Company during 2014-2015. The object of the procurement is financed in part from the EU investments. While approaching to the end of performance of the procurement agreement, the Public Procurement Office carried out an assessment at the request of the Lithuanian Business Support Agency and concluded on 3 August 2017 that LITGRID's assessment of an exceptionally low price of the supplier who was awarded the contract was inappropriate, and that LITGRID failed to comply with the principles of rational use of resources, transparency and equality. Consequently, following the provision of the above-mentioned conclusions, on 24 August 2017 the Lithuanian Business Support Agency passed a decision, whereby it established that LITGRID infringed the procedures of public procurement and imposed a financial sanction of 25% from eligible project funds or EUR 486,927.25 (financing from the EU funds was reduced by EUR 243,463.62). The Company disagreed with the Public Procurement Office's conclusion and the Lithuanian Business Support Agency's decision and appealed against them to court with request to repeal them and suspend their validity. The court accepted the appeal, but refused to apply any enforcement measures and did not suspend the validity of administrative statements filed in respect of the Company. The Lithuanian Business Support Agency and Public Procurement Office disagreed with the appeal and submitted their commentaries to the court. On 18 January 2017, Vilnius Regional Administrative Court ruled to dismiss the claim. Currently, preparation of an appeal is in process.
Projected outcome: In view of the fact that the court of first instance adopted a decision that was not in favour of the Company, it is likely that the outcome of litigation will be unfavourable rather than favourable.

On 29 April 2015, Achema AB filed a claim to the respondents – the Company and TETAS UAB which carried out construction works under the contract for construction works signed with the Company – in relation to compensation for damages of EUR

2,326,964.40 (joint and several) incurred as a result of electricity supply disruption on internal network of Achema AB on 29 April 2013. On 17 February 2017, a judgement was passed regarding the dismissal of claim in relation to unearned revenue of EUR 1,759,864.34. On 9 March 2017, Vilnius Regional Court ruled to satisfy Achema AB's request and assigned to perform an examination to identify the cause and consequences of the incident. On 22 September 2017, a court examination report was received, which was disputed by the Company. In addition, the Company filed a request for repeated examination.
Projected outcome: In view of the fact that the conclusions of the examination assigned by the court were not in favour of the Company, the Company formed a provision in amount of EUR 567,100.

On 22 April 2016, LITGRID AB filed a claim to Kaunas Regional Court in relation to the payment for electricity transmission services provided by LITGRID AB. Under the agreement for electricity transmission services No 432-2010-032E/305F/SUT-59-10 dated 1 July 2010 (updated as from 1 January 2013), Achema AB failed to make payments of EUR 86,323.72 (incl. VAT) for the services provided during January-February 2016. On 24 March 2017, the Court satisfied in full the Company's claim: orderd Achema AB to pay EUR 87,590.92 plus 6% procedural interest thereon for the period from the date of initiation of court proceedings to complete execution of the court order, plus litigation costs of EUR 1,567 in favour of LITGRID AB. Achema AB filed an appeal. Currently, the proceedings are continued at the instance of appeal.
Projected outcome: In view of the fact that the ruling of the court of first instance was in favour of the Company, it is likely that the ruling of the court of appeal will be favourable as well.
On 26 May 2017, A.Žilinskis ir Ko UAB filed a claim against the Company in relation to the payment for additional construction works. The amount claimed was EUR 157,833.77. The claimant argued that additional construction works were carried out, for which the Company failed to make payment. The court of first instance satisfied the claim in full. The court ordered the Company to pay EUR 157,833.77 to A.Žilinskis ir Ko UAB for additional construction works, plus 8% annual interest thereon from the date of initiation court proceedings (31 May 2017) to complete execution of the court ruling, plus stamp duty of EUR 2,053 and legal assistance costs of EUR 6,833.11. The Company filed an appeal. Currently, the proceedings are continued at the instance of appeal.
Projected outcome: Since the proceedings have not been finished, the Company kept the provision in amount of EUR 157,833.77.

38. Services rendered by the audit firm

Presented below are all services rendered by the audit firm to the Group / the Company in 2017 (in EUR thousands):

Type of services	**Group**	**Company**
Audit of the financial statements under the agreement	27	19
Assurance and other related services	3	3
Business consultation services	23	23
Tax consultation services	-	-
Total	**53**	**45**

39. Events after the end of the reporting period

On 6 March 2018, TETAS UAB signed with SEB Bankas AB amendment No 17 to the loan agreement No 0041105014693-38, under which the Company is granted an overdraft of EUR 1,700 thousand and a credit limit of EUR 1,500 thousand for the issue of guarantees. The agreement expires on 7 March 2019.