Kvalifikuotas elektroninis parašas
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Paskirtis: Parašas

Kvalifikuotas elektroninis parašas
GYTIS FOMINAS
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Paskirtis: Parašas

Qualified Electronic Signature
NEMUNAS BIKNIUS
2020-03-27 18:03:46 GMT+2
Purpose: Signature

Kvalifikuotas elektroninis parašas
SAULIUS BAKAS
2020-03-27 18:21:53 GMT+2
Paskirtis: Parašas

AMBER GRID AB
CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT FOR THE PERIOD ENDED 31 DECEMBER 2019

"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."

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Amber Grid AB:

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Amber Grid AB (the Company) and consolidated financial statements (together with the separate financials statements – the Financial Statements) of the Company and its subsidiaries (the Group), which comprise the statements of financial position of the Company and the Group as at 31 December 2019, and the statements of profit (loss), comprehensive income, changes in equity and cash flow for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements present fairly, in all material respects, of the financial position of the Company and the Group as at 31 December 2019, and their financial performance and their cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of property, plant and equipment	
Refer to Note 6 of the notes to the Financial Statements The Company accounts for property, plant and equipment ('PPE') at revalued amounts. During the year ended 31 December 2019, the Company performed a valuation of its PPE and did not identify material differences from its carrying value, which as at 31 December 2019 amounted to EUR 201,359 thousand. The Company's management determines value of PPE using the income approach, which forecasts future cash flows from Company's activities and discounts them using the appropriate discount rate.	We assessed design and implementation of key controls management has established over the PPE revaluation process, including the following areas: - validation of assumptions, - budgeting, - segregation of duties, - determination of key inputs in the valuation model, and - review, challenge and approval of the valuation results performed by management and those charged with governance.

This requires management to apply significant level of judgement in evaluating the following critical areas: - required levels of capital expenditure to maintain the existing electricity grid levels, - current level and future regulatory development of return on investment approved by the regulator (National Energy Regulatory Council, 'NERC'), - determination of the discount rate, which is the Company's weighted average cost of capital, - determination and application of the annual growth rate to perpetuity, and - evaluation of present regulatory environment as well as anticipated changes in this area. The Company performed the valuation internally, without the support from external valuation experts. We consider valuation of PPE to be a key audit matter due to the size of the valued balance and the significant judgment involved regarding assumptions and estimates used in the valuation by the management.	We involved our internal valuation specialists to support us in forming an independent view on the PPE valuation performed by the management. We jointly performed the following procedures: - assessed appropriateness of selected PPE valuation methodology, as well as its application, - evaluated key assumptions and inputs used in the valuation of PPE, concentrating on the critical areas, such as tariffs and operating margins, capital expenditures, discount rate, terminal value, - reviewed mathematical accuracy of the model, and - discussed with management certain aspects of the valuation methodology as well as future developments of the regulatory environment. We used our independent view as a basis to assess whether there are any indications of error or management bias in management's estimate of PPE value. We also assessed sensitivity of the valuation exercise together with related disclosures presented in the Financial Statements.

First time adoption of IFRS 16 for leases	
Refer to Note 2.1(a) and Note 8 of the notes to the Financial Statements The Group and the Company adopted IFRS 16 Leases as at 1 January 2019. IFRS 16 introduced a new lease accounting model, where lessees are required to recognize a right-of-use asset and a lease liability arising from a lease on its balance sheet. The Group and the Company adopted IFRS 16 using the modified retrospective approach with no restatement of comparative information. As a result, as at 1 January 2019, the Company and the Group recognized right of use assets of EUR 2,027 thousand and related lease liabilities. Significant judgement is required in order to determine the right of use assets and lease liability. The assumptions and estimates include assessment if a contract contains a lease, assessment of a lease term, lease payments as well as determination of appropriate discount rates. The Company and the Group exercised material judgement in including land rent tax payments in scope of IFRS 16. We consider adoption of IFRS 16 to be a key audit matter taking into consideration its impact on the financial position of the Company and the Group.	Our audit approach consisted in assessing the appropriateness of the methodology and the compliance with applicable IFRS 16 guidance regarding the determination of the main assumptions. Our work also consisted of: - Understanding the Group's and Company's process in identifying lease contracts, or contracts which contained leases; - Assessing the completeness of the lease databases; - Corroborating by performing a sample the information used for determining assets and liabilities related to lease contracts with underlying contractual data; - Corroborating by performing a sample the data used for the calculation of the discount rates with market data (for incremental borrowing rates were used); - Recalculating, on a sample basis, the right of use assets and lease liability and comparing with the calculations performed by the Group and the Company; - Specifically testing lease liabilities based on payments of land rent tax; - Involving our internal IFRS accounting and financial reporting specialists to support us in determining if land rent tax payments are in scope of IFRS 16; - We also assessed the appropriateness of the disclosures in Note 8 to the Financial Statements.

Other Information

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

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

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

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

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

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and/or 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 or 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 Group's 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 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

In accordance with the decision made by Shareholders on 27 October 2018 we have been chosen to carry out the audit of the Company's and the Group's Financial Statements for first year. Our appointment to carry out the audit of the Company's and the Group's Financial Statements in accordance with the decision made by Shareholders was extended for one year, and the total uninterrupted appointment period is 2 years. In addition, in accordance with the decision made by Shareholders, our appointment may be extended for a third year.

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

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

In the course of audit, we have not provided any other non-audit services except for the services of verification of bank covenant compliance, verification of regulatory activities report and translation of Financial Statements.

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

Deloitte Lietuva UAB
Audit Company License No 001275

Saulius Bakas
Lithuanian Certified Auditor
License No 000604

Vilnius, Republic of Lithuania
20 March 2020

Consolidated and Company's Statements of Financial Position

		Notes	Group		
			At 31 December 2019	At 31 December 2018	At 1 January 2018
ASSETS					
A.	**Non-current assets**		**209.346**	**206.885**	**244.429**
I.	Intangible assets	5	2.910	2.699	1.455
II.	Property, plant and equipment	6	201.362	200.031	241.976
II.1.	Land		125	125	125
II.2.	Buildings		5.183	5.288	5.464
II.3.	Structures and equipment		147.770	141.518	174.971
II.4.	Plant and machinery		37.714	39.922	50.111
II.5.	Motor vehicles		773	952	999
II.6.	Other property, plant and equipment		2.637	2.124	2.061
II.7.	Construction in progress		7.160	10.102	8.245
III.	Right-of-use assets	8	2.001	-	-
IV.	Non-current financial assets		4	998	998
IV.1.	Investments in subsidiary	7	-	-	-
IV.2.	Non-current trade receivables	10	-	998	998
IV.3	Other non-current financial assets		4	-	-
V.	Deferred income tax assets	22	3.069	3.157	-
B.	**Current assets**		**46.783**	**38.820**	**36.072**
I.	Inventories and prepayments		2.651	3.129	2.178
I.1.	Inventories	9	2.119	2.795	2.028
I.2.	Prepayments		532	334	150
II.	Amounts receivable		25.251	23.452	26.453
II.1.	Trade receivables	10	5.860	6.188	7.499
II.2.	Other receivables	10	19.391	17.264	18.954
III.	Prepaid income tax		-	1.567	-
IV.	Other financial assets	11	18.648	10.630	697
V.	Cash and cash equivalents	12	233	42	6.744
Total assets			**256.129**	**245.705**	**280.501**

(Continued in the next page)

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

Consolidated and Company's Statements of Financial Position (continued)

		Notes	Group		
			At 31 Dec 2019	At 31 Dec 2018	At 1 Jan 2018
EQUITY AND LIABILITIES					
C.	**Equity**		**137.854**	**131.242**	**171.683**
I.	Share capital		51.731	51 .731	51.731
II.	Reserves	13	74.638	99.990	130.151
II.1.	Legal reserve		5.173	5.173	5.173
II.2.	Other reserves		69.465	94.817	124.978
III.	Retained earnings (deficit)		11.485	(20.479)	(10.199)
D.	**Accounts payable and liabilities**		**118.275**	**114.463**	**108.818**
I.	Amounts payable after one year and non-current liabilities		54.075	55.805	62.709
I.1.	Non-current borrowings	14	51.739	55.357	59.333
I.2.	Lease liabilities	8	1.849	-	-
I.3.	Deferred revenue				1.501
I.4.	Non-current employee benefits	16	487	448	321
I.5.	Deferred income tax liability	22	-	-	1.554
II.	Amounts payable within one year and current liabilities		64.200	58.658	46.109
II.1.	Current borrowings	14	6.452	6.791	-
II.2.	Current portion of non-current borrowings	14	13.618	17.976	17.889
II.3.	Current portion of lease liabilities	8	160	-	-
II.4.	Current portion of non-current employee benefits	16	53	83	91
II.5.	Trade payables	17	6.967	6.423	10.169
II.6.	Advance accounts received	18	17.103	10.099	1.103
II.7.	Income tax liability		688	-	146
II.8.	Payroll-related liabilities		1.723	1.355	1.441
II.9.	Other payables and current liabilities	19	17.436	15.931	15.270
Total equity and liabilities			**256.129**	**245.705**	**280.501**

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

Acting General Manager	Nemunas Biknius		20 March 2020
Head of Accounting	Rasa Baltaragienė		20 March 2020

Company's Statement of Financial Position

		Notes	Company 31 December 2019	31 December 2018
ASSETS				
A.	**Non-current assets**		**209.215**	**207.117**
I.	Intangible assets	5	2.262	2.259
II.	Property, plant and equipment	6	201.359	200.028
II.1.	Land		125	125
II.2.	Buildings		5.183	5.288
II.3.	Structures and equipment		147.770	141.518
II.4.	Plant and machinery		37.714	39.922
II.5.	Motor vehicles		773	952
II.6.	Other property, plant and equipment		2.634	2.121
II.7.	Construction in progress		7.160	10.102
III.	Right-of-use assets	8	1.850	
IV.	Non-current financial assets		675	1.673
IV.1.	Investments in subsidiary	7	675	675
IV.2.	Non-current trade receivables	10	-	998
V.	Deferred income tax assets	22	3.069	3.157
B.	**Current assets**		**28.094**	**28.299**
I.	Inventories and prepayments		2.640	3.118
I.1.	Inventories	9	2.119	2.795
I.2.	Prepayments		521	323
II.	Amounts receivable		25.253	23.524
II.1.	Trade receivables	10	5.865	6.113
II.2.	Other receivables	10	19.388	17.411
III.	Prepaid income tax		-	1.567
IV.	Other financial assets	11	4	56
V.	Cash and cash equivalents	12	197	34
Total assets			**237.309**	**235.416**

(cont'd on the next page)

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

Company's Statement of Financial Position (continued)

		Notes	Company 31 December 2019	Company 31 December 2018
EQUITY AND LIABILITIES				
C.	**Equity**		**138.172**	**131.596**
I.	Share capital		51.731	51.731
II.	Reserves	13	74.638	99.990
II.1.	Legal reserve		5.173	5.173
II.2.	Other reserves		69.465	94.817
III.	Retained earnings (deficit)		11.803	(20.125)
D.	**Accounts payable and liabilities**		**99.137**	**103.820**
I.	Amounts payable after one year and non-current liabilities		53.945	55.805
I.1.	Non-current borrowings	14	51.739	55.357
I.2.	Lease liabilities	8	1.719	-
I.3.	Deferred revenue		-	-
I.4.	Non-current employee benefits	16	487	448
I.4.	Deferred income tax liability	22	-	-
II.	Amounts payable within one year and current liabilities		45.192	48.015
II.1.	Current borrowings	14	6.272	6.791
II.2.	Current portion of non-current borrowings	14	13.618	17.976
II.3.	Current portion of non-current borrowings	8	138	
II.4.	Current portion of non-current employee benefits	16	53	83
II.5.	Trade payables	17	4.191	5.970
II.6.	Advance accounts received	18	1.431	12
II.7.	Income tax liability		688	-
II.8.	Payroll-related liabilities		1.655	1.305
II.9.	Other payables and current liabilities	19	17.146	15.878
Total equity and liabilities			**237.309**	**235.416**

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

Acting General Manager	Nemunas Biknius		20 March 2020
Head of Accounting	Rasa Baltaragienė		20 March 2020

Consolidated and Company's Statements of Profit (loss)

		Notes	Group		Company	
			At 31 December 2019	At 31 December 2018	At 31 December 2019	At 31 December 2018
I.	**Revenue**	20	**54.756**	**54.562**	**54.217**	**54.290**
II.	**Expenses**		**(40.544)**	**(80.265)**	**(40.044)**	**(79.978)**
II.1.	Cost of natural gas		(11.336)	(10.417)	(11.336)	(10.417)
II.2.	Depreciation and amortisation		(10.159)	(12.719)	(10.032)	(12.619)
II.3.	Employee benefits and related social security contributions		(9.784)	(9.056)	(9.509)	(8.872)
II.4.	Repair and technical maintenance expenses		(3.573)	(5.256)	(3.573)	(5.256)
II.5.	Taxes other than income tax		(1.798)	(1.824)	(1.798)	(1.824)
II.6.	Telecommunications and IT maintenance expenses		(1.010)	(879)	(954)	(824)
II.7	Loss on revaluation of non-current assets			(37.686)	-	(37.686)
II.8.	Other expenses		(2.884)	(2.428)	(2.842)	(2.480)
III.	**Operating profit (loss)**		**14.212**	**(25.703)**	**14.173**	**(25.688)**
IV.	**Financing activity**	21	**(341)**	**(324)**	**(339)**	**(323)**
IV.1.	Income		12	26	13	27
IV.2.	Expenses		(353)	(350)	(352)	(350)
V.	**Profit (loss) before income tax**		**13.871**	**(26.027)**	**13.834**	**(26.011)**
VI.	**Income tax**	22	**(2.033)**	**4.419**	**(2.031)**	**4.419**
VI.1.	Current year income tax		(1.945)	(292)	(1.943)	(292)
VI.2.	Deferred income tax		(88)	4711	(88)	4.711
VII.	**Net profit (loss)**		**11.838**	**(21.608)**	**11.803**	**(21.592)**
	Basic and diluted earnings (loss) per share (EUR)	23	0,07	(0,12)	0,07	(0,12)

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

Acting General Manager	Nemunas Biknius		20 March 2020
Head of Accounting	Rasa Baltaragienė		20 March 2020

Consolidated and Company's Statements of Comprehensive Income

		Notes	Group		Company	
			At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
I.	**Net profit (loss)**		**11.838**	**(21.608)**	**11.803**	**(21.592)**
II.	**Other comprehensive income**		-	-	-	-
	II.1. will be reclassified subsequently to profit or loss		-	-	-	-
	II.2 won't be reclassified subsequently to profit or loss		-	-	-	-
III.	**Total comprehensive income (loss)**		**11.838**	**(21.608)**	**11.803**	**(21.592)**

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

Acting General Manager	Nemunas Biknius		20 March 2020
Head of Accounting	Rasa Baltaragienė		20 March 2020

Consolidated and Company's Statements of Changes in Equity

Group	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2018	**51.731**	**5.173**	**124.978**	**(10.199)**	**171.683**
Transfer from other reserves	-	-	(30.161)	30.161	-
Dividends declared	-	-	-	(20.300)	(20.300)
Total other comprehensive income (loss)	-	-	-	7.696	7.696
Balance at 31 December 2018	**51.731**	**5.173**	**94.817**	**7.358**	**159.079**
Effect of IFRS 15	-	-	-	1.467	1.467
Total other comprehensive income (loss)	-	-	-	(29.304)	(29.304)
Annual net profit (loss)	-	-	-	*(29.304)*	*(29.304)*
Balance at 31 December 2018	**51.731**	**5.173**	**94.817**	**(20.479)**	**131.242**
Transfer from other reserves	-	-	(25.352)	25.352	-
Dividends declared	-	-	-	(5.227)	(5.227)
Total comprehensive income (loss)	-	-	-	11.839	11.839
Balance at 31 December 2019	**51.731**	**5.173**	**69.465**	**11.485**	**137.854**

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

Acting General Manager	Nemunas Biknius		20 March 2020
Head of Accounting	Rasa Baltaragienė		20 March 2020

Company's Statement of Changes in Equity

Company	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2018	**51.731**	**5.173**	**124.978**	**(9.861)**	**172.021**
Transfer from other reserves	-	-	(30.161)	30.161	-
Dividends declared	-	-	-	(20.300)	(20.300)
Effect of IFRS 15	-	-	-	1.467	1.467
Total comprehensive income (loss)	-	-	-	(21.592)	(21.592)
Balance at 31 December 2018	**51.731**	**5.173**	**94.817**	**(20.125)**	**131.596**
Transfer from other reserves	-	-	(25.352)	*25.352*	-
Dividends declared	-	-	-	(5.227)	(5.227)
Total comprehensive income (loss)	-	-	-	11.803	11.803
Balance at 31 December 2019	**51.731**	**5.173**	**69.465**	**11.803**	**138.172**

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

Acting General Manager	Nemunas Biknius		20 March 2020
Head of Accounting	Rasa Baltaragienė		20 March 2020

Consolidated and Company's Statements of Cash Flows

		Group		Company	
		At 31 December 2019	At 31 December 2018	At 31 December 2019	At 31 December 2018
I.	**Cash flows from operating activities**				
I.1.	Net profit (loss)	11.838	(20.141)	11.803	(20.125)
	Adjustments for non-cash items and other corrections:				
I.2.	Depreciation and amortisation	10.159	12.719	10.032	12.619
I.3.	Loss (profit) on disposal and write-off of property, plant and equipment, doubtful trade receivables and inventories	(110)	(10)	(110)	(10)
I.4.	Loss on revaluation of property, plant and equipment	-	37.686	-	37.686
I.5.	Impairment of property, plant and equipment, financial assets, doubtful trade receivables and inventories	56	(125)	56	(125)
I.6.	Income tax expenses (benefit)	2.031	(4.419)	2.031	(4.419)
I.7.	Interest (income)	-	(25)	-	(27)
I.8.	Interest expenses	353	350	352	350
I.9.	Amortisation of deferred revenue	661	(125)	661	(125)
I.10.	Elimination of other non-cash items	35	-	34	-
	Changes in working capital:	**25.023**	**25.910**	**24.859**	**25.824**
I.11.	Decrease in inventories	950	(609)	950	(609)
I.12.	(Increase) in trade receivables	322	1.015	243	1.342
I.13.	(Increase) in other receivables and prepayments	(1.609)	(1.199)	(1.455)	(899)
I.14.	(Decrease) increase in trade payables	7.737	11.681	(102)	1.194
I.15	(Decrease) increase in other payables and current liabilities	3.451	(1.505)	3.044	(1.580)
I.16.	(Decrease) increase in other financial assets	(8.019)	(9.933)	51	35
I.17.	Income tax (paid)	(639)	(2.001)	(639)	(2.001)
	Total changes in working capital	**2.193**	**(2.551)**	**2.092**	**(2.518)**
	Net cash flows from operating activities	**27.190**	**23.359**	**26.925**	**23.306**
II.	**Cash flows from investing activities**				
II.1.	(Acquisition) of property, plant and equipment and intangible assets	(19.915)	(20.546)	(19.665)	(20.455)
II.2.	Proceeds on disposal of non-current assets	27	69	27	69
II.3.	Grants received	6.941	8.173	6.941	8.173
II.4.	Loans granted (repayment)	-	-	150	(30)
II.5.	Interest received	5	22	5	22
	Net cash flows (used) in investing activities	**(12.942)**	**(12.282)**	**(12.542)**	**(12.221)**

(cont'd on the next page)

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

Consolidated and Company's Statements of Cash Flows (continued)

		Group		Company	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
III.	**Cash flows from financing activities**				
III.1.	Dividends (paid)	(5.228)	(20.291)	(5.228)	(20.291)
III.2.	Borrowings received	10.000	20.000	10.000	20.000
III.3	Borrowings from related parties	6.452	-	6.272	-
III.4.	Borrowings (repayment)	(17.976)	(23.889)	(17.976)	(23.889)
III.5.	Overdraft	(6.791)	6.791	(6.791)	6.791
III.6.	Interest (paid)	(374)	(395)	(373)	(393)
III.7.	Payments of liabilities for right-of-use assets	(166)	-	(150)	-
III.8.	Other cash flows from financing activities	-	5	-	5
	Net cash flows from (used in) financing activities	**(14.083)**	**(17.779)**	**(14.246)**	**(17.777)**
IV.	**Net increase (decrease) in cash and cash equivalents**	**191**	**(6.702)**	**163**	**(6.692)**
V.	**Cash and cash equivalents at the beginning of the period**	**42**	**6.744**	**34**	**6.726**
VI.	**Cash and cash equivalents at the end of the period**	**233**	**42**	**197**	**34**

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

Acting General Manager	Nemunas Biknius		20 March 2020
Head of Accounting	Rasa Baltaragienė		20 March 2020

Notes to the consolidated and company's financial statements

1 General information

Amber Grid AB (hereinafter - the Company) is a public limited liability company registered in the Republic of Lithuania.
Its registered office address is as follows:
Savanorių Ave. 28,
LT – 03116, Vilnius,
Lithuania.

Amber Grid AB was registered on 25 June 2013 as a result of unbundling of natural gas transmission activity together with assets, rights and obligations attributed thereto from Lietuvos Dujos AB. The Company has been actively operating since 1 August 2013. After obtaining a positive decision from the European Commission, on 10 April 2015 the National Control Commission for Prices and Energy (as of 1 July 2019, the National Energy Regulatory Council) (hereinafter – NERC), granted to the Company an energy operator licence No L2-3 (GDP) to engage in natural gas transmission activity in the territory of Lithuania.

Acting as a natural gas transmission system operator, the Company provides the following services to the system users, other operators and gas market participants:

- natural gas transmission in the territory of Lithuania;
- natural gas flow balancing in the transmission system;
- administration of funds intended to compensate for the construction and fixed operating expenses of the liquefied natural gas (LNG) terminal, its infrastructure, connector, and with effect from 2016 for reasonable supply costs of the necessary quantity of natural gas incurred by the designated supplier.

The Company's clients are large companies (operating in the sectors of electricity, district heating and industry) and medium-sized local businesses, as well as natural gas suppliers receiving natural gas transmission services.

All the shares of the Company are ordinary registered shares with the par value of EUR 0.29 each. As at 31 December 2019 and 2018, all the shares had been fully paid. The Company did not hold its own shares. As from 1 August 2013, the Company's shares have been traded on stock exchange and quoted on the Baltic Secondary List of NASDAQ Vilnius (ISIN - LT0000128696; LEI code 097900BGMP0000061061 Ticker - AMG1L).

As at 31 December 2019 and 2018, the Company's shareholders were as follows:

	Number of shares held	Interest held (%)
EPSO-G UAB (company code 302826889, Gedimino Ave. 20, Vilnius)	172.279.125	96,58
Other shareholders	6.103.389	3,42
	178.382.514	100,00

EPSO-G UAB is wholly owned by the Republic of Lithuania. 100% of shares in EPSO-G UAB are owned under the right of trust by the Lithuanian Ministry of Energy. EPSO-G UAB is responsible for the management of the share package of the Lithuanian electricity and gas transmission system operators.

Information as of 31 December 2019, 31 December 2018 and 1 January 2018, on the subsidiary included in Amber Grid AB group is given below:

1 General information (continued)

Company	Registered office address	Shareholding At 31 December 2019	At 31 December 2018	At 1 January 2018	Profile of activities
GET Baltic UAB	Geležinio Vilko St. 18A, LT- 08104 Vilnius, the Republic of Lithuania		100 %		Licensed activities of natural gas market operator, when trading spot and forward natural gas products

The authorized capital of GET Baltic UAB as at 31 December 2019, 31 December 2018 and 1 January 2018 was EUR 580,450 and consisted of 3,055,000 shares valued at EUR 0.19.

Information on the investment in the subsidiary is disclosed in Note 7.

The Company's investment in the subsidiary in the Company's financial statements for 2019, 2018 and 2017 is stated at cost.

The Company did not prepare consolidated financial statements in previous periods, subject to the exceptions provided for in the Law on Consolidated Financial Reporting by Groups or Undertakings of the Republic of Lithuania and the Seventh Directive of the European Parliament and of the Council. Given the increasing significance of the subsidiary's financial data each year, failure to provide the consolidated financial statements would, in the Company's estimation, be material in assessing Amber Grid AB group's assets, liabilities, performance results, cash flows, and reporting to users when making proper economic decisions. For this reason, the Company prepared its consolidated financial statements as of 2019 in accordance with the provisions set out in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, i.e. retrospectively presenting comparative consolidated financial data for prior periods and disclosing them in the notes.

As at 31 December 2019, the average number of employees of the Group was 329 (31 December 2018: 343, 1 January 2018: 359), and the Company's – 323 employees (31 December 2018: 339).

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 2019 are set out below:

2.1. Basis of preparation

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

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment losses.

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

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

The Company's management approved these financial statements on 20 March 2020. 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 2019 are as follows:

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

Lessee recognizes:

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

1 January 2019, the Company and the Group first adopted IFRS 16 and its amendments using a modified retrospective method, in which rights-of-use assets and liabilities were recognized in equal amounts, without any adjustment to equity. For impact of first-time adoption of IFRS 16 on the statement of financial position as of 1 January 2019, measurement, disclosure, and impact on 31 December 2019 for the financial statements, see Note 8 to this Explanatory Note.

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

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

Lessor recognizes:

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

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

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

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

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

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

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

- Improvement to **IFRS 3** clarifies that the acquirer shall reassess its previous interest in the joint venture when it acquires control of the business; IFRS 11 now specifies that an investor need not reassess its previously held interest when it acquires joint control of a joint operation.
- Improvements to **IAS 12** clarify that an entity recognizes the full income tax consequences of dividends if it has recognized any transactions or events that have resulted in a related distributable profit.
- Improvements to **IAS 23** clarify that borrowings that are specifically borrowed to finance a specific asset, when the asset is substantially complete or available for sale, the balance of such outstanding borrowings is included in gross capitalized borrowing costs.

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

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

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

1. **Amendments to Conceptual Framework for Financial Reporting** (effective for annual periods beginning on or after 1 January 2020). The Conceptual Framework provides a comprehensive set of concepts that is used in the preparation of financial statements, standards, and accounting policies. The revised Conceptual Framework introduces a new chapter on valuation, provides reporting guidance on financial performance, and clarifies definitions. The IASB has also issued a separate accompanying document, Amendments to References to the IFRS Conceptual Framework, which contains amendments to the related standards to update references to the revised Conceptual Framework. It is also intended to facilitate the transition of companies to a revised Conceptual Framework when such companies prepare accounting policies based on the Conceptual Framework and where no IFRS can be applied in a particular case. If accounting policies are prepared on the Conceptual Framework, it should be complied with for periods beginning on or after 1 January 2020.
2. **Amendments to IAS 1 and IAS 8 - Definition of Material** (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance, which have so far been reflected in other IFRSs, clarifications have been added to the definition. The amendments ensure that the definition of material is applied consistently across all IFRSs. Information is considered to be material if its omission or misstatement could reasonably be expected to affect the decisions of key users of the financial statements that are made on the basis of the financial statements that present the financial information of the particular reporting entity. Currently, the Group and the Company are assessing the future impact on the financial statements.

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

   a) it affects specific hedge accounting requirements: an entity may assume that the reform does not change the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based;

   b) mandatory for all hedges directly affected by the interest rate benchmark reform;

   c) the relief does not apply in circumstances arising from the reform (if hedges no longer meet hedge accounting requirements for reasons other than changes), it is required to discontinue hedge accounting;

   d) additional disclosures about the effect of reform and change on hedges.

   In the opinion of the Group and the Company, these amendments will not have a material impact on the financial statements as the Group and the Company do not have hedges

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

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

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

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

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

2.2 Presentation currency

All amounts in these financial statements have been measured and presented in the euros (EUR), which is an official currency of the Republic of Lithuania.

2.3 Principles of consolidation

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

Subsidiary is consolidated from the date from which effective direct or indirect control is transferred to the Company. It is 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.

2.4 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 balance sheet exceeds its estimated recoverable amount.

2.5 Intangible assets

The Company's and the Group's intangible assets are recognised if it is probable that future economic benefits (for at least one year) that are attributable to the asset will flow to the Company and the cost of asset can be measured reliably. Intangible assets are carried at a revalued amount. See Note 5.

The useful lives of intangible assets other than those with indefinite useful lives are 4 to 8 years.

After initial recognition, intangible assets are stated at revalued amount less accumulated amortisation and impairment losses, if any. Goodwill is measured initially at the positive difference between the acquisition cost and net assets acquired, and is measured initially at acquisition cost less accumulated impairment losses, if any.

Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The useful lives, residual values and amortisation method are reviewed annually to ensure they are consistent with the expected pattern of economic benefits from items of non-current intangible assets. Intangible assets mainly consist of software, licences and other intangible assets used in the Company's and the Group's activities.

2.6 Property, plant and equipment

Asset is classified as property, plant and equipment if its useful life is longer than one year.

Property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations performed by independent valuers, less accumulated depreciation and impairment losses (Note 6).

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

Interest and other borrowing costs (such as the bank's administration fee, etc.) are included in the acquisition cost of property, plant and equipment if they are directly attributable to the acquisition of a qualifying asset. A qualifying asset is regarded to be an asset which is developed on the basis of a project the value of which is not less than EUR 1 million and the preparation of which for its intended use or sale takes no less than 12 months.

Borrowing costs that are attributable to the acquisition of a qualifying asset are capitalised as part of the cost of that asset. The capitalisation of borrowing costs is started when costs related to the production or acquisition of the qualifying asset are incurred (a prepayment is made or a payment for works is made according to the signed statement on the works carried out and their respective value) and ended when all the activities necessary for the preparation of the qualifying asset for its intended use or sale are substantially complete (a statement on the recognition of the construction as fit for use is signed). While determining the amount of borrowing costs eligible for the capitalisation of costs incurred in the acquisition of qualifying assets, the capitalisation rate is applied.

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

Reserve inventories for emergency elimination that meet the criteria of non-current assets are classified as property, plant and equipment. The carrying amount of inventories written off during repair, technical maintenance and emergency liquidation are recorded in the profit (loss) statement or added to the carrying amount of assets under maintenance.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Land	
Buildings	25 - 60 years
Other construction and engineering networks	18 – 20 years
Gas pipelines and associated equipment	55 – 70 years
Plant and machinery	5 - 25 years
Motor vehicles	7 years
Other property, plant and equipment	4 - 10 years

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The Company has land with indefinite useful life, which is not depreciated.

Construction in progress is stated at cost. This includes the cost of building, structures and equipment and other directly attributable costs. Construction in progress is not depreciated until the construction of asset is completed and the asset is put into operation. Prepayments for property, plant and equipment are classified as property, plant and equipment as they are used in non-current activities and are included in the balance sheet under the caption Construction in Progress.

Impairment of property, plant and equipment and intangible assets

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

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

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

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

2.7 Financial assets

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

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

The classification of financial assets after the initial recognition into the categories described above is based on the business model used by the Company in managing financial assets. The business model applied to financial assets group is determined at a level reflecting how all financial assets groups are jointly managed to achieve the Company's specific business objectives. The business model applied is not influenced by the intentions of the Company's management regarding individual measures. The company can apply more than one business model for managing its financial asset.

The business model applied to financial asset management is based not only on the assertion but rather on the facts that can be seen from the activities the Company is pursuing in pursuit of the business model objectives.

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

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

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

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

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

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

Loans and receivables issued by the Group and the Company are accounted for in accordance with a business model designed to hold financial assets in order to collect the contractual cash flows that may arise from cash flows related to principal debt and interest income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognized as current assets, except for those loans and receivables with a maturity of more than 12 months after the statement of financial position; in this case, loans and receivables are recognized as non-current assets.

Loans and receivables are initially recognized at cost (fair value of receivable) and subsequently amortized cost using the effective interest method. Gains and losses are recognized in the income statement when such assets are derecognised, impaired or amortized.

<u>Financial assets at fair value through profit or loss</u>

The Group and the Company accounts for financial assets that are measured at fair value in subsequent periods by recognizing a change in fair value through profit or loss using a business model that is achieved through the collection of contractual cash flows and the sale of financial assets.

The Group and the Company does not have financial assets held for trading that are acquired for the purpose of selling in the near future, and only classifies this category as financial assets that arise from the disposal of a business or investment and is not an equity contingent consideration.

Effective interest method

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

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

Expected credit losses

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

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

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

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

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

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

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

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

Credit impaired financial assets

The value of a financial asset is impaired by the credit risk of one or more events that adversely affect the estimated future cash flows of that financial asset. Evidence of impairment of financial assets due to credit risk is based on observations based on the following events:
(a) significant financial difficulties for the debtor;
(b) breach of contract, such as overdue debt or down payment;
(c) a discount granted to the debtor which the lender would not otherwise have granted for economic or contractual reasons related to the debtor's financial difficulties;
(d) increased likelihood of the bankruptcy or other financial reorganization of the debtor;
(e) active market for financial assets tails away as a result of financial difficulties;
(f) financial assets are purchased or granted at a significant discount, showing credit losses.

Impairment of financial assets due to credit risk may be determined by several events that may occur simultaneously or sequentially during the life of the financial asset contract.

The amount of expected credit losses on loans receivable and trade receivables in full is accounted for through profit or loss using the contingent accounts receivable.

The Company debits receivables and trade receivables when it loses the right to the cash flows of the financial assets specified in the contract.

Derecognition of financial asset

A financial asset is derecognized by the Company 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 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:
  - if the Company fails to retain control if the financial asset, it is derecognised by the Company, whereas all established or retained rights and obligations under transference are recognised separately as assets or obligations;
  - if the Company retains the control of the financial asset, it continues recognising it insofar as it controls the financial asset.

When assessing whether the Company retained the control of the transferred assets, consideration is given to the capacity of the recipient to sell these assets. If the recipient is practically capable to sell all assets to an unrelated third party and perform this unilaterally, without applying additional restrictions to the transference, it is considered that the Company has failed to retain the control. In all other cases, the Company retains the control.

Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

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

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense is recognized using the effective interest rate method.

If a financing agreement concluded before the date of the statement of financial position proves that the liability was non-current as of the date of the statement of financial position, that financial liability is classified as non-current.

Trade payables

Trade payables represent commitments to pay for goods and services acquired from suppliers in the ordinary course of business.

Trade payables are classified as current liabilities if the term of their settlement is no longer than one year; otherwise they are included in non-current liabilities.

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.

2.8 Inventories

Inventories of the Company consist of spare parts, consumables, and natural gas contained in the gas pipelines used for the purpose of activities and the provision of services. Inventories also include waste or metal scrap which is fit for use and was retrieved from written off tangible fixed assets.

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 that are not subsequently recovered from tax administration authorities and costs associated with bringing inventory into their current condition and location. Other costs are included in the acquisition cost of inventories to the extent they are related to bringing inventory into their current condition and location. The acquisition cost of inventories is determined by eliminating trade discounts.

The cost of inventories, except for natural gas, is determined using the first-in, first-out (FIFO) method, according to which write-offs are firstly carried out in respect of the same type of inventories that were acquired first.

The acquisition cost of inventories which consist of natural gas contained in the gas pipelines is determined using the weighted average costing method. The acquisition cost of one unit of energy of natural gas (kWh) is determined by applying the weighted average costing method using the following formula:
acquisition cost of one unit of energy of natural gas (kWh) = (remaining amount of natural gas at the beginning of the period (quantity * price) + purchases of natural gas over the period (quantity * price)) / quantity of natural gas (remaining amount of natural gas at the beginning of the period + purchases of natural gas over the period).

On the basis of the price of natural gas calculated as stated above, the remaining amounts of natural gas contained in the gas pipelines and the acquisition of natural gas consumed are evaluated.

2.9 Cash and cash equivalents

Cash includes cash at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

If there are indications that cash and cash equivalents may not be recovered, an assessment for impairment is carried out. Impairment is recorded in the profit (loss) statement within operating expenses for the period during which it occurred.

2.10 Grants

Grants mean financial and material support rendered by state and the European Union for specific activities. Assets received free of charge are also allocated to the group of grants.

Grants are recognised when the Company complies with all the conditions related to the allocation of grants as established in the respective grant agreement and there is a reasonable assurance that the grant will be received.

Grants may be of two types:

- asset-related grants;
- income-related grants

Grants received from the state or the European Union in the form of non-current assets or intended for the purchase of non-current assets are considered as asset-related grants.

As of 2017, the Company and the Group have changed their accounting policies for grants. Until 2017, grants for non-current assets were recognized in the deferred income of the statement of financial position; and from 2017, grants are accounted for by reducing the carrying amount of the related asset. Grants in the statement of profit and loss and other comprehensive income are recognized over the useful life of the related asset by reducing the depreciation expenses.

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.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as income-related grants. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period to be compensated by that grant.

For the purpose of the profit (loss) statement, income-related grants are recognised when related expenses are incurred for the compensation of which the grant was allocated by reducing related expenses. If no connection can be established between grants and incurred or deferred expenses, they are recognised as income during the period they are received or when the Company complies with all the conditions related to the allocation of grants as established in the respective grant agreement and there is a reasonable assurance that the grant will be received.

2.11 Lease liabilities

Initial recognition of lease liability

The amount of the initial recognition of lease liability is calculated as the present value of unpaid lease payments at the commencement date.

Lease payments are discounted at incremental borrowing rate. The incremental borrowing rate is determined by the rate at which the Company would be able to borrow funds for the purpose of acquiring certain assets for a respective period.

At the commencement date, lease payments included in the measurement of a lease liability include:

- fixed fees less any lease incentives receivable;
- variable lease payments, which are dependent on index or rate;
- amounts payable by the Company under the residual value guarantees;
- the exercise price of the call option, if it is reasonably known that the Company will exercise that option;
- penalties for cancellation of the lease, provided that the Company exercises the option to terminate the lease during the term of the lease.

Subsequent recognition of lease liability

Subsequent to initial recognition, a change in the value of the lease liability is recognized as follows:

- - by increasing the value of the liability at the interest accrued;
- - by reducing the carrying amount be lease payments made;
- - by re-assessing the liability for lease changes or revised payments

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

Re-assessment of lease liability

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

Revised discount rate

The Company reassesses the lease liability by discounting the revised lease payments, using the revised discount rate if the lease period changes. The Company calculates the revised lease payments on the basis of the revised lease term or whenever there is a change in the option to purchase the leased property, depending on events and circumstances, in the context of the option to purchase.

In the event of a change in the lease term or a change in the option to purchase, the Company sets the revised discount rate as the lessee's incremental borrowing rate at the revaluation date.

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

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

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

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

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

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

2.12 Long-term 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.

2.13 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 2019 and 2018. Current year income tax may be reduced by tax losses carried forward. 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%. In addition, the Company can take over tax losses of the Group of companies when the requirements laid down in Law on Corporate Income Tax are met.

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.

2.14 Revenue recognition

Revenue is recognised at the moment of transfer/rendering of services to the client at such value that would reflect remuneration and which the Company will receive for the services rendered. There are no complex services that would stand out as well as any discounts or exemptions applied to the contract price. Revenue is recognised on an accrual basis, i.e. when earned (production is sold or services are rendered), regardless of the time receivables are received.

The Company's revenue includes as follows:

- revenue from natural gas transmission and related services;
- revenue from LNGT administration;
- other income;
- connection fee for connecting new users to the gas transmission network ;
- revenue from financial activities.

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

Revenue from balancing of the natural gas transmission system and the disbalance charges are related to the management of gas flows aimed at ensuring the operation of the natural gas transmission system within acceptable pressure range.

Revenue from technological balancing of natural gas is related to changes in the inventories of natural gas contained in the pipelines. The proceeds from the sale of such inventories to a buyer are recorded as revenue when the ownership of gas is passed on to the buyer.

Based on the provisions of Article 5(2) of the Republic of Lithuania Law on Liquefied Natural Gas Terminal, the Company carries out the functions of an administrator of the LNG terminal funds. The administration of the LNG terminal funds is performed in accordance with the Description of the procedure for the administration of funds intended to compensate for the construction and fixed operating expenses of the liquefied natural gas terminal, its infrastructure and connector, including subsequent amendments and supplements (the title was changed on 17 December 2015 under the Commission's Resolution No 03-653 of 18 December 2015), as approved by the Commission's Resolution No O3-294 of 9 October 2012. The Company collects and administrates the LNG terminal funds and acts as an intermediary on behalf of the state, and this activity does not generate any income/profit for the Company in the ordinary course of business. The LNG terminal funds, which are collected from the payers of the LNG terminal funds, are transferred to the beneficiaries of the LNG terminal funds: the LNG terminal operator, the designated supplier, and Amber Grid AB. The share of the LNG terminal funds, only which is intended to cover the administration expenses of the LNG terminal funds, is considered as the Company's income (Note 17). LNG terminal fund administration amount is calculated as the amount of the expected costs incurred, taking into account the actual costs incurred for the previous periods and determined in NERC certificate. LNG terminal funds are not treated as the Company's income/expenses, but are accounted for as other receivables/other payables and other financial assets.

Other income

Gain from sale and lease of property, plant and equipment, as well as default charges and fines to be received from contractors for delay in the execution of works, are recognised by the Company as other income. Other operating income in the Group includes the income of the subsidiary from the operations of a natural gas exchange operator.

The amounts collected by the exchange operator for the services provided in the course of trading shall be recognized by applying the service fees agreed with NERC:

- Pre-registration fee - a one-time fee paid upon becoming a member of the Exchange;
- Annual membership fee - a fixed fee for membership of the Exchange payable each year to the Exchange. The annual membership fee is paid for the calendar year (if the market participant has become the exchange participant during the year, calculated in proportion to the remaining number of days);
- Variable fee - a fee, expressed in EUR per 1 MWh, payable by a participant to a transaction for the amount of natural gas purchased and / or sold on the Exchange.

Connection fee for connecting new users to the gas transmission network

Payments for connecting new users or producers to the transmission network is recognized as income by the Company as soon as a new user or producer is connected in cases where the future price paid by the new user or producer for the services provided by the Company does not differ from other users or producers who have not paid such connection fees. This accounting principle is based on the assessment of the Company's management that the customer's connection is a separate service from other services of the Company as defined in IFRS 15 Revenue under Contracts with Customers. The impact of this standard was first assessed at the end of the 2018 reporting period in the Statement of Changes in Equity.

Finance income

Finance income constitutes the income the Company earned from its financial activities, such as foreign exchange gain, interest income on deposits, fines and late payment interest received, interest receivable on loans granted to buyers, gain on disposal of investments, and gain resulting from the change in the fair value of investments.

2.15 Foreign currencies

Foreign currency transactions are accounted for at the official exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognised in the profit (loss) statement. Such balances are translated at the period-end exchange rates.

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

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group's and the Company's principal financial assets not reflected at fair value are cash and cash equivalents, trade and other receivables, trade and other payables and loans.

Fair value is defined as the price at which on a valuation date an asset would be sold, under proper transaction, between market participants. The fair value of a financial asset is not less than the amount discounted from the first day that it could be required to pay up.

As at 31 December 2019 and 2018, the carrying amount of a financial asset is close to its fair value.

2.17 Use of accounting estimates in the preparation of the financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management of the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation for property, plant and equipment (Note 2.6 and Note 0) and deferred income tax asset (Note 2.13 and Note 0). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.18 Contingencies

Contingent liabilities are not recognised, but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

2.19 Subsequent events

Subsequent events that provide additional information about the Company's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

2.20 Inter-company offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not offset, except for those cases where a certain standard specifically permits or requires such offsetting.

3 Segment reporting

The Group singles out 2 operating segments: 1) natural gas transmission operations and 2) natural gas exchange operator activities.

All non-current assets of the Group are located in Lithuania, where the Company operates.

In 2019, the Group generated 70 % (2018: 66 %) of its total revenue from the system users in Lithuania, and 29 % (2018: 34 %) of revenue totalled from transportation of gas to adjacent transmission systems accounted for 1% of revenue originated from the revenue from services provided by the Natural Gas Exchange.

The Group’s information on the segments as of 31 December 2019 is disclosed below:

2019	**Transmission activity**	**Gas market activity**	**Total**
Revenue	54.217	595	54.812
Revenue after elimination of intercompany revenue	54.213	543	54.756
Operating profit (loss)	14.173	39	14.212
Finance income (cost), net	(339)	(2)	(341)
Profit (loss) before income tax	13.834	37	13.871
Income tax	(2.031)	(2)	(2.033)
Net profit (loss)	11.803	35	11.838
Depreciation and amortisation expenses	10.032)	(127)	(10.159)
Write-offs of property, plant and equipment	84	-	84

The Group’s information on the segments as of 31 December 2018 is disclosed below:

2018	**Transmission activity**	**Gas market activity**	**Total**
Revenue	54.290	378	54.668
Revenue after elimination of intercompany revenue	54.279	283	54.562
Operating profit (loss)	(25.688)	(15)	(25.703)
Finance income (cost), net	(323)	(1)	(324)
Profit (loss) before income tax	(26.011)	(16)	(26.027)
Income tax	4.419	-	4.419
Net profit (loss)	(21.592)	(16)	(21.608)
Depreciation and amortisation expenses	(12.619)	(100)	(12.719)
Write-offs of property, plant and equipment	59	-	59

As at 31 December 2019, there were three Group‘s customers each of which generated revenues in excess of 10 % of the Company's total revenue. These revenues totalled EUR 40,120 thousand. They are as follows:

Customer A – EUR 16,488 thousand;
Customer B – EUR 14,114 thousand;
Customer C – EUR 9,518 thousand.

As at 31 December 2018, there were three Group‘s customers each of which generated revenues in excess of 10 % of the Company's total revenue. These revenues totalled EUR 40,612 thousand. They are as follows:

Customer A – EUR 18,555 thousand;
Customer B – EUR 13,421 thousand;
Customer C – EUR 8,636 thousand.

4 Intangible assets

Movement in intangible assets account during the reporting period and the previous period is as follows:

	Group			
	Patents, licences	Computer software	Other intangible assets	Total
At 1 January 2018	**227**	**1.193**	**35**	**1.455**
Acquisition value (revaluation amount)	**320**	**1.320**	**41**	**1.681**
Accumulated amortisation	(93)	(127)	(6)	(226)
Residual value at 1 January 2018	**227**	**1.193**	**35**	**1.455**
Acquisitions	-	1.633	-	1.633
Write-offs	-	-	-	-
Amortisation	(69)	(301)	(19)	(389)
Residual value at 31 December 2018	**158**	**2.525**	**16**	**2.699**
Acquisition value (revaluation amount)	**279**	**2.718**	**27**	**3.024**
Accumulated amortisation	(120)	(193)	(12)	(325)
Residual value at 31 December 2018	**159**	**2.525**	**15**	**2.699**
Acquisitions	-	971	106	1.077
Write-offs	-	-	-	-
Amortisation	(55)	(800)	(11)	(866)
Residual value at 31 December 2019	**104**	**2.696**	**110**	**2.910**
Acquisition value (revaluation amount)	279	3.689	133	4.101
Accumulated amortisation	(175)	(993)	(23)	(1.191)
Residual value at 31 December 2019	**104**	**2.696**	**110**	**2.910**

The Group's part of property, plant and equipment with the cost of EUR 57 thousand as at 31 December 2019 (2018: EUR 0,2 thousand) has been fully depreciated but is still in use

	Company			
	Patents, licences	Computer software	Other intangible assets	Total
At 1 January 2018	**82**	**907**	**19**	**1.008**
Acquisition value (revaluation amount)	82	907	19	1.008
Accumulated amortisation	-	-	-	-
Residual value at 1 January 2018	**82**	**907**	**19**	**1.008**
Acquisitions	-	1.541	-	1.541
Write-offs	-	-	-	-
Amortisation	(41)	(235)	(14)	(290)
Residual value at 31 December 2018	**41**	**2.213**	**5**	**2.259**
Acquisition value (revaluation amount)	41	2.213	5	2.259
Accumulated amortisation	-	-	-	-
Residual value at 31 December 2018	**41**	**2.213**	**5**	**2.259**
Acquisitions	-	760	-	760
Write-offs	-	-	-	-
Amortisation	(27)	(725)	(5)	(757)
Residual value at 31 December 2019	**14**	**2.248**	-	**2.262**
Acquisition value (revaluation amount)	41	2.973	5	3.019
Accumulated amortisation	(27)	(725)	(5)	(757)
Residual value at 31 December 2019	**14**	**2.248**	-	**2.262**

5 Property, plant and equipment

Movement in Property, plant and equipment during the reporting period and the previous period is as follows:

	Group							
	Land	Buildings	Structures and equipment	Machinery and equipment	Motor vehicles	Other PPE	Construction in progess	Total
At 1 January 2018	**125**	**5.464**	**174.971**	**50.111**	**999**	**2.061**	**8.245**	**241.976**
Acquisition value (revaluation amount)	125	5.464	174.971	50.111	999	2.064	8.245	241.979
Accumulated depreciation	-	-	-	-	-	(3)	-	(3)
Residual value at 1 January 2018	**125**	**5.464**	**174.971**	**50.111**	**999**	**2.061**	**8.245**	**241.976**
Additions	-	-	417	530	290	235	6.689	8.161
Disposals and write-offs	-	(9)	(68)	(11)	-	(1)	-	(89)
Reclassifications	-	75	1.663	2.201	-	893	(4.832)	-
Revaluation (loss)	-	-	(29.764)	(7.922)	-	-	-	(37.686)
Amortisation	-	(242)	(5.701)	(4.987)	(337)	(1.064)	-	(12.331)
31 December 2018	**125**	**5.288**	**141.518**	**39.922**	**952**	**2.124**	**10.102**	**200.031**
Acquisition value (revaluation amount)	125	5.288	141.518	39.922	952	2.124	10.102	200.031
Accumulated depreciation	-	-	-	-	-	(5)	-	(5)
Residual value at 31 December 2018	**125**	**5.288**	**141.518**	**39.922**	**952**	**2.119**	**10.102**	**200.026**
Additions	-	-	23	34	40	208	10.436	10.741
Disposals and write-offs	-	(25)	(93)	(5)	-	(1)	-	(124)
Acquired from inventories	-	-	3	-	-	-	-	3
Write-off to inventories	-	-	(159)	-	-	-	-	(159)
Reclassifications	-	166	10.593	1.273	-	1.346	(13.378)	0
Amortisation	-	(246)	(4.115)	(3.510)	(219)	(1.035)	-	(9.125)
31 December 2019	**125**	**5.183**	**147.770**	**37.714**	**773**	**2.637**	**7.160**	**201.362**
Acquisition value (revaluation amount)	125	5.429	151.885	41.224	992	3.679	7.160	210.494
Accumulated depreciation	-	(246)	(4.115)	(3.510)	(219)	(1.042)	-	(9.132)
Residual value at 31 December 2019	**125**	**5.183**	**147.770**	**37.714**	**773**	**2.637**	**7.160**	**201.362**

	Company							
	Land	Buildings	Structures and equipment	Machinery and equipment	Motor vehicles	Other PPE	Construction in progess	Total
At 1 January 2018	**125**	**5.464**	**174.971**	**50.111**	**999**	**2.058**	**8.245**	**241.973**
Acquisition value (revaluation amount)	125	5.464	174.971	50.111	999	2.058	8.245	241.973
Accumulated depreciation	-	-	-	-	-	-	-	-
Residual value at 1 January 2018	**125**	**5.464**	**174.971**	**50.111**	**999**	**2.058**	**8.245**	**241.973**
Additions	-	-	417	530	290	233	6.689	8.159
Disposals and write-offs	-	(9)	(68)	(11)	-	(1)	-	(89)
Reclassifications	-	75	1.663	2.201	-	893	(4.832)	-
Revaluation (loss)	-	-	(29.764)	(7.922)	-	-	-	(37.686)
Amortisation	-	(242)	(5.701)	(4.987)	(337)	(1.062)	-	(12.329)
31 December 2018	**125**	**5.288**	**141.518**	**39.922**	**952**	**2.121**	**10.102**	**200.028**
Acquisition value (revaluation amount)	125	5.288	141.518	39.922	952	2.121	10.102	200.028
Accumulated depreciation	-	-	-	-	-	-	-	-
Residual value at 31 December 2018	**125**	**5.288**	**141.518**	**39.922**	**952**	**2.121**	**10.102**	**200.028**
Additions	-	-	23	34	40	206	10.436	10.739
Disposals and write-offs	-	(25)	(93)	(5)	-	(1)	-	(124)
Acquired from inventories	-	-	3	-	-	-	-	3
Write-off to inventories	-	0	(159)	-	-	-	-	(159)
Reclassifications	-	166	10.593	1.273	-	1.346	(13.378)	0
Amortisation	-	(246)	(4.115)	(3.510)	(219)	(1.038)		(9.128)
31 December 2019	**125**	**5.183**	**147.770**	**37.714**	**773**	**2.634**	**7.160**	**201.359**
Acquisition value (revaluation amount)	125	5.429	151.885	41.224	992	3.672	7.160	210.487
Accumulated depreciation	-	(246)	(4.115)	(3.510)	(219)	(1.038)	-	(9.128)
Residual value at 31 December 2019	**125**	**5.183**	**147.770**	**37.714**	**773**	**2.634**	**7.160**	**201.359**

The Group's part of property, plant and equipment with the revaluation of EUR 199 thousand as at 31 December 2018 (31 December 2018: EUR 0,3 thousand) was fully depreciated but still in use.

During 2019, borrowing costs (interest) capitalised (included in the cost of non-current assets) amounted to EUR 47 thousand (2018: EUR 49 thousand). The annual interest capitalisation rate in 2019 was 0.480% (2018: 0.480 %).

<u>Valuation of fixed assets in 2019</u>

The Company assesses, at least annually, whether there is any indication that the property, plant and equipment at revalued amounts may be materially different from its fair value and conducts an impairment test. The company assessed changes in regulatory environment as at 2018, revaluated property, plant and equipment and accounted for impairment based on valuation of property, plant and equipment as at 31 December 2018.

The Company's property, plant and equipment as at 31 December 2019 amounts to EUR 201,359 thousand. The fair value of these assets was tested by cash flow projections up to 2025 and by adding the discounted continuity value after 2025.

Key assumptions applied in the impairment test as at 31 December 2019:

a) 3.67% discount rate was used for discounting cash flows;

b) In 2020, the return on investment of 3.38% set by the National Energy Regulatory Council (NERC) was applied that will increase to 3.72% as a result of the NERC's update of the methodology for determining the rate of return on investment (hereinafter – WACC methodology);

c) The value of the continuing flow shall be determined by comparing the rate of return on investment (4.32% before tax) with the discount rate;

d) The Company's profit arising from the operational efficiency as at 2019 exceeding the defined return on investment will be partially refunded to system users in the future (by reducing the cost of services).

Considering that the regulatory environment as at 2019 did not experience significant changes, taking into account all of the above assumptions and after the valuation of the fair value of the assets, the Company has determined that the carrying amount of property, plant and equipment as at 31 December 2019 has not changed materially at the reporting date. Accordingly, the Company's management made a decision not to make any fair value adjustments to the assets.
The rates of return on assets set by the National Commission for Energy Control and Prices, has the greatest impact on the Company's recoverable amount of non-current assets.

The table below provides quantitative information on the most significant data unobservable in the market used to test (check up) the fair value of property, plant and equipment at Level 3 of the valuation hierarchy:

Fair value of tested property, plant and equipment as at 31 December 2019 *	**Unobservable inputs**	**Estimate for the inputs**	**Range of possible estimated inputs for sensitivity**	**Relationship of unobservable inputs to fair value**
198.972	Post tax discount rate	3,67 %	3,17 % - 4,17 %	The higher the discount rate, the lower the fair value
	Rate of return on regulated assets during regulation period 2019 - 2025	3,38 %/3,72 %	2,88 % - 4,22 %	The higher the return rate, the higher the fair value
	Rate of return on regulated assets after 2025	4,32 %	-	The higher the return rate, the higher the fair value

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

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

Sensitivity to changes in discount rate by percentage points:

Change in discount rate	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax	Effect on statement of comprehensive income / revaluation reserve before tax
+0,5 %	194.374	(4.664)	-
-0,5 %	203.515	4.477	-

In the Company's opinion, its discount rate might change if the inputs for calculating WACC (weighted average cost of capital) changes. The WACC is sensitive to general changes in economy and the financial sector. There is currently nothing to suggest these changes might occur in the near future, therefore, uncertainties related to assumptions (fluctuations in ratios) are minimal. In the opinion of the Company's management, these uncertainties will remain in the long term, even though adjustments will be made to WACC inputs at the end of each year.

Sensitivity to changes in return on investments during 2021–2025 by percentage points:

Change in rate of return on investments during regulation period 2021 - 2025	Value of PP&E valued using the income method	Effect on profit before tax	Effect on statement of comprehensive income / revaluation reserve before tax
+0,5 %	202.093	3.055	-
-0,5 %	195.850	(3.188)	-

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

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

The major construction in progress items of the Company and the Group as at 31 December 2019 and 2018, and 1 January 2018 were as follows:

Items	**As at 31 December 2018**	**As at 31 December 2018**	**As at 1 January 2018**
Implementation of the gas interconnection Poland-Lithuania in the territory of Lithuania	4.304	4.019	3.998
Modernisation of the Panevėžys compression station		-	605
Installation of control device releasing and receiving chambers	391	4.576	1.776
Reconstruction of gas distribution stations in Jonava and Alytus	-	991	1.146
Implementation of operative technological control of gas transmission system	1.012	-	-
Construction of the gas transmission pipeline Vilnius-Kaunas and the connection Kaunas-Šakiai	551	551	551
Automation of the maintenance of a cathodic protection of the gas transmission pipelines by installing a remote monitoring and management system	-	-	77
Other	1482	545	672
[1] Less: impairment of construction in progress	-580	-580	-580
	7.160	**10.102**	**8.245**

1) Impairment of EUR 551 thousand was recognised for the project 'Construction of the gas transmission pipeline Vilnius-Kaunas and the connection Kaunas-Šakiai' (territory planning and engineering design services) because the construction of the gas pipeline was postponed for later periods and uncertainties arose regarding the resolution of a financing issue and the project's further development.

6 Investments in subsidiary

As at 31 December 2019 and 2018, the Company's investments comprised as follows:

Subsidiary	**Investment cost**	**Impairment**	**Carrying amount**	**Ownership interest, %**
At 31 December 2019				
GET Baltic UAB	769	(94)	675	100
Total	769	(94)	675	
At 31 December 2018				
GET Baltic UAB	769	(94)	675	100
Total	769	(94)	675	

7 Right-of-use assets and lease liabilities

As stated below, the Group and the Company leases office space, vehicles, and land. Lease terms for premises - 8-9 years, vehicles - 4 years, land - 99 years. The Group and the Company, in recognizing its right-of-use assets and lease liabilities by determining the lease terms assessed the likelihood of contract extension.

	Group			
	Buildings	Land	Motor vehicles	Total
Initial value of recognised assets at 1 January 2019*	**749**	**1.278**	**-**	**2.027**
Acquisitions	152	-	16	168
Write-offs	(30)	-	-	(30)
Amortisation	(148)	(13)	(3)	(164)
Residual value at 31 December 2019	**723**	**1.265**	**13**	**2.001**
Initial value	871	1.278	16	2.165
Accumulated depreciation	(148)	(13)	(3)	(164)
Residual value at 31 December 2019	**723**	**1.265**	**13**	**2.001**

* The Company and its subsidiary as at 1 January 2019 and in prior periods did not have non-current assets held on a finance lease basis.

	Company		
	Buildings	Land	Total
Initial value of recognised assets at 1 January 2019*	**749**	**1.278**	**2.027**
Acquisitions	-	-	-
Write-offs	(30)	-	(30)
Amortisation	(134)	(13)	(147)
Residual value at 31 December 2019	**585**	**1.265**	**1.850**
Initial value	719	1.278	1.997
Accumulated depreciation	(134)	(13)	(147)
Residual value at 31 December 2019	**585**	**1.265**	**1.850**

* The Company as at 1 January 2019 and in prior periods did not have non-current assets held on a finance lease basis.

As the useful life of the right-of-use assets is longer than the lease term, depreciation is calculated from the commencement date of the lease to the end of the lease term.

	Group	Company
	At 31 December 2019	At 31 December 2019
Carrying amount at the beginning of the period	2.027	2.027
Recognition of lease liabilities under IFRS 16		
Concluded lease contracts	168	
Termination of leases (write-offs of debts and accrued interest)	(30)	(30)
Interest expenses	23	21
Lease payments (Principal and Interest)	(179)	(161)
Carrying amount at 31 December	**2.009**	**1.857**
Non-current lease liabilities	1.849	1.719
Current lease liabilities	160	138

	Group	
Lease liabilities	**At 31 December 2019**	**At 1 January 2019**
Current year	160	144
Repayment terms of non-current liabilities:	1.849	1.883
Between 1 and 2 years	161	143
From 2 to 3 years	162	144
From 3 to 5 years	248	356
After 5 years	1.278	1.240

Lease liabilities	Company At 31 December 2019	At 1 January 2019
Current year	138	144
Repayment terms of non-current liabilities:	1.719	1.883
Between 1 and 2 years	138	143
From 2 to 3 years	139	144
From 3 to 5 years	209	356
After 5 years	1.233	1.240

Interest calculated on lease liabilities reflected in Group's financial operating expenses is EUR 23 thousand.

Expenses of short-term lease (up to 12 months) of assets of the Group and the Company in 2019 amounted to EUR 1,3 thousand are recognized in expenses.

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

In 2019, the Group made lease payments worth EUR 179 thousand.

Inventories	**Group***		
	At 31 December 2019	**At 31 December 2018**	**At 1 January 2018**
Raw materials, spare parts and other inventories	787	611	618
Natural gas	1.651	2.444	1.814
Assets held for sale	-	3	14
Inventories, gross	2.438	3.058	2.446
Less: impairment	(319)	(263)	(418)
	2.119	**2.795**	**2.028**

* *The data of the Group coincides with the data of the Company*

Changes in natural gas reserves in 2019-2017 were influenced by changes in the purchase price of natural gas. Cost of acquisition of the Company's inventories at net realizable value as at 31 December 2019 amounted to EUR 787 thousand (31 December 2018 - EUR 611 thousand; 1 January 2018 - EUR 618 thousand). Impairment of inventories is included in other expenses.

8 Amounts receivable

	Group		
	At 31 December 2019	**At 31 December 2018**	**At 1 January 2018**
Non-current trade receivables			
Other trade receivables	-	998	998
Current trade receivables			
Amounts receivable for natural gas transmission	5.508	6.075	7.498
Other trade receivables	422	200	58
Less: impairment allowance for amounts receivable	(70)	(87)	(57)
Total trade receivables	5.860	7.186	8.497
Other amounts receivable			
Receivable and accrued LNG terminal funds for administration (Note 2.14)	16.020	14.942	14.186
Grants receivable	2.754	1.715	4.124
Accrued revenue for natural gas transportation	541	493	575
Other amounts receivable	76	114	69
Total other amounts receivable	19.391	17.264	18.954
Total amounts receivable	**25.251**	**24.450**	**27.451**

8 Amounts receivable (continued)

	Company	
	At 31 December 2019	At 31 December 2018
Non-current trade receivables		
Other trade receivables	-	998
Current trade receivables		
Amounts receivable for natural gas transmission	5.524	6.076
Other trade receivables	411	124
Less: impairment allowance for amounts receivable	(70)	(87)
Total trade receivables	5.865	7.111
Other amounts receivable		
Receivable and accrued LNG terminal funds for administration (Note 2.14)	16.020	14.942
Grants receivable	2.754	1.715
Accrued revenue for natural gas transportation	541	493
Other amounts receivable	73	261
Total other amounts receivable	19.388	17.411
Total amounts receivable	**25.253**	**24.522**

At the end of 2018, Intergas UAB and Mažeikiai Oill Refinery (Orlen Lietuva AB) signed an agreement for connection to the natural gas system. From 1 January 2019, after the connection of Orlen Lietuva AB and starting the distribution of natural gas, the volume of gas transported through the interconnection point of the Company and Intergas UAB systems and booked capacities increased significantly in 2019, compared to minimal parameters set by the Agreement No 339 dated 2 December 2005 with subsequent amendments (hereinafter – the Agreement).
With these new circumstances, on 3 April 2019, an additional agreement to the Agreement between the Company and Intergas UAB was signed. Under this agreement, the Company issued a credit account for the additional portion of the connection fee and returned its bank guarantee.
Short-term trade receivables are interest-free and have a maturity of between 9 and 30 calendar days. In 2017, the impairments of EUR 41 thousand was recognized for the heat producing company Geoterma UAB and in December 2018, EUR 41 thousand – for Geros dujos UAB.

As at 31 December 2019, the overdue amount in the receivables of LNG terminal funds amounted to EUR 4,701 thousand (31 December 2018 - EUR 4,681 thousand; 31 December 2017 - 3,914 thousand EUR), of which Achema AB has overdue of EUR 4,614 thousand, Geros dujos UAB - EUR 19 thousand, Geoterma UAB - EUR 65 thousand, Roalsa UAB - EUR 3 thousand. For more information on Achema AB overdue debts, see Note 26, Liabilities and Contingencies. The Group does not account for impairment of LNG terminal receivables as in accordance with the LNGT description of the procedure for administration of funds, LNGT assets are not assets of LNGT asset administrator, therefore they cannot be subject to recovery under the LNGT asset administrator's obligations not related to LNGT asset administration.

No other impairment is recognized for the Group's other receivables.

Movement in the impairment allowance for amounts receivable of the Group:

	Individually impaired
Balance at 31 December 2019	70
Balance at 31 December 2018	87
Balance at 31 December 2017	57

The aging of the Group's receivables and other receivables, not considered impaired, as at 31 December 2019, 31 December 2018, and 1 January 2019 comprised of:

	Trade receivables and other receivables not due	Less than 30 days	31-90 days	91-180 days	181-360 days	More than 360 days	Total
		Trade receivables and other receivables due					
At 31 December 2019	20.355	2.506	1.291	-	3	1.096	25.251
At 31 December 2018	19.750	2.439	1.230	7	4	1.020	24.450
At 31 December 2017	23.492	2.057	882	-	29	991	27.451

The aging of the Company's receivables and other receivables, not considered impaired, as at 31 December 2019, 31 December 2018 comprised of:

	Trade receivables and other receivables not due	Less than 30 days	31-90 days	91-180 days	181-360 days	More than 360 days	Total
		Trade receivables and other receivables due					
At 31 December 2019	20.357	2.506	1.291	-	3	1.096	25.253
At 31 December 2018	19.822	2.439	1.230	7	4	1.020	24.522

9 Other financial assets

The Group's other financial assets as at 31 December 2019 consisted of funds transferred by Gas Exchange participants and LNGT cash. The said funds are received from the system users, kept in a separate LNG terminal funds bank accounts that comply with legal requirements, and are intended for payouts to LNG terminal funds recipients.

The funds of the Gas Exchange participants shall consist of funds transferred by the clients of the subsidiary GET Baltic UAB in accordance with the provisions of the Regulation of Trading on the Natural Gas Exchange approved by the Board of the subsidiary and agreed upon by NERC. In order to submit purchase orders for natural gas, participants must pay an advance (alternatively submit a bank guarantee) to the Exchange controlled by the subsidiary , which must be no less than the value of the expected purchase orders. After trading is closed, the advance funds shall be included in the payment for natural gas.

	Group			Company	
	At 31 December 2019	At 31 December 2018	At 1 January 2018	At 31 December 2019	At 31 December 2018
LNG terminal funds	4	56	91	4	56
Funds transferred by Gas Exchange participants	18.644	10.574	606	-	-
	18.648	**10.630**	**697**	**4**	**56**

10 Cash and cash equivalents

	Group			Company	
	At 31 December 2019	**At 31 December 2018**	**At 1 January 2018**	**At 31 December 2019**	**At 31 December 2018**
Cash at bank	233	42	6.744	197	34
	233	**42**	**6.744**	**197**	**34**

The Company and the Group keep their cash balances in bank accounts. As at 31 December 2019, cash balance was marginal mainly as a result of the Company's and the Group's treasury management aimed at minimum cash balances. As at 31 December 2019, the Company and the Group had no deposits.

The table below presents the long-term foreign currency credit ratings of the banks in which the Company kept its cash balances as at 31 December 2019:

Bank	Cash balances in bank accounts at 31 December 2019	Rating agency		
		Moody's	Standart&Poors	Fitch Ratings
SEB bankas AB[1)]	19	Aa2	A+	AA-
Swedbank AB[1)]	178	Aa2	AA-	AA-

[1)] The ratings assigned to the parent banks as at 31 December 2019.

11 Reserves

Legal reserve

A legal reserve is a compulsory reserve under the legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital.

The Company's legal reserve amounts to EUR 5,173 thousand and represents 10 % of the share capital (in 2018: EUR 5,173 that amounted to 10% of the share capital).

Other reserves

Other reserves are formed by the decision of the annual General Shareholders' Meeting regarding the appropriation of profit. These reserves can only be used for business development purposes approved by the General Shareholders' Meeting.

12 Borrowings

In May 2018, the Company signed an agreement with OP Corporate Bank pic Lithuanian branch regarding a long-term loan for an amount of EUR 30,000 thousand. As at 31 December 2019, the used part of the loan amounted to EUR 30,000 thousand.

To balance working capital, on 27 February 2019, the Company entered into a mutual lending and borrowing agreement with EPSO-G UAB. The agreement sets the maximum EPSO-G UAB lending limit – EUR 15,000 thousand, and the Company's lending limit – EUR 10,000 thousand. As at 31 December 2019, the Company had a borrowing of EUR 6,272 thousand.

	Group		
	At 31 December 2019	**At 31 December 2018**	**At 1 January 2018**
Non-current borrowings			
Borrowings from local credit institutions	30.000	31.444	34.333
Borrowings from international financial institutions	21.739	23.913	25.000
Current borrowings			
Borrowings from local credit institutions		6.791	-
Current borrowings from the parent company	6.452		
Current portion of non-current borrowings	13.618	17.976	17.889
	71.809	**80.124**	**77.222**

	Company	
	At 31 December 2019	At 31 December 2018
Non-current borrowings		
Borrowings from local credit institutions	30.000	31.444
Borrowings from international financial institutions	21.739	23.913
Current borrowings		
Borrowings from local credit institutions		6.791
Current borrowings from the parent company	6.272	
Current portion of non-current borrowings	13.618	17.976
	71.629	**80.124**

As at 31 December 2019, the weighted average annual interest rate on borrowings held by the Company and the Group was 0.49%, as at 31 December 2018 - 0.48%. The interest rate is linked to 3 to 6 month EURIBOR variable part.

Nordic Investment Bank loan balance, excluding current portion of non-current borrowings, as at 31 December 2019, amounted to EUR 21,739 thousand (as at 31 December 2018 - EUR 23,913 thousand). The Company, as at 31 December 2019 and 2018, complied with the requirements of the loan agreement.

Swedbank AB loan balance, excluding current portion of non-current borrowings, as at 31 December 2019, amounted to EUR 0 thousand (as at 31 December 2018 - EUR 11,444 thousand). The Company, as at 31 December 2019 and 2018, complied with the requirements of the loan agreement.

Balance of OP Corporate Bank PLC Lithuania Branch, excluding current portion of non-current borrowings, as at 31 December 2019, amounted to EUR 30.000 thousand (as at 31 December 2018 - EUR 20,000 thousand). The Company, as at 31 December 2019 and 2018, complied with the requirements of the loan agreements with the said banks.

Contractual maturity dates:

	Group					
	At 31 December 2019	**At 31 December 2018**	**1 January 2018**	**At 31 December 2019**	**At 31 December 2018**	**1 January 2018**
	Borrowings with a fixed interest rate	**Borrowings with a fixed interest rate**	**Borrowings with a fixed interest rate**	**Borrowings with a floating interest rate**	**Borrowings with a floating interest rate**	**Borrowings with a floating interest rate**
2018	-	-	-	-	-	17.888
2019	-	-	-	-	24.767	23.976
2020	-	-	-	20.070	13.618	13.618
2021	-	-	-	10.174	10.174	2.174
2022	-	-	-	10.174	10.174	2.174
2023	-	-	-	16.173	6.173	2.174
2024	-	-	-	2.174	2.174	2.174
2025	-	-	-	2.174	2.174	2.174
2026	-	-	-	2.174	2.174	2.174
2027	-	-	-	2.174	2.174	2.174
2028	-	-	-	2.174	2.174	2.174
2029	-	-	-	2.174	2.174	2.174
2030	-	-	-	2.174	2.174	2.174
	-	**-**	**-**	**71.809**	**80.124**	**77.222**

	Company			
	At 31 December 2019	At 31 December 2018	At 31 December 2019	At 31 December 2018
	Borrowings with a fixed interest rate	Borrowings with a fixed interest rate	Borrowings with a floating interest rate	Borrowings with a floating interest rate
2018	-	-	-	-
2019	-	-	-	24.767
2020	-	-	19.890	13.618
2021	-	-	10.174	10.174
2022	-	-	10.174	10.174
2023	-	-	16.173	6.173
2024	-	-	2.174	2.174
2025	-	-	2.174	2.174
2026	-	-	2.174	2.174
2027	-	-	2.174	2.174
2028	-	-	2.174	2.174
2029	-	-	2.174	2.174
2030	-	-	2.174	2.174
	-	**-**	**71.629**	**80.124**

The borrowings of the whole Group are received in EUR, as a result as at 1 January 2018-31 December 2019, outstanding borrowing balances are expressed in EUR, without affecting exchange rates.
There are no third party guarantees or pledged assets of the Company as collateral for bank loans.

Reconciliation of net debt balances and cash flows from financing activities as at 1 January 2018-31 December 2019 reconciliation:

Group

	Cash	Borrowings	Total
Net debt as at 1 January 2018	**6.744**	**(77.222)**	**(70.478)**
(Decrease) in cash and cash equivalents	(6.702)	-	(6.702)
Loan (received)	-	(26.791)	(26.791)
Loan repaid	-	23.889	23.889
Other non-cash changes	-	-.	-
Net debt as at 31 December 2018	**42**	**(80.124)**	**(80.082)**
(Decrease) in cash and cash equivalents	191	-	191
Loan (received)	-	(16.452)	(16.452)
Loan repaid	-	24.767	24.767
Other non-cash changes	-	-.	-
Net debt as at 31 December 2019	**233**	**(71.809)**	**(71.576)**

Company

	Cash	Borrowings	Total
Net debt as at 1 January 2018	**6.726**	**(77.222)**	**(70.496)**
(Decrease) in cash and cash equivalents	(6.692)	-	(6.692)
Loan (received)	-	(26.791)	(26.791)
Loan repaid	-	23.889	23.889
Other non-cash changes	-	-.	-
Net debt as at 31 December 2018	**34**	**(80.124)**	**(80.090)**
(Decrease) in cash and cash equivalents	163	-	163
Loan (received)	-	(16.272)	(16.272)
Loan repaid	-	24.767	24.767
Other non-cash changes	-	-.	-
Net debt as at 31 December 2019	**197**	**(71.629)**	**(71.432)**

13 Deferred

	Deferred revenue	Income-related grants	Total
Balance at 1 January 2018	**1.501**	-	**1.501**
Received/receivable	-	91	91
Amortisation	(34)	(91)	(125)
Transfer of balance to retained earnings (loss)	(1.467)		(1.467)
Balance at 31 December 2018	-	-	-
Balance at 31 December 2019	-	-	-

The application of the effect of IFRS 15 Revenue from Contracts with Customers was not recognized in profit / loss statement for the first time, but was recognised in the Statement in Changes in Equity as at the end of the reporting period of 2018. As at 31 December 2019, the Company and the Group had no deferred income.

14 Non-current employee benefits

As at 31 December 2019, the Company's and the Group‘s employee benefit obligations related to one-time payments to employees leaving the Company at the retirement age amounted to EUR 540 thousand (31 December 2018: EUR 531 thousand). There were no other non-current employee benefit obligations related to long-service of employees at the Company provided in the collective agreement of 2019.

Key assumptions used in assessing the Company’s and the Group‘s non-current employee benefit obligations are given below:

	At 31 December 2019	At 31 December 2018	At 1 January 2018
Discount rate	1,42 %	0,31 %	1,5 %
Annual employee turnover rate	5,37 %	5 %	6 %
Annual salary growth	4,10 %	2 %	2 %
Average time to retirement (years)	19,76	19,61	19,18

15 Trade payables

	Group		
	31 December 2019	31 December 2018	1 January 2018
Trade payables under the investment programme (new constructions, reconstructions)	1.440	2.995	8.152
Payables to service providers	1.280	1.070	916
Payables to repair service providers for non-current assets	396	295	352
Payables to natural gas suppliers	3.851	2.063	749
	6.967	**6.423**	**10.169**

	Company	
	31 December 2019	31 December 2018
Trade payables under the investment programme (reconstructions)	1.440	2.995
Payables to service providers	1.195	1.119
Payables to repair service providers for non-current assets	396	295
Payables to natural gas suppliers	1.160	1.561
	4.191	**5.970**

The above trade payables are non-interest bearing and most of them have a maturity of between 30 and 60 days.

16 Prepayments received

Prepayments received by the Group as at 31 December 2019 amounted to EUR 17,103 thousand (as at 31 December 2018 – EUR 10,099; as at 1 January 2018 – EUR 1,103 thousand). Prepayments received as at 31 December 2019 are grant prepayments for the implementation of the EU investment projects – EUR 1,398 thousand, advance payments for rendered transmission services – EUR 21 thousand, advance payments received by Gas Exchange participants – EUR 15,672 thousand, other prepayments received – EUR 12 thousand. (Prepayments received as at 31 December 2018: advance payments for rendered transmission services – EUR 12 thousand, advance payments received by Gas Exchange participants – EUR 10,087 thousand; as at 31 December 2017 – advance payments for rendered transmission services – EUR 5 thousand, advance payments received by Gas Exchange participants – EUR 378 thousand, advance payments for relocation and dismantling of gas pipelines - EUR 720 thousand).

17 Other payables and current liabilities

	Group		
	31 December 2019	31 December 2018	1 January 2018
Payable LNG terminal funds for administration	13.562	12.311	11.356
Accrued LNG terminal funds for administration *	2.461	2.684	2.924
Payable real estate tax	432	429	432
Payable value added tax	501	28	286
Other payables	480	479	272
	17.436	**15.931**	**15.270**

	Company	
	At 31 December 2019	At 31 December 2018
Payable LNG terminal funds for administration	13.562	12.311
Accrued LNG terminal funds for administration *	2.461	2.684
Payable real estate tax	432	429
Payable value added tax	222	-
Other payables	469	454
	17.146	**15.878**

*Accrued LNG terminal funds for administration are accounted for as soon as the natural gas system users are issued with a VAT invoice. Accrued LNG terminal funds for administration are allocated to the account of payable LNG terminal funds as soon as Klaipėdos Nafta AB and Ignitis UAB, previosly as Lietuvos energijos tiekimas UAB, issues a VAT invoice to the Company for the additional natural gas supply security component to be included in the natural gas transmission price.

18 Revenue

The Group's revenue includes as follows:

	Group	
	At 31 December 2019	At 31 December 2018
Income from natural gas transmission in the territory of Lithuania	45.845	44.092
Income from balancing services in the transmission system	8.665	9.831
Exchange trading income	479	216
Grants recognised as income	164	125
Income from administration of the LNG terminal funds	74	44
Income from new user connection	(825)	-
Other income	354	254
	54.756	**54.562**

The Company's revenue includes as follows:

	Company	
	At 31 December 2019	At 31 December 2018
Income from natural gas transmission in the territory of Lithuania	45.845	44.092
Income from balancing services in the transmission system	8.665	9.831
Grants recognised as income	164	125
Income from administration of the LNG terminal funds	74	44
Income from new user connection	(825)	-
Other income	294	198
	54.217	**54.290**

As explained in more detail in Note 10, in 2019, the Company recalculated the non-recoverable portion of the connection fee for Intergas UAB and reduced income from new user connection.

19 Financing activity

	Group	
	At 31 December 2019	At 31 December 2018
Interest income	-	21
Interest on late payment	10	5
Other	2	-
Total income from financing activity	12	26
Interest expenses on borrowings	(352)	(350)
Other expenses of financing activity	(1)	-
Total expenses of financing activity	(353)	(350)
Net result of financing activity	**(341)**	**(324)**

Company

	At 31 December 2019	At 31 December 2018
Interest income	1	22
Interest on late payment	10	5
Other	2	-
Total income from financing activity	13	27
Interest expenses on borrowings	(351)	(350)
Other expenses of financing activity	(1)	-
Total expenses of financing activity	(352)	(350)
Net result of financing activity	**(339)**	**(323)**

20 Income tax

	Group	
	At 31 December 2019	At 31 December 2018
Deferred income tax assets:		
Loss on revaluation and impairment of property, plant and equipment	2.811	27.899
Accrued vacation reserve	116	79
Accrual for non-current employee benefits	81	80
Impairment of doubtful trade receivables and realisable value of inventories	59	-
		-
Tax losses	68	72
Other	2	-
Deferred income tax assets before impairment allowance	**3.137**	**28.130**
Less: impairment allowance	68	72
Less: deferred income tax asset offset against deferred income tax liability	-	24.901
Deferred income tax assets, net	**3.069**	**3.157**
Deferred income tax liabilities:		
Difference between carrying amount and tax base of property, plant and equipment	-	(24.901)
Deferred income tax liability, net	**-**	**-**

	Company	
	At 31 December 2019	At 31 December 2018
Deferred income tax assets:		
Loss on revaluation and impairment of property, plant and equipment	2.811	27.899
Accrued vacation reserve	116	79
Accrual for non-current employee benefits	81	80
Impairment of doubtful trade receivables and realisable value of	59	-
inventories	2	-
Balance of unused income tax relief	-	-
Deferred income tax assets before impairment allowance	**3.069**	**28.058**
Less: impairment allowance	-	-
Less: deferred income tax asset offset against deferred income tax liability	-	24.901
Deferred income tax assets, net	**3.069**	**3.157**
Deferred income tax liabilities:		
Difference between carrying amount and tax base of property, plant and equipment	-	(24.901)
Deferred income tax liability, net	**-**	**-**

According to the provisions of the Law on Corporate Income Tax (hereinafter - the Law) effective from 1 January 2009, income tax relief may be applied to investments in qualifying fixed assets. When calculating current income tax for the year 2018, the Company and the Group took advantage of the income tax relief and reduced the income tax expenses for the year 2019 by the total amount of EUR 218 (2018: EUR 1,653 thousand, of which EUR 519 thousand of investment relief was recognized in 2018 and EUR 1,134 thousand – in 2017).

Deferred income tax assets and deferred income tax liabilities were offset in the Company's statement of financial position as they were related to the same fiscal authority.

When estimating the components of deferred income assets and liabilities in 2019 and 2018, the Company applied income tax rate of 15%.

The reported amount of current income tax expenses can be reconciled to the income tax expenses that would result from applying a standard income tax rate of 15% to profit before tax:

	Group	
	At 31 December 2019	**At 31 December 2018**
Profit (loss) before income tax	13.876	(26.027)
Income tax (expenses) at the effective income tax rate	(2.082)	3.900
Non-deductible expenses, tax-exempt income	17	-
Income tax relief	218	519
Other	(84)	-
Adjustments to previous year income tax	(102)	-
	(2.033)	**4.419**

	Company	
	At 31 December 2019	**At 31 December 2018**
Profit (loss) before income tax	13.839	(26.011)
Income tax (expenses) at the effective income tax rate	(2.076)	3.902
Non-deductible expenses, tax-exempt income	(11)	-
Income tax relief	218	519
Other	(60)	(2)
Adjustments to previous year income tax	(102)	-
	(2.031)	**4.419**

21 Earnings per share

Basic earnings (loss) per share reflect the Company's net profit (loss) divided by the weighted average number of shares. There are no diluting instruments, therefore, the basic and diluted earnings (loss) per share are the same. Calculation of the basic earnings (loss) per share are presented below:

	Group	
	At 31 December 2019	**At 31 December 2018**
Net profit attributable to the shareholders of the Group (EUR '000)	11.838	(21.608)
Weighted average number of shares (in '000 units)	178.383	178.383
Earnings (loss) per share (EUR)	**0,07**	**(0,12)**

22 Cash flows from investing and financing activities

When calculating cash flows from investing activities in 2019, the Company took into consideration as follows: the change in amounts payable for non-current assets amounting to EUR 1,554 thousand; capitalised borrowing costs (interest) of EUR 47 thousand; the reclassification of emergency inventories at the warehouse from current assets to non-current assets amounting to EUR 130 thousand (2018: the change in amounts payable for non-current assets amounting to EUR 5,158 thousand; and capitalised borrowing costs (interest) of EUR 49 thousand).

When calculating the grants received in the cash flows from investing activities in 2019, the Company took into consideration the change in grants received amounting to EUR 1,039 thousand (2018: EUR 2,408 thousand).

23 Financial assets and liabilities and risk management

Liquidity risk

Liquidity risk is managed by continuously making short-term and long-term cash flow forecasts of the Company. Where necessary, the Company shall, with reference to the forecasts, make solvency ensuring decisions, i.e. uses the parent company's account credit limit to balance its working capital (the unused amount as at 31 December 2019 was EUR 8,728 thousand).

The Company's liquidity ratios (after eliminating the effects of the administrated LNG terminal funds) were as follows as at 31 December 2019 and 2018:

	At 31 December 2019	At 31 December 2018
Current ratio	0,41	0,40
Quick ratio	0,34	0,32

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2019 and 2018, and 1 January 2018 based on the undiscounted contractual payments (scheduled payments including interest):

	Within 20 calendar days	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest-bearing borrowings and liabilities	-	6.395	13.987	39.412	13.302	73.096
Other current liabilities	29.780	743	2.224	497	1.233	34.477
Trade payables	2.776	4.166	25	-	-	6.967
Balance at 31 December 2019	**32.556**	**11.304**	**16.236**	**39.909**	**14.535**	**114.540**
Interest-bearing borrowings and liabilities	-	6.924	18.201	40.903	15.565	81.593
Other current liabilities	22.500	506	-	-	-	23.006
Trade payables	453	5.970	-	-	-	6.423
Balance at 31 December 2018	**22.953**	**13.400**	**18.201**	**40.903**	**15.565**	**111.022**
Interest-bearing borrowings and liabilities	-	124	18.096	42.606	17.841	78.667
Other current liabilities	11.761	780	-	-	-	12.541
Trade payables	235	9.934	-	-	-	10.169
Balance at 1 January 2018	**11.996**	**10.838**	**18.096**	**42.606**	**17.841**	**101.377**

Maturity dates of the Company's financial liabilities as at 31 December 2019, 31 December 2018 and 1 January 2018 based on the undiscounted contractual payments (scheduled payments including interest):

	Within 20 calendar days	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest-bearing borrowings and liabilities		6.395	13.807	39.412	13.302	72.916
Other current liabilities	13.727	743	2.224	497	1.233	18.424
Trade payables		4.166	25			4.191
Balance at 31 December 2019	**13.727**	**11.304**	**16.056**	**39.909**	**14.535**	**95.531**
Interest-bearing borrowings and liabilities		6.924	18.201	40.903	15.565	81.593
Other current liabilities	12.311	506				12.817
Trade payables		5.970				5.970
Balance at 31 December 2018	**12.311**	**13.400**	**18.201**	**40.903**	**15.565**	**100.380**
Interest-bearing borrowings and liabilities		124	18.096	42.606	17.841	78.667
Other current liabilities	11.356	780				12.136
Trade payables		9.934				9.934
Balance at 1 January 2018	**11.356**	**10.838**	**18.096**	**42.606**	**17.841**	**100.737**

Credit risk

The maximum exposure to credit risk is equal to the sum of trade receivables (except for receivable LNG terminal funds), other receivables, cash and short-term investments less impairment losses recognised. Delays in settlement of significant amounts of trade receivables may affect the Company's ordinary course of activities and lead to search of additional financing sources. Credit risk is managed through regular monitoring procedures (individual supervision of debtors, monitoring and analysis of customers in order to identify potential solvency problems that may arise in the future, etc.). The Company has approved the regulations for customer debt management, which define the specific actions and deadlines to be followed in order to reduce the outstanding balance of customer debts.

The Company’s exposure to credit risk arises from cash at bank. The level of exposure depends on the credibility of the selected bank. The Company has approved the procedure for financial risk management.

The procedure defines as follows: (1) the credibility level of the banks selected for partnership; (2) the diversification limits for funds kept as deposits or invested in the investment products of banks or their subsidiaries, other securities, etc.

The reliability of the partners being selected is assessed according to the procedure established at the Company. The system users assigned with the highest risk level are assessed by engaging a company that provides specialised creditworthiness assessment services

The Company does not issue guarantees to secure the fulfilment of obligations of other parties.

Interest rate risk

As at 31 December 2019 and 2018, and 1 January 2018 the Company had borrowings with variable interest rates. The Company’s exposure to interest rate risk arises from variable interest rates that are linked to EURIBOR. Given the current situation in the market of interbank offered rates, during 2019, 2018 and 2017 the Company did not enter into any transaction on financial instruments that would be used to manage the interest rate risk.

The table below demonstrates the sensitivity of the Company's profit before tax to theoretically possible changes in EURIBOR interest rates, with all other variables held constant. The Company estimates sensitivity using 100 basis points, which make 1%.

There is no impact on the Company's equity, other than that on current year profit.

	Increase in EURIBOR, b.p.	Impact on profit before tax, EUR ’000
At 31 December 2019	+100	(458)
At 31 December 2018	+100	(779)
At 31 December 2017	+100	(750)

Natural gas price fluctuation risk

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

Concentration risk

The Company is exposed to significant concentration of credit risk, as the credit risk exposure is distributed among the Company's 10 major customers whose liabilities represented 94 % of the Company’s total trade receivables as at 31 December 2019 (31 December 2018: 95 %, 31 December 2017: 91 %). However, in the event of loss of customers and lower volumes of transported gas, the prices for gas transportation services would increase as per the Methodology for Setting the Prices Regulated by the State in the Natural Gas Industry approved by the Commission.

Fair value of financial assets and liabilities

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 Company's principal financial assets and liabilities not carried at fair value are trade and other receivables, trade and other payables, current and non-current borrowings and finance lease.

The following methods and assumptions are used by the Company to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade and other receivable, current trade and other payables approximates their fair value (level 3);

(b) The fair value of non-current borrowings is measured using the interest rate that is currently available for borrowings with the same maturity profile and similar credit risk. The Company determined that the fair value of interest-bearing non-current borrowing approximated their carrying amount (level 3).

24 Off-balance sheet commitments and contingencies

Litigations

Currently, the Company has initiated two civil cases on the adjudication of the additional component, regarding the security of natural gas supply, to the natural gas transmission price (hereinafter - LNG terminal funds) from Achema AB. The Company acts solely as a LNG terminal funds administrator and transfers LNG terminal funds to its recipients only after collecting them from buyers, so there is no credit risk arising from the disputed amounts.

In addition, the lawsuit is pending at courts regarding the legality of the decisions of the Company's Procurement Commission at the time of the procurement of GIPL project contract works (Procurement No. 381642). On 29 February 2020, the Vilnius Regional Court issued a decision partially upholding the claim, but did not change the outcome of the procurement. Currently, the parties to this case have lodged their appeals.

Contingencies related to commitments to purchase non-current assets

As at 31 December 2019, the Company and the Group had agreements on purchase of non-current assets that are not recognised in these financial statements in the amount of EUR 137,4 million (31 December 2018: EUR 2,4 million). As at 2019, EUR 106 million in the amount of non-current assets reflect liabilities to Lithuanian-Polish gas pipeline (GIPL) contractors and equipment suppliers, 44.85% of which is planned to be financed from EU structural funds. In addition, the Company is also under the obligation to additionally compensate GAZ-SYSTEM

S.A EUR 54.9 million for the construction of the Lithuanian-Polish gas pipeline on the Polish side; this amount is expected to be reimbursed by the CEF (Connecting Europe Facility) funds, which will make 50%.

25 Related-party transactions

As at 31 December 2019 and 2018, the parent company was EPSO-G UAB. The parent country of the latter company was the Republic of Lithuania, represented by the Ministry of Energy of the Republic of Lithuania. For the purposes of related-party disclosures, the Republic of Lithuania does not include central or local authorities. Disclosures include transactions and balances with EPSO-G Group companies, subsidiaries, all state-controlled companies or those under significant influence (transactions with such entities are disclosed separately only if the amount of transactions exceeds EUR 100,000 in a calendar year) and management, and close family members. A list of publicly-controlled entities or those under significant influence that are subject to disclosure is provided here: https://vkc.sipa.lt/apie-imones/vvi-sarasas/.

The Company's/Group's related parties as at 31 December 2019 and 2018 were as follows:

- EPSO-G (the parent company). 100% of EPSO-G share capital is owned by the Ministry of Energy of the Republic of Lithuania;

Epso-G UAB Group companies:

- Litgrid AB (common shareholders);
- Tetas UAB (common shareholders);
- Baltpool UAB (common shareholders).
- The subsidiary of the Company GET Baltic UAB;

Ignitis grupė UAB companies:

- Energijos skirstymo operatorius AB;
- Ignitis UAB;
- Ignitis gamyba UAB;
- Energetikos paslaugų ir rangos organizacija UAB

Other state-controlled companies:

- Klaipėdos nafta AB;
- State Enterprise Ignalina Nuclear Power Plant;
- State Enterprise Geoterma
- Other state-controlled companies or those under significant influence.
- Management.

The tables below present the Company's balances related-party transactions as at 31 December 2019 and 2018.

At 31 December 2019	Group					
	Purchases	Sales	Amounts receivable	Loans granted	Amounts payable	Costs of financial operations
EPSO – G UAB	108	-	-	6.452	201	5
TETAS UAB	2	-	-	-	1	-
Ignitis gamyba UAB	8	21.653	2.037	-	12.242	-
Energijos skirstymo operatorius AB	178	941	84	-	2	-
Ignitis UAB	58.329[2)]	41.165[2)]	4.191[2)]	-	4.937[2)]	-
Klaipėdos nafta AB	67.724[2)]	2[1)]	-	-	10.156[2)]	-
SE Ignalina Nuclear Power Plant	-	242[2)]	29[2)]	-	-	-
SE Geoterma	-	-	110[2)]	-	-	-
Other state-controlled companies	138	-	-	-	8	-
	126.487	**64.003**	**6.451**	**6.452**	**27.547**	**5**

At 31 December 2018	Purchases	Sales	Amounts receivable	Loans granted	Amounts payable	Costs of financial operations
EPSO – G UAB	123	-	-	-	23	-
TETAS UAB	1	-	-	-	-	-
Ignitis gamyba UAB	-	24.818[1)]	2.219[1)]	-	570	-
Energijos skirstymo operatorius AB	264	800	78	-	39	-
Ignitis UAB	6.907[2)]	38.036[2)]	3.611[2)]	-	1.240[2)]	-
Energetikos paslaugų ir rangos organizacija UAB	2	-	-	-	-	-
Litgas UAB	31.379[2)]	861[1)]	105[1)]	-	2.604[2)]	-
Klaipėdos nafta AB	63.008[2)]	-	-	-	9.707[2)]	-
SE Ignalina Nuclear Power Plant	-	218[2)]	25[2)]	-	-	-
SE Geoterma	-	-	110[2)]	-	-	-
Other state-controlled companies	30	934	95	-	1	-
	101.714	**65.667**	**6.243**	**-**	**14.184**	**-**

As at 31 December 2018, no loans were granted by the parent company.

At 31 December 2019	Company					
	Purchases	Sales	Amounts receivable	Loans granted	Amounts payable	Costs of financial operations
GET Baltic UAB	7.072[1)]	80[1)]	16[1)]	-	354[1)]	5
EPSO – G UAB	108	-	-	6.272	21	-
TETAS UAB	2	-	-	-	1	-
Ignitis gamyba UAB	8	19.934[2)]	2.037[2)]	-	-	-
Energijos skirstymo operatorius AB	178	940	84	-	2	-
Ignitis UAB	32.284[2)]	40.782[2)]	4.190[2)]	-	4.184[2)]	-
Klaipėdos nafta AB	67.724[2)]	-	-	-	10.156[2)]	-
SE Ignalina Nuclear Power Plant	-	242[2)]	29[2)]	-	-	-
SE Geoterma	-	-	110[2)]	-	-	-
Other state-controlled companies	133	-	-	-	7	-
	107.509	**61.978**	**6.466**	**6.272**	**14.725**	**-**

At 31 December 2018	Purchases	Sales	Amounts receivable	Loans granted	Amounts payable	Costs of financial operations
GET Baltic UAB	6.998 [1)]	24[1)]	152[1)]	-	527[1)]	-
EPSO – G UAB	123	-	-	-	23	-
TETAS UAB	1	-	-	-	-	-
Ignitis gamyba UAB	-	22.520[2)]	2.219[2)]	-	-	-
Energijos skirstymo operatorius AB	264	799[2)]	77[2)]	-	39	-
Ignitis UAB	4.157[2)]	34.304[2)]	3.602[2)]	-	1.086[2)]	-
Energetikos paslaugų ir rangos organizacija UAB	2	-	-	-	-	-
Litgas UAB	22.694[2]	790[2]	103[2)]	-	2.604[2]	-
Klaipėdos nafta AB	63.008[2)]	-	-	-	9.707[2)]	-
SE Ignalina Nuclear Power Plant	-	218[2]	25[2)]	-	-	-
SE Geoterma	-	-	110[2)]	-	-	-
Other state-controlled companies	30	934	95	-	1	-
	97.277	**59.589**	**6.383**	**-**	**13.987**	**-**

[1)] The Company is a participant of the Natural gas market managed by Get Baltic UAB and has participation agreement. The agreement on standard terms and the under the same conditions as to the other participants. The amount represents purchases through this market.

[2)] LNG terminal funds included

On 30 March 2017, the Company and GET Baltic UAB signed a loan agreement according to which Amber Grid AB can grant a loan to GET Baltic UAB of up to EUR 200 thousand (two hundred thousand euro). The loan is subject to variable annual interest rate of 1 month EURIBOR + a steady 1.5 (one and five tenths) per cent margin. The repayment date of the loan is 31 March 2019.

There were no guarantees given or received in respect of the related-party payables and receivables, settlement occurred in cash in the period from 15 to 30 days. As at 31 December 2019, the Company did not establish any provision for impairment in respect of the related-party receivables.

Payments to management

	Group		Company	
	At 31 December 2019	**At 31 December 2018**	**At 31 December 2019**	**At 31 December 2018**
Employment-related payments	674	424	618	388
Payments to Board members	26	22	26	22
	700	**446**	**644**	**410**

The management of the Group and the Company is considered to be comprised of the acting Chief Executive Officer, Technical, Legal and Administration, Commercial and Finance Directors. No loans, guarantees or transfer of assets have been granted to the management of the Group and the Company.

26 Non-audit services

The Company did not receive other non-audit services from the audit company in 2019 and 2018.

27 Capital management

The Company is required to maintain its equity ratio at not less than 50% of its share capital, as imposed by the Lithuanian Law on Companies. As at 31 December 2018 and 2017, the Company was in compliance with this requirement. There were no other internally or externally imposed capital requirements on the Company.

28 Events after the end of the reporting period

Considering the state-level emergency in Lithuania due to the spread threat of the new coronavirus (COVID-19), new business continuity and preventive measures are being reviewed and planned by the Group and the Company: responsible personnel for monitoring the situation and providing information to the Company's management has been appointed; units and personnel performing critical functions and administering the key systems have been identified; additional organizational measures at system control centers are being applied; technical and replacement measures in case of the virus spread have been planned. The Company is also in the process of reviewing emergency management plans, and preparation for additional continuity of critical activities.

Due to the effects of the pandemic, the Company's revenue may decline in 2020 as a result of reduced electricity consumption. However, restrictions should not significantly affect the volumes of transmission services during the quarantine. The company estimates that fluctuations in air temperatures are more significant than restrictions caused by the quarantine. In addition, in the long term, the price regulation mechanism provides for loss of revenue during the calendar year to be offset in future periods. Operational information does not indicate a decline in the need for capacity.

The Company does not forecast liquidity or credit risk issues. The main clients are large companies, which are often also regulated and / or listed as risk-free. At the time of reporting, settlements took place as usual, however the Company will take measures to strengthen payment controls. Historically, payments for energy and / or utilities have been a priority and delays are being significantly reduced.

Short-term borrowing is guaranteed to the extent of EPSO-G. The Company has a sufficient short-term borrowing limit (overdraft) ensuring current solvency.

Cooperation with commercial and institutional banks takes place without changeovers; considering the significance of the energy sector, the Company would be financed if such a need became relevant.

The Company operates in one of the most strategic and secure sectors of the state. The services provided by the Company are indispensable and operate on the regulated monopoly principle.

AB AMBER GRID
ANNUAL REPORT 2019

Vilnius
2020

TABLE OF CONTENTS

1. GENERAL INFORMATION

The reporting period for the annual report covers the year 2019.

1.1. BACKGROUND

Name	AB Amber Grid (hereinafter referred to as "Amber Grid" or the "Company")
Legal form	Public company
Date of registration and register	25 June 2013, Register of Legal Entities
Legal entity code	303090867
Administrator of the Register of Legal Entities	State Enterprise Centre of Registers
Authorised capital	EUR 51.730.929,06
Registered office address	Savanorių Ave. 28, LT-03116 Vilnius
Phone	+370 5 236 0855
Fax	+370 5 236 0850
Email address	info@ambergrid.lt
Website	www.ambergrid.lt

Amber Grid, the gas transmission system operator, is a company that plays an important role in safeguarding the national security of Lithuania. It is responsible for the transmission of natural gas and maintenance of gas pipelines, and for securing safe and reliable functioning and development of the gas transmission system. Amber Grid ensures natural gas transportation to system users through high pressure pipeline, maintenance and development of natural gas infrastructure. The infrastructure managed by the company encompasses gas transmission pipelines, gas compressor stations, and gas metering and gas distribution stations. Amber Grid also administers the National Register of Guarantees of Origin for gas produced from renewable energy sources (RES).

Amber Grid is a part of EPSO-G UAB group of companies. EPSO-G UAB is a state-controlled group of energy transmission and exchange companies acting as a management company, the shareholder rights and obligations of which are fulfilled by the Ministry of Energy of the Republic of Lithuania. More information on UAB EPSO-G is provided on the website www.epsog.lt.

Amber Grid controls 100% of the authorized capital of GET Baltic UAB. GET Baltic UAB is a company that has a natural gas market operator's license, organises and conducts trading on a natural gas exchange in Lithuania, Latvia and Estonia. More information on GET Baltic UAB is available on its website www.getbaltic.com.

VISION

Innovative energy company in the integrated European gas network.

- *Innovative* – applying advanced methods and techniques, which allow working faster, more efficiently, offering innovative solutions to customers and partners.
- *Integrated European gas network* – when the Baltic and the European gas markets both having access to the global LNG market are interconnected by physical infrastructure as well as well-functioning market and infrastructure rules, enabling easy and flexible gas transportation and trade.

MISSION

We provide effective and reliable gas transmission, we create favourable conditions for competition in the gas market and for the development of renewable energy sources.

- *Effectively* – we pursue the best results working efficiently and optimizing our operating processes.
- *Reliably* – we transport gas to our customers safely and without any unplanned interruptions.
- *Conditions favourable for competition* – we work for the conditions of the use of the transmission system and the services provided to be flexible and convenient for the existing and new gas market players, allowing to easily obtain gas from various sources.
- *Development of renewable energy sources* – by administering the register of "green" gas guarantees of origin and with other initiatives, we seek for the development of production and trade of gas from renewable energy sources.

1.2. PERFORMANCE INDICATORS

Table 1. Performance indicators of the Company, 2017 – 2019.

	2019	2018	2017
Quantities of transported natural gas			
Quantity of gas transported to domestic exit points, GWh	23.530	22.320	24.290
Quantity of gas transported to adjacent transmission systems[1], GWh	31.991	30.140	28.262
Number of systems users at the end of the period	105	106	100
System operated by the Company			
Length of gas transmission pipelines, km	2.115	2.115	2.115
Number of gas distribution stations and gas metering stations, pcs.	68	68	69
Employees			
Number of employees at the end of the period	316	329	346

1.3. THE MAIN EVENTS

January

On 1 January 2019, natural gas transmission prices approved by the national Energy Regulatory Council (hereinafter – NERC, commenced its activities on 1 July 2019, formerly - the National Commission for Energy Control and Prices) came into effect. The average price of long-term natural gas transmission services to Lithuanian system users increased by 3.5%. up to 1.17 EUR / MWh. As a result of improving operational efficiency, the use of modern network maintenance technologies and the pre-allocation of a share of the

[1] Transmission systems of Latvia and Kaliningrad Region of the Russian Federation

permissible revenue level to short-term services, the average cost of long-term transmission services is below the threshold set by the Commission.

February

On 27 February 2019, Amber Grid and EPSO-G holding company entered into a cashpool based loan agreement. It sets a maximum EPSO-G loan limit of EUR 15 million and Amber Grid AB – EUR 10 million. The maximum term of the contract is 3 years.

March

On 6 March 2019, NERC published documents for public consultation on the pricing of the Company's services for 2020 and subsequent years of the regulatory period.

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

On 26 March 2019, Amber Grid signed a contract for reconstruction of sections of the international pipeline Vilnius-Panevėžys-Riga reaching the Lithuanian-Latvian border with the winning contractor company MT Group. The total value of the project is EUR 8.1 million (excluding VAT). Half of the funds will come from the European Union Structural Funds. The pipeline reconstruction works are expected to last until the end of 2019.

April

On 23 April 2019, at the General Meeting of Shareholders, the Company's shareholders approved the profit sharing plan 2018 and decided to pay out dividends in the amount of EUR 5.2 million.

May

On 9 May 2019, Amber Grid commenced the reconstruction of sections of the international pipeline Vilnius-Panevėžys-Riga.

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

June

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

On 10 June 2019, NERC set a maximum income cap for the regulated activities of Amber Grid (by providing the services of natural gas transportation through the natural gas transmission system) for 2020 - EUR 36.1 million (for more details and differences compared to 2019, refer to Natural Gas Price Regulation of this report).

On 11 June 2019, Amber Grid applied to the Innovation and Networks Executive Agency (INEA) under the European Commission for financing the construction works for the Lithuanian-Latvian gas pipeline capacity enhancement project. The joint application for EU support was submitted together with the Latvian gas transmission system operator Conexus Baltic Grid. The total investment for this project is estimated at EUR 10.2 million, of which the share of Lithuanian investments – EUR 4.7 million. The Lithuanian-Latvian interconnection capacity enhancement phase is expected to receive the largest possible EU support under the Connecting Europe Facility (CEF) - up to 75% of the eligible costs for the project financing.

June 2019, Amber Grid has started implementing SecureGas research and development project conducted by the European Union and the international organization RINA, together with more than 20 international partners operating in various fields. The project, funded by the European Union's Horizon 2020 research and innovation program, aims to ensure the security and resilience of the EU gas network. The goal of the project is to identify critical elements of the gas transmission system with regard to cyber, physical, terrorist, natural etc. threats and to develop methodologies, tools, and recommendations for system security.

June 2019, the representatives of Amber Grid has launched REGATRACE (Renewable Gas Trade Center) project with partners from 10 EU countries. It is 100% funded by the European Union under Horizon 2020 program. The aim of the project is to develop a European framework for the trading, transmission and conversion (electricity-hydrogen-methane) of biomethane and other gas produced from renewable energy sources and provide methodological assistance in the development of national policies on renewable gas.

July

On 10 July 2019, Amber Grid transferred part of Amber Grid to Litgrid, EPSO-G group's company, gratuitously until the reached forecasted amount of energy savings (30,875.5 MWh) by the end of 2020. This transaction has no impact on the financial results of the Company.

On 25 July 2019, Amber Grid signed a contract with the Polish company Izostal S.A., the winner of a public tender for the procurement of pipes for the pipeline connection between Poland and Lithuania (GIPL). The contract value is EUR 26.4 million (excluding VAT).

August

On 1 August 2019, an individual Amber Grid benchmarking report based on CEER (Council of European Energy Regulators), conducted by transmission system operators (TSOs) every two years, was submitted. The benchmarking involved 29 European natural gas transmission system operators. Amber Grid, on the initiative of NERC, participated in this comparison for the first time. For comparison with other countries, 2014-2017 data of Amber Grid, approved by NERC, was provided. The main CEER conclusions are the following:

- Amber Grid differs too much from the average of the studied group to be directly compared to TSOs in Latvia and Estonia;
- Amber Grid is one of scale efficient TSOs;
- The company is one of the most efficient TSOs in balancing operational and capital costs;
- Amber Grid efficiency is rated 100%.

September

On 19 September 2019, by creating conditions for the development of green gas in Lithuania, Amber Grid joined a European association developing the European cross – border system of exchange guarantees of origin for renewable gas - ERGaR European Renewable Gas Registry).

October

On 10 October 2019, NERC approved Amber Grid natural gas transmission prices applicable from 1 January 2020.

December

On 23 December 2019, Amber Grid signed a contract with the consortium of Alvora UAB and Šiaulių dujotiekio statyba UAB that submitted the most economically advantageous tender for the contract works of GIPL project. The contract value is EUR 79.85 million (excluding VAT).

On 27 December 2019, the Innovation and Networks Executive Agency (INEA) under the European Commission, Lithuanian and Latvian gas transmission system operators signed an agreement on financing of the construction works of Lithuanian-Latvian gas pipeline capacity enhancement. The total investment for this project is estimated at EUR 10.2 million, of which the share of Lithuanian investments – EUR 4.7 million. The project is expected to be completed by the end of 2023.

On 30 December 2019, following the entry into force of the contract for the construction of GIPL gas interconnection between Poland and Lithuania, the construction works of the interconnection were commenced. In the first phase of construction, the biggest focus had been on the construction of 100-kilometer gas pipeline from Jauniūnai to Alytus. Subsequently, the rest of part of the pipeline along with a gas metering station will be constructed. In total, GIPL connection to the Lithuanian-Polish border will stretch 165 km. The GIPL project is expected to be completed by the end of 2021.

On 31 December 2019, Amber Grid completed the reconstruction of the regional pipeline along the Lithuanian-Latvian border with a length of 14 km worth EUR 8.1 million. The pipeline is essential for regional gas trade.

At the time of reporting, the potential impact of coronavirus (COVID-19) on the Company's operations was assessed. The assessment is disclosed in the notes to Amber Grid audited financial statements 2019.

1.4. MEMBERSHIP

The Company is a member of ENTSOG (www.entsog.eu), a member of the association “Polish and Lithuanian Chamber of Commerce”, a member of the National Lithuanian Energy Association and a member of ERGaR:

- ENTSOG was established on the basis of Regulation No. 715/2009 of the European Parliament and of the Council as an organisation intended for the cooperation of operators of gas transmission systems on the level of the European Community.
- Association “Polish and Lithuanian Chamber of Commerce” is a bilateral organisation of economic cooperation between Lithuania and Poland. The association collects information for its members on business opportunities in both countries, cooperates with organisations and individuals that ensure business management and development, organise conferences and thematic events.
- National Lithuanian Energy Association was set up in 2016. The association develops a common position of the energy sector, represents the interests of its members in state authorities, public and international organisations, aims at having the conditions of Lithuania’s electrical energy and gas supply developed and improved for the users in the country, and advance of the economic and technical energy sector promoted.
- As of 2019, the Company became a member of ERGaR (European Renewable Gas Registry) (www.ergar.org), which aims to develop cross-border guarantees of origin for gas produced from renewable energy sources.

2. OPERATIONAL ENVIRONMENT

2.1. OPERATIONAL ENVIRONMENT AND FORECASTS

2019 was a year of particularly favourable gas prices in global and regional markets. This was mainly due to the significant increase in the supply of liquefied natural gas (LNG), the lower demand for gas due to warm weather conditions and other reasons. These tendencies have contributed to the fact that in 2019 gas consumption in Lithuania increased by 5% with Lithuania transporting the largest amount of gas to other Baltic states throughout history - compared to 2018, gas transmission to the Baltic countries increased 2.6 times. As a result, the total amount of gas imported into Lithuania increased by as much as 20 percent.

The most significant changes in the Baltic gas market are related to the integration of the “isolated” Finnish gas market with the Baltic region. In 2020, Balticonnector gas interconnection between Finland and Estonia was launched; the Finnish gas market has been liberalized and the Finnish gas trade has been integrated on the regional gas exchange.

In 2016, Prime Ministers of the Baltic countries made a political decision to integrate gas markets of the Baltic countries and Finland by 2020. This was achieved in part - from 2020, Latvian and Estonian gas markets were interconnected. However, it was jointly agreed that Finland and Lithuania would join the single market in the region by 2022.

In the context of the fight against climate change, increasing requirements of the European Union environmental policy, promotion and development of the use of renewable energy sources and more efficient use of energy will reduce the consumption of natural gas for energy purposes in Lithuania. However, due to the limited choice of alternatives in some industries, segments of the transport sector, and rendering of balancing, reservation services in the heat and electricity sectors because of the competitiveness, natural gas will play an important role as a transition period energy to reduce European and national greenhouse gas emissions. At the same time, gas transported via pipelines will change with an increasing share of "green" gas: biomethane and gas produced by the conversion of green electricity - hydrogen and synthetic methane.

In its National Energy Independence Strategy, Lithuania has set ambitious goals that will make a significant contribution to the United Nations’ 2030 Agenda for Sustainable Development, the aims of the Paris Agreement and the meeting of goals of the EU's 2030 climate and energy framework. They aim to increase the share of renewable energy sources (including biomethane and other gas from RES) in the country's gross final energy consumption: in 2020 - up to 30%, in 2030 - 45% and from 2050 - 80%.

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

At the end of 2019, the European Commission presented the European Green Deal, an ambitious project to help European citizens and businesses benefit from the transition to sustainability and ecology. The measures presented along with the initial outline of key policies include large-scale emission reductions, investment in advanced research and innovation, and preservation of Europe's natural environment. The Green Deal sets the target stating that in 2030 compared to 1990, the EU's greenhouse gas emissions will be reduced by 55% and by 2050 climate neutrality will be achieved.

2.2. REGULATORY ENVIRONMENT

As of 2019, a new 5-year regulatory period has begun together with the network code on harmonised transmission tariff structures for gas (TAR NC) established by the Commission Regulation (EU) 2017/460 of 16 March 2017, the application of which has started in 2020 for pricing of transmission activities. Changes are expected in the price structure of the Company's services due to the application of the provisions of the TAR NC as well as the integration of the regional market (for more details see Natural Gas Price Regulation).

The changes that had come into effect as a result of the existing regulation had an impact on the Company's operations and results. The new 5-year regulatory period that started in 2010 resulted in the Company applying a new NERC-approved methodology for determining the rate of return on investments and the significantly reduced rate of return on investment (from 7.09% to 3.33%) as from the beginning of the year. As the above methodology enables recalculating the cost of borrowed capital each year, the rate of return on investment will henceforth change annually. For 2020, it was adjusted and set to 3.38%.

2.3. INFORMATION ON THE ACTIVITIES OF GET BALTIC (THE SUBSIDIARY OF AMBER GRID) IN 2019

Amber Grid controls 100% of the authorized capital of UAB GET Baltic. UAB GET Baltic is a licensed natural gas market operator that has the status of a Registered Reporting Mechanism (hereinafter – “the RRM“) granted by the Agency for the Cooperation of Energy Regulators (hereinafter – “the ACER”). The Company administrates the electronic trading system for trading spot and forward natural gas products with physical delivery in the market areas located in Lithuania, Latvia, and Estonia. By providing high quality services, the Company is seeking to contribute to increase in liquidity, competitiveness, and transparency of the wholesale gas market of the Baltic States.

From 1 July 2017, the Company started providing implicit allocation of natural gas transmission capacity to the natural gas transmission system operators (TSO) of the Baltic States: Amber Grid, Connexus Baltic Grid AS (Latvia), Elering AS (Estonia) resulting in a more efficient allocation of short-term natural gas transmission capacity at interconnection points between the Baltic States.

From 1 July 2017, with the establishment of trading points in Latvia and Estonia and the launch of the implicit allocation of natural gas transmission capacity, GET Baltic has *de facto* become Regional Gas Exchange. Due to the integrated trading model, orders placed by market makers and other market participants in one country for trading spot and forward are automatically displayed in the trading points of other Baltic States together with the price of transportation between the Baltic States.

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

In order to create more favourable conditions for the Baltic and Finnish gas exchange participants to trade in short and long term transaction markets, the cooperation agreement was signed with the Polish commodity clearing house IRGiT. The purpose of the cooperation is to develop an optimal collateral management and settlement model and a risk management system for short and long-term natural gas transaction markets administered by GET Baltic in compliance with European standards.

After GET Baltic expanded its boundaries of geographic activity as from 1 January 2020, i. e. after the establishment of a trading point in Finland and after the Company started providing implicit allocation of natural gas transmission capacity to the Finnish transmission system operator Gasgrid Finland Oy, more favourable conditions for price convergence in the region and the facilitated cross-border trade between the Finnish and Baltic natural gas markets were started to be created.

GET Baltic Exchange activities in 2019:

- Sales turnover increased to 2.9 TWh. This is the highest sales turnover of the year since the launch of GET Baltic. Compared to 2018, sales turnover increased more than two and a half times (1.1 TWh in 2018);
- 9,045 transactions were concluded. Compared to 2018, the number of transactions nearly tripled (3,122 transactions in 2018);
- 32 participants, or an average of 24 participants per month, were active participants in the exchange in 2019 (in 2018, an average of 16 participants), i. e. they placed orders and entered into transactions;
- After the first transactions in the long-term transaction market, in 2019, Baltic Gas Monthly Index (BGMI) was launched;
- In preparation for the opening of a new market - trading on the Finnish trading point - from 1 January 2020, new participators, including 17 new ones, were registered.

*Of them 17 exchange traders who have been admitted to trading on the Finnish trading point since 1 January 2020.

3. STRATEGY

3.1. STRATEGIC DIRECTIONS, GOALS AND RESULTS

At the beginning of 2019, the Company's Management Board approved the updated strategy of Amber Grid for 2017–2022. Seeking for an explicit coherence among the strategies of EPSO-G group of companies, they are standardized across all companies within the group as a result of the implementation of strategic directions.

Guided by the corporate vision and the strategic objectives as set by the State of Lithuania and the shareholder – to increase the corporate value and to ensure strategic interests in the gas sector – AB Amber Grid has focused on the following three strategic directions:

- Developing regional activities and ensuring the success of strategic projects;
- Sustainable growth of the Company and ensuring long-term shareholder value;
- Efficient operation and innovation;
- Creative and advanced organization.

Each of the strategic directions of the Company has a programme with strategic objectives, tasks, measures, desired outcomes and deadlines.

Changes in the design of activities reflect the strategic goals set by the Company - in order to be successful, we must further continue to operate in the global market, digitize and expand our services, implement innovative technological and intelligent solutions, and contribute to the creation and development of better conditions for renewable energy sources. All these changes are dictated by changing business environment, strategic decisions of the state, technological development.

To attain its objectives and thus approach the implementation of the Company's vision and mission, Amber Grid continuously measures and controls the progress achieved.

In 2019, considerable focus was put on the development of a single market and continuous works were conducted with regional partners. The aim is to create a single market on acceptable terms for all parties, including Lithuanian citizens and businesses. Lithuania seeks to join the common tariff area from 2022.

Seeking to create a single infrastructure – to properly prepare for construction works of the GIPL project, in 2019, contracts were signed with pipe suppliers and the consortium of contractors.

As of 1 June 2019, Amber Grid administers the National for Guarantee of Origin for gas produced from renewable energy sources (RES), i. e. it performs the functions of issuing, transferring and cancelling guarantees of origin, supervision and control of the use of guarantees of origin and recognition of guarantees of origin issued in other states, in Lithuania.

While improving the operational management, the analysis of the main business processes covering the functions of operation, maintenance and management of the gas transmission system was performed. According to the results of the activity analysis specified in the action plan, measures to improve the efficiency of the main activities have been implemented. A comparative analysis of the activities of the European transmission system operators is also carried out and the results shall be used to initiate improvements of the processes of activities performed.

In 2019, planned structural reorganization of the Company was continued to be performed, processes were improved, special attention was paid to innovative solutions – the analysis of hydrogen in gas networks, applicability and relevance of Power to Gas (P2G) technologies in Lithuania was conducted and proposals for further development of the project were made.

The strategy also provided general data on the Company's activities, forecasts, estimates of environmental changes and changing market conditions that affect the Company's long-term strategy.

3.2. STRATEGIC INFRASTRUCTURE PROJECTS

Amber Grid strategic directions correspond the objectives formulated by its largest shareholder, EPSO-G: performance measurement indicators, accountability of the group of companies and tasks important to a shareholder.

3.3. OPERATIONAL AND FINANCIAL OBJECTIVES

Based on shareholder formulations and guidelines of the Amber Grid strategy, the Board has set these operational objectives for 2019 to the Company.

Amber Grid objectives 2019

	Description of the 2019 objective	Weight	2019 indicator
1.	Efficient use of operating costs (OPEX) without exceeding the budget.	15%	Difference between actual operating costs (OPEX) and the annual budget approved by the management board ≤0.
2.	Execution of the annual investment (CAPEX) plan (50% weight, cost savings on project implementation not evaluated), and implementation of projects monitored by the SPMC according to plan (50% weight).	15%	Implementation of the investment plan and the projects monitored by the SPMC within the limits of the annual CAPEX budget approved by the management board.
3.	Implementation of the Gas Interconnection Poland–Lithuania (GIPL) project.	25%	Contracts signed for GIPL construction work and pipe procurement (80% weight). Study on the commercial potential of the GIPL and increased infrastructure value prepared together with GAZ-SYSTEM (20% weight).
4.	Introduction of digitisation.	15%	Deployment of the TVIS and PIMS systems and integrations with existing systems. The systems are running; the Company's asset and pipeline management is conducted through these systems.
5.	Introduce a guarantee of origin system for gas produced from RES.	10%	Establishment of a register of guarantees of origin data for gas produced from RES that enters the gas transmission/distribution systems and administration of the issuance of guarantees of origin**.
**This measure will be implemented once the amendments to the law on RES have been adopted and the relevant obligations are established in secondary legislation.			
6.	Increasing the scale and efficiency of procurement maturity.	20%	Implement the procurement improvement plan.
	Sum of weights:	100%	-

The financial and non-financial objectives set for the Company are identical to those of the CEO of Amber Grid. The Executive Director shall be accountable to the Board for the fulfilment of the objectives.

Each year, the Board of the Company conducts an accurate assessment of objective achievement. It affects a variable remuneration component that does not exceed the proportion set out in the remuneration policy.

Objectives set for the Company, according to the Board, were executed by 78.17% in 2019.

Amber Grid objectives 2020

Row no	Annual target	Target	Weight (%)	UoM	Target set
1.	Return on equity (ROE)	ROE ≥3.3%	15%	per cent	100%
2.	Complete all GIPL construction work planned for 2020 in Lithuania on schedule and to the extent agreed upon	Delays in project milestones are within tolerance limits: 1) Planned mandatory archaeological research (Stage 1 – ~73km) – 30-Jun-2020 (25% weight); 2) HDD under the Neris and Nemunas rivers – 01-Oct-2020 (50% weight); 3) 100 km of welded pipeline, of which a 73 km of stretch is connected – 31-Dec-2020 (25% weight);	30,0%	per cent	100%
3.	Development of the Energy Competence Centre	By area of competence: 1) study on the commercial potential of the GIPL and increased infrastructure value (1/3 weight); 2) implementation of the objectives set out in the REGATRACE project (1/3 weight); 3) analysis of the applicability of power-to-gas technology in Lithuania, proposals for the further development of activities (1/3 weight).	20,0%	per cent	100%
4.	Effective asset management	1) Use of PIMS modules (ILI, CP, DA and TM) for ordering work and the formation of pilot gas pipeline maintenance schedules for 2021 based on PIMS data (50% weight); 2) Adaptation of the organization's activities to the TVIS system – TVIS functionality will be 100% tested by the end of 2020, and 90% of the installed TVIS functionality will actually be used (50% weight).	20,0%	per cent	100%
5.	Change in the organizational culture	1) Analysis of the Company's organizational culture and preparation and agreement with the management board of the Amber Grid culture change plan – 30-Jun-2020; 2) Successful implementation of the Amber Grid culture change plan – 31-Dec-2020.	15,0%	per cent	100%
		Total:	100%		

3.4. STRATEGIC INFRACTURE PROJECTS

In 2019, Amber Grid continued the implementation of strategic gas transmission infrastructure projects – Gas Interconnection Poland-Lithuania (GIPL), and Capacity enhancement of Latvia-Lithuania interconnection (ELLI).

These strategic infrastructure projects have been included in the Fourth List of the EU Projects of Common Interest which was announced in October 2019, also in the Ten-Year Network Development Plan (TYNDP) of the *European Network of Transmission System Operators for Gas* (ENTSOG) announced in 2018, in the Regional Gas Investment Plan 2017 of the Baltic Energy Market Interconnection Plan (BEMIP), in the Natural Gas Transmission System Operator's Ten Year (2018-2027) Plan on the Development of the Network, and in National Plan on the Implementation of Priority Projects of Electricity and Natural Gas Transmission Infrastructure approved by Resolution of the Government of the Republic of Lithuania of 10 May 2017 (the National Plan).

3.4.1. GAS INTERCONNECTION POLAND-LITHUANIA (GIPL)

The European Commission has recognised the GIPL (Gas interconnection Poland-Lithuania) as one of the key projects in the area of infrastructure providing security of supplies, being of significant importance for the energy security of the EU. Amber Grid is implementing the GIPL project in cooperation with the Polish gas transmission system operator GAZ-SYSTEM S.A.

Objectives of the project:

- integrate the Baltic and the Finish gas markets into the common EU market for gas,
- diversify gas supply sources,
- increase the security of gas supply.

Map 1. Gas Interconnection Poland-Lithuania (GIPL) project.

The total length of the planned gas pipeline will be 508 km, of which 165 km in the Lithuanian territory. Capacities created after construction of the gas interconnection will enable to transport annually in the direction of the Baltic States up to 27 TWh of natural gas, in the direction of Poland – up to 21 TWh annually, and the Baltic and Finnish gas markets will become a part of the single gas market of the EU.

Benefits of the GIPL project:

- Will integrate gas markets of the Baltic countries and Finland into a common EU gas market;
- Will diversify access to alternative gas supply sources, routes, counterparties and increase of competition;
- Will increase security and reliability of gas supply – both in terms of additional interconnection capacity and possibility to apply solidarity measures between Member States of the EU in case of emergency;
- Will enable more flexible and efficient use of LNG terminals and transmission infrastructure in Poland and Lithuania;
- Will increase the liquidity of gas trade in the Polish and Baltic trade zones and strengthen their regional role.

In June 2018, Amber Grid announced public tenders for the procurement of construction works and steel gas pipes for the Gas Interconnection Poland-Lithuania (GIPL) in the territory of the Republic of Lithuania.

On 25 July 2019, Amber Grid signed a purchase agreement with GIPL pipe supplier – the Polish company Izostal S.A. On 23 December 2019, the company signed a contract with the consortium of Alvora UAB and Šiaulių dujotiekio statyba UAB for the construction of a gas pipeline link between Poland and Lithuania. Following the signing of the aforementioned agreements, at the end of the year 2019, the construction works of the gas transmission pipeline essential for the whole region were commenced.
The GIPL project is funded with own funds of Amber Grid and GAZ-SYSTEM S.A. and with borrowed funds, the EU financial assistance under the European Commission Trans-European Networks for Energy (TEN-E) Programme and the EU Connecting Europe Facility (CEF). In addition to the EU financial assistance, the construction operations of the GIPL project will be funded by Lithuania, Latvia and Estonia according to the cross-border cost allocation solution covering the part of the GIPL infrastructure costs in the territory of Poland.

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

3.4.2. ENHANCEMENT OF LATVIA-LITHUANIA INTERCONNECTION (ELLI)

The aim of the project is to increase the capacity of the gas systems' interconnection Latvia-Lithuania, ensure safe and reliable natural gas supply and achieve a more effective use of the infrastructure and better integration of the gas markets of the Baltic States. In this way better conditions will be provided for the use of the Latvian Inčukalns underground gas storage facility. Project promoters – Amber Grid and Latvian transmission system operator AS Conexus Baltic Grid.

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

On 7 June 2019, the Company together with Conexus Baltic Grid has applied for EU financial support under the CEF.

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

2018 feasibility study and cost-benefit analysis of the Lithuanian-Latvian gas interconnection capacity enhancement showed that after the construction of the gas interconnections between Finland and Estonia and between Poland and Lithuania, greater capacity will be needed to ensure the regional gas market demand and security of gas supply. The new gas interconnections between Finland and Estonia (Balticconnector) started operating from 1 January 2020.

To increase the interconnection capacity in the territory of Lithuania, it will be necessary to boost the capacity of Kiemėnai gas metering station and to restructure the gas pipeline at Panevėžys compressor station, and in the territory of Latvia – to reconstruct a part of the main gas pipelines to increase the maximum design pressure in the pipelines up to 50 bar. The investments will increase the gas interconnection capacity to 130.47 GWh per day in the direction of Latvia (now 67.6 GWh per day) and to 119.5 GWh per day in the direction of Lithuania (now 65.1 GWh per day).

By the end of the year 2023 with the completion of the project, the increased gas transmission capacity between Lithuania and Latvia will also be beneficial due to the advantages given for the gas market by the already existing GIPL interconnection between Lithuania and Poland.

3.5. EUROPEAN UNION FINANCIAL ASSISTANCE

In 2019, five projects of natural gas transmission infrastructure provided for in the National Plan were implemented. To implement them, 50% of the required amount was allocated as the EU financial assistance in accordance with the Operational Programme for the European Union Funds' Investments in 2014–2020:

1. The project *Implementation of Software and Model to Safeguarding Pipeline Security and Integrity* led to the development and implementation of the Pipeline Integrity Management information system that increased the flexibility and reliability of the gas transmission system, allowing for the identification of the most risky pipeline sections through innovative methods, and increased operational efficiency of gas transmission pipelines. The total value of the project is EUR 874.8 thousand.
2. The project *Implementation of Software and Technical Equipment for Gas Leak Detection and Localization* led to the development of the system for gas leak detection and localisation, and the acquisition of the necessary technical equipment enabling speedier detection of gas leaks and more precise localisation of gas leaks. The total value of the project is EUR 563.6 thousand.
3. The project *Installation of Pig Launchers/Receivers of the Control Device and Implementation of Expedient Technological Control of Gas Transmission System*, during which pig launchers/receivers of the control device and expedient technological control of the system were installed in the branches of gas transmission pipelines to the gas distribution stations of Girininkai, Jonava, N. Akmenė and Palanga, as well as in the second branch of Panevėžys-Šiauliai gas transmission pipelines. The total value of the project is EUR 9,360.6 thousand.
4. The project *Modernisation of Jonava and Alytus Gas Distribution Stations* led to the modernisation of Jonava and Alytus gas distribution stations with the implementation of the advanced automated control, data collection, transmission technology equipment ensuring fast and flexible management of the gas transmission system. The total value of the project is EUR 3,930.8 thousand.
5. The project *Modernisation of Panevėžys Gas Compressor Station* led to the integrated modernisation of the technological equipment of Panevėžys gas compressor station: automation of gas compressor station control, installation of pollution abatement equipment, implementation of electronic control of fuel intake system, modernization of air supply system. The total value of the project is EUR 5,637.2 thousand.

The total amount of all infrastructure project agreements in 2019 is EUR 18.3 million.

More information on the infrastructure projects is available on the website: www.ambergrid.lt/lt/perdavimo-sistema/perdavimo-sistemos-pletra/infrastrukturosprojektai.

3.6. REGIONAL MARKET

On 1 July 2017, the Company, together with the transmission system operators of Latvia and Estonia, has started applying the implicit capacity allocation model at cross-border interconnection points in the Baltic States, thus allocating part of the day-before booked capacity via the GET Baltic gas exchange. Starting from 1 July 2018, this method has also been extended to current day capacity allocation. It is a transitional instrument for the integration of the Baltic gas in order to increase the competitiveness of the gas markets and to promote cross-border trade in gas. The regional gas market is expected to develop gradually.

In the first half of 2019, the transmission system operators in the neighbouring Baltic States and Finland agreed that from 2020, a single gas market area will be created by Latvia and Estonia, which together with Finland will form a common tariff area – from 2020, in the connection with Finland, a zero transmission price will be applied, while prices for access to the tariff area will be unified. Finland intends to join the single market area by 2022 at the earliest.

Although Lithuania supports the idea of creating a common regional gas market, the terms of such an agreement do not safeguard Lithuania's interests, since such joining would impose an ungrounded additional financial burden on domestic consumers. Therefore, negotiations are under way with Latvian, Estonian and Finnish operators on the conditions, under which Lithuania would join the zone. The aim is to create a single market on acceptable terms for all parties, including Lithuanian citizens and businesses. Lithuania expects to join the common tariff area at a later stage, probably starting in 2022. The Baltic States and Finland will continue to coordinate their positions on further market integration to develop a mutually acceptable model of cooperation between operators.

As the Company proceeds with the implementation of the GIPL project, it also cooperates with the Polish partners: Amber Grid - with the Polish gas transmission system operator Gaz-System, while the gas exchange operator GET Baltic (the subsidiary of Amber Grid) - with the Polish power exchange TGE (Towarowa Giełda Energii SA). A study is planned to conduct to increase the commercial opportunities and market value of GIPL and, based on its findings, in cooperation between operators, regulators and governments of both countries, to decide on further steps towards market harmonization.

4. OPERATIONS

4.1. TRANSMISSION SYSTEM

The natural gas transmission system is composed of gas transmission pipelines, gas compressor stations, gas distribution stations, gas metering stations, anti-corrosion facilities designed for protection of pipelines, data transmission and connection systems and other assets attributed to the transmission system. The Lithuanian gas transmission system is connected to the gas transmission systems of the Republic of Latvia, Republic of Belarus, Kaliningrad District of the Russian Federation, and Klaipėda LNG terminal (Map 2).

The Company uses 65 gas distribution stations (GDS), 3 gas metering stations (GMS) and 2 gas compressor stations (GCS). The length of maintained pipelines amounts to 2,115 km, diameter – from 100 to 1.220 mm. Design pressure of most of the transmission system amounts to 54 bars.

Map 2. Natural Gas Transmission System in Lithuania.

4.2. MAINTENANCE, RECONSTRUCTION AND MODERNISATION

Maintenance of trunk pipelines is regulated by rules, standard legal acts and is carried out in strict compliance with the requirements set forth therein. To ensure reliability and safety of the transmission system, maintenance and repair works are conducted continuously.

In 2019, an internal diagnostics of gas pipelines was performed: gas transmission pipeline Minskas - Vilnius (64 km), launch of control device in branches to Jonava GDS (24 km) and line II of Jonava GDS (24 km).

In 2019, the Company performed reconstruction and modernisation of the following:

- Installation of pig launchers/receivers of the control device and implementation of expedient technological control of gas transmission system, stage 1 (support of the EU structural funds received):
  - at branches to Jonava GDS (DN400) and line II of Jonava GDS (DN500);
  - at the branch to Girininkai GDS (DN300);
  - at the branch to Palanga GDS (DN250);
  - in strand II of the pipeline Panevėžys-Šiauliai (DN1000);
  - at the branch to Naujoji Akmenė GDS (DN300 and DN250);
- Completed reconstruction of Jonava GDS (support of the EU structural funds received);
- Designing and installing pig launchers/receivers of the control device (stage 2) (support of the EU structural funds received);
- Reconstruction of separate sections of the Vilnius-Panevėžys-Riga gas transmission pipeline (14 km long) (support of the EU structural funds received);
- Commenced implementation of technological control of gas transmission system (replacement of shut-off devices and connection to remote control system SCADA) (support of the EU structural funds received);
- Replacement of 71 gas transmission pipeline inserts based on to internal diagnostic results;
- 3 terrestrial pipeline crossings replaced by underground ones;
- Implemented asset and personnel management information systems.

4.3. MARKET OF PROVIDED SERVICES

Amber Grid provides the system users, other operators and participants of the gas market with natural gas transmission services in the territory of Lithuania: it transmits gas to Lithuania's consumers, also transports natural gas to Latvia and Kaliningrad District of the Russian Federation. Gas are supplied to the system via the Liquefied Natural Gas (LNG) terminal in Klaipėda and entry points from Belarus and Latvia.

The EU common interest project GIPL, which is being run by Amber Grid in cooperation with the Polish gas transmission system operator GAZ-SYSTEM S.A., will connect gas markets of the Baltic countries and Finland with the EU natural gas market and will increase the access to new natural gas supply sources in the future.

In addition, Amber Grid is responsible for balancing natural gas flows in the transmission system and administration of funds intended to compensate for the costs of construction and fixed operating costs of the LNG terminal, its infrastructure and the connector and the reasonable costs of the natural gas supply incurred by the designated supplier. The Company actively works with its partners in creating conditions for efficient functioning of the natural gas market by increasing the competitiveness and liquidity of the gas market and ensuring attractive conditions for operation in the natural gas market for clients.

As of 1 June 2019, Amber Grid administers the National for Guarantee of Origin for gas produced from renewable energy sources (RES), i. e. it performs the functions of issuing, transferring and cancelling guarantees of origin, supervision and control of the use of guarantees of origin and recognition of guarantees of origin issued in other states, in Lithuania. Green gas is produced from biomass and other RES. The guarantee of origin shall be granted for one unit of energy - one megawatt-hour (MWh) delivered to the gas transmission and distribution network. The system of guarantee of origin enables the origin of the biogas produced to be identified, registered and monitored, while the consumers of this fuel can be guaranteed that the gas they use is produced from renewable energy sources.

4.4. CLIENTS

Clients of natural gas transmission via gas transmission pipelines and balancing of natural gas flows in the transmission system services provided by Amber Grid are big Lithuanian power and district heating generation companies, also industrial and medium size business companies in Lithuania, Baltic and third party energy, natural gas supply companies, which are provided with natural gas transmission services.

Clients of the Registry for Guarantee of Origin for gas produced from renewable energy sources: the Register includes gas producers, gas suppliers, gas transmission system and gas distribution network operators and other market participants intending to obtain or dispose of guarantees of origin.

4.5. PROVIDED SERVICES

The Company provides the system users, other operators and participants of the gas market with the following services:

- Natural gas transmission in the territory of Lithuania;
- Balancing of natural gas flows in the transmission system;
- Administration of funds intended to compensate for the costs of construction and fixed operating costs of the LNG terminal, its infrastructure and the connector and the reasonable costs of the natural gas supply incurred by a supplier.
- Managing the Register for Guarantees of Origin for gas produced from renewable energy sources.

4.5.1. NATURAL GAS TRANSMISSION

AMOUNTS OF NATURAL GAS TRANSMITTED

In 2019, for the Lithuanian and Baltic countries' consumers as many as 9.728 GWh of natural gas from Belarus through Kotlovka GMS, 19.595 GWh from Klaipėda LNG terminal and from Latvia to Lithuania were injected to the transmission system managed by the Company, i.e. 65.3%of the amount needed by these users was supplied from the LNG terminal. 682 GWh of natural gas were shipped from the Republic of Latvia to Lithuania.

In 2019, as many as 23.529 GWh of natural gas were transported to the internal exit point for Lithuania's consumers. Compared to 2018, when 22.320 GWh of natural gas were transported, the transmitted amounts increased by 5.4%.

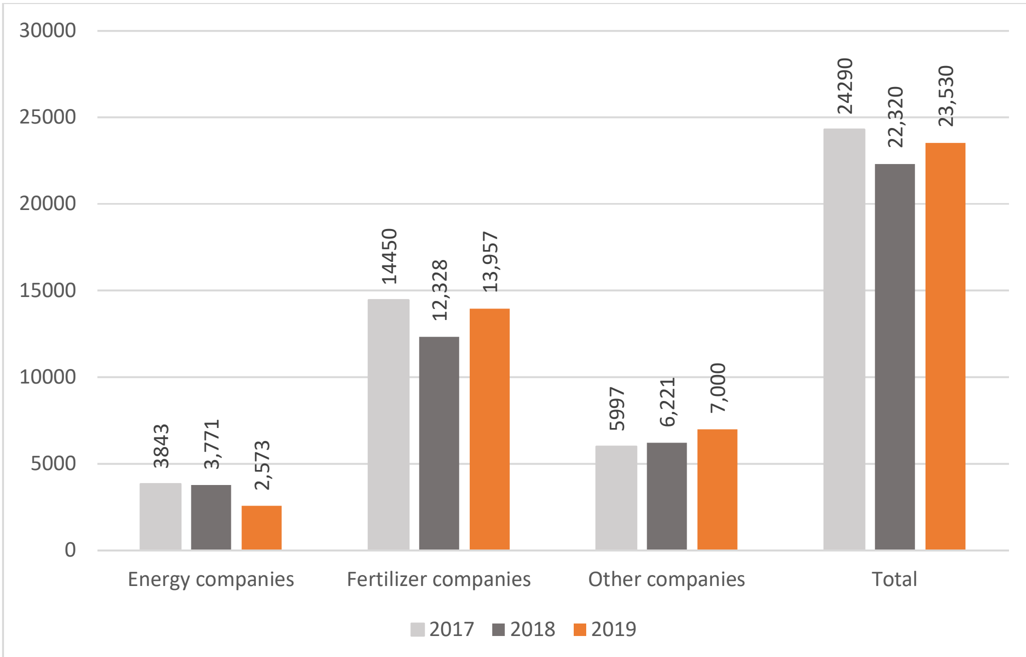
The amount of gas supplied to the system users from the transmission system to Latvia via Kiemėnai GMS amounted to 5.990 GWh or 2.6 times more than in 2018 (2.308 GWh) of natural gas.

During the reporting period, 26.002 GWh of natural gas were transported to Kaliningrad Region of the Russian Federation (in 2018 – 27.832 GWh).

As at 1 January 2020, the Company had concluded 105 natural gas transmission service agreements with natural gas transmission system users (natural gas users, natural gas distribution system operators, importers, natural gas supply companies supplying gas to consumer systems) of which 66 system users used transmission capacity during the reporting period. The Company had 2 natural gas balancing agreements with market participants which trade in natural gas in a virtual market area but do not transport it via the transmission system.

Structure of natural gas amounts transmitted in the internal exit point in terms of transmission system users is depicted in Pic. 1.

Pic. 1. Amounts of Transmitted Natural Gas By to Natural Gas Transmission System Users in Lithuania, GWh, 2017–2019.



NATURAL GAS PRICE REGULATION

Prices for natural gas transmission services are subject to regulation by the National Energy Regulatory Council (NERC). Price caps can be annually adjusted by decision of the NCC in accordance with the procedure established by NERC in the Methodology for Setting of State-Regulated Prices in the Natural Gas Sector.

Natural gas transmission service prices set for the transmission system's entry and exit points approved by NERC at the end of autumn of 2018 entered into force on 1 January 2019. More details on the prices for natural gas transmission that came into force as at 1 January 2019 are available on the Company's website https://www.ambergrid.lt/lt/paslaugos/kainos-ir-mokesciai/kainos-nuo-2019-01-01.

On 10 June 2019, NERC set a maximum income cap for regulated activities of Amber Grid (by providing the services of natural gas transportation through the natural gas transmission system) for 2020 - EUR 36.1 million, i. e. 17.8% percent below the set maximum income cap of EUR 43.9 million in 2019 (this is a one-off decrease as the cumulative return on investment, as since the end of last 2014-2018 regulatory period, cumulative deviation of return on investment, based on which permissible income level for 2020 was decreased, has been estimated.

In the 1st quarter of 2019, NERC conducted a public consultation in accordance with TAR NC, the Commission Regulation establishing a network code on harmonised transmission tariff structures for gas, for the pricing of the services provided by the Company in 2020 and subsequent years of the regulatory period. With regard to the comments from market participants and the opinion of the Agency for the Cooperation of Energy Regulators ACER published on 4 July 2019, the Company's Board and NERC made a decision on pricing in October 2019.

In 2020, the average price of transmission services for the needs of Lithuanian consumers (for long-term and short-term services), compared to the applied average price in 2019, is decreasing on average by just over 16% (up to 1.22 EUR / MWh). The mentioned significant (almost by 18%) decrease in transmission service income cap (compared to 2019) as of 2020 affected mostly the decrease of average gas transmission prices to Lithuanian system users.

In order to increase the ease and flexibility of access to the transmission system and to promote the development of a regional gas market, at entry points, from 2020, transmission service prices are being harmonized with those of the neighbouring tariff area covering Latvia, Estonia and Finland. In addition, at the entry points and the exit point with Latvia, the Company applies lower (compared to 2019) short-term service price multipliers as from 2020. Accordingly, in 2020, the change in the average price of natural gas transportation through Lithuania to other EU countries via the route Klaipėda LNGT - Latvia (taking into account the average prices of long-term and short-term products) is also significant – the total cost of entry and exit points in 2020 (compared to 2019) is down about 18%.

4.5.2. BALANCING OF NATURAL GAS FLOWS IN THE TRANSMISSION SYSTEM

Amber Grid ensures the balancing of natural gas flows in the transmission system. Following the Rules for Balancing the Natural Gas Transmission System, the Company purchases balancing gas from a gas market participant if the market participant has caused a surplus of gas in the transmission system and sells balancing gas to a gas market participant if the market participant has caused a shortage of gas in the transmission system.

In 2019, due to disbalance caused by the system users, the Company purchased 32 GWh and sold 67.2 GWh of natural gas.

When transmitting gas from a third country to a third country, the physical flows in the transmission system results in a difference between the calculated gas energy value at the entry and exit points of the gas transmission system. In 2019, during the transmission of gas to the Kaliningrad Region, there was a 402.6 GWh energy difference at the entry and exit points of the transmission system, which was reimbursed to the Company for the services rendered from the third country to the third country.

Apart from balancing of the gas flows of system users and other gas market participants, the quantity of natural gas contained in the pipelines of the Company's transmission system fluctuates due to technical and process characteristics of the transmission system.

4.5.3. ADMINISTRATION OF FUNDS INTENDED TO COMPENSATE FOR THE COSTS OF CONSTRUCTION AND FIXED OPERATING COSTS OF THE LNG TERMINAL, ITS INFRASTRUCTURE AND THE CONNECTOR AND THE REASONABLE COSTS OF THE NATURAL GAS SUPPLY INCURRED BY THE DESIGNATED SUPPLIER

In order to ensure compliance with the Republic of Lithuania Law on LNG terminal and its implementing legal acts, the Company collects, administers and pays out the LNG terminal funds to the terminal's operator (AB Klaipėdos Nafta) and the designated supplier (Ignitis UAB) in accordance with the procedure prescribed in laws and these funds are used to compensate Amber Grid for the costs of the administration of the LNG terminal funds.

According to the NCC's Resolution of 22 November 2018, another natural gas supply component was approved, which had to be in effect from 1 January 2019, and by Resolution of 31 December 2018, was revised and set at EUR 559.34 / (MWh / day / year).

On 30 December 2019, NERC set a 38.55% reduction on the additional component of the natural gas supply security, effective from 1 January 2020; it was set at EUR 343.71 EUR / (MWh / day / year).

The distribution rates of LNGT funds to LNGT beneficiaries, as agreed with NERC that have been applied since 1 January 2019 and 2020 are presented in the table below.

Table 1. Information on distribution of the collected LNGT funds among the LNGT beneficiaries for 2019-2020

Components	Rate applied as from 1 January 2019	Rate applied as from 1 January 2020
Regasification of liquefied natural gas component	69.80%	56.53%
Administrative costs component	0.08%	0.11%
Component of reasonable costs of supplying LNGT minimum quantity	30.12%	43.35%
Total:	100%	100%

Judicial disputes took place with AB Achema with regard to non-paid LNG terminal funds. There are currently two civil cases pending at courts of general jurisdiction for unpaid LNG terminal funds. Both cases have been suspended until the final procedural decision is passed. The Court of Justice of the European Union will give its final judgment regarding the case No C-847/19 P under the appeal brought against the decision of the General Court of the European Union as of 12 September 2019 in case No. T-417/16.

4.6. ON-GOING AND PLANNED PURCHASES AND INVESTMENTS

In 2018, the Natural Gas Transmission System Operator's Ten Year (2018-2027) Plan on the Development of the Network was drawn up which was approved by the National Commission for Energy Control and Prices in August 2018. The plan provided for the amount of investments in gas transmission system expansion projects in the next decade which is EUR 211.45 million. It is estimated that in the next ten years, the amounts of gas consumed in Lithuania will reduce, however, cross-border gas flows to other Baltic countries will increase and the possibility to transport gas in new directions – via pipeline between Poland and Lithuania – will occur. In 2019, a decision was taken to update the Ten Year Plan on the Development of the Network every 2 years. An updated plan will be prepared in 2020.

More details on planned investments are provided on the website of the Company https://www.ambergrid.lt/lt/perdavimo-sistemos-pletros-planas.

4.7. THE COMPANY'S RESEARCH AND DEVELOPMENT ACTIVITIES

As of 1 June 2019, Amber Grid administers the National for Guarantee of Origin for gas produced from renewable energy sources (RES), i. e. it performs the functions of issuing, transferring and cancelling guarantees of origin, supervision and control of the use of guarantees of origin and recognition of guarantees of origin issued in other states, in Lithuania. This system is beneficial for energy consumers seeking to use environmentally friendly fuel produced in Lithuania or other European Union state. In cooperation with the designated bodies of other countries and organizations of RES sector, the Company, since 1 June 2019, has been participating in the project REGATRACE (Renewable GAs TRAde Center in Europe), funded by the European Union's Horizon 2020 research and innovation program, to develop a European scheme for the operation of the registry for guarantees of origin for biomethane and other renewable gases and to promote the development of green gas production and market.

Due to the intensive development of RES production and the significant increase of RES share in the total energy balance, the use of Power-to-Gas technologies, which are widely researched and tested in Europe, can contribute to dealing with the challenges of integration into the electricity transportation system and balancing power grid by transforming surplus electricity into gas energy form (hydrogen and methane) and by transportation via gas transmission and distribution networks to energy storage and consumption sites. Therefore, from the beginning of 2019, the Company has been participating in the EPSO-G group's project by carrying out a technical and economic feasibility analysis of technology adaptability in Lithuania, which is expected to be completed in 2020-2021.

From June 2019, Amber Grid has started implementing SecureGas research and development project together with its international partners. The project aims at safeguarding the security and resilience to cyber and physical threats to the EU gas network. The project is funded by the European Union's Horizon 2020 research and innovation program. The goal of the project, taking into account the requirements set by the European Energy Security Strategy, the European Program of Critical Infrastructure Protection, the EU Regulation 2017/1938 concerning measures to safeguard security of gas supply, is "to develop methodologies, tools and guidelines to protect existing and future gas transmission infrastructure facilities and make them cyber and physical threat resistant".

4.8. CORPORATE OPERATIONAL PLANS AND FORECASTS

The regional gas market is expected to develop gradually. For now, what concerns the single gas market from 2020 only Latvia and Estonia have agreed upon, which together with Finland as from 2020 will form a common tariff area. Lithuania continues to engage in discussions with partners in the region with a view to the participation of all countries in a single gas market on mutually beneficial terms. Lithuania will join the common zone at a later stage.

By contributing to Lithuania's ambitious goals for a greater share of renewable energy in the country's energy balance, the Company participates in a number of initiatives and projects that enable its specialists to develop competencies in the field of gas from RES. The Company's participation in the REGATRACE project, RAIDA 2050 project and membership of the European Renewable Gas Registry (ERGaR) association in addition to the aforementioned goals will enable the development of new competencies that will contribute to the promotion of green gas production and market development in Lithuania, ensuring continuity of the Company's activities and implementation of the National Energy Strategy.

It is estimated that in 2020 the Company will transport about 22 TWh of natural gas to the domestic exit point for the Lithuanian system users, 1.8 TWh – to the Republic of Latvia, and 26.8 TWh – to the Kaliningrad Region of the Russian Federation. About 65% of the amount of natural gas intended for the users of Lithuania and other Baltic countries is planned to be obtained from Klaipėda LNG terminal. The specific volumes of gas flows and sources of gas supply will depend on the market situation during the course of the year, air temperature and other circumstances.

5. FINANCIAL RESULTS

The numbers in the financial results reflect the consolidated financial results of Amber Grid AB and its subsidiary GET Baltic UAB, which are presented below in the Annual Report as the Group's operating results and overall financial position.

5.1. FINANCIAL INDICATORS[2]

	2019	2018	2017
Financial results (thousand EUR)			
Revenue	54.756	54.563	64.322
EBITDA	24.343	24.636	38.252
Profit (loss) before tax	13.871	-26.027	-12.055
Net profit (loss)	11.838	-21.608	-9.861
Cash flows from main operations	27.190	23.359	34.835
Investments	18.279	16.034	12.386
Net financial debt	71.576	80.082	70.496
Profitability ratios (%)			
EBITDA margin	44,5	45,2	59,5
Net profit (loss) margin	21,6	-39,6	-15,3
Return on assets (ROA)	4,9	-8,7	-3,4
Return on equity (ROE)	8,8	-14,3	-5,3
Liquidity ratios			
Current ratio	0,64	0,55	0,68
Quick ratio	0,59	0,48	0,62
Leverage ratios			
Equity to total assets ratio	57,4%	56,9%	64,7%
Financial debt to equity ratio	52,1%	61,1%	44,9%
Financial debt to EBITDA ratio, times	2,95	3,25	2,02
Market values ratios			
Share price/earnings per share ratio (P/E), times	14,77	-9,41	-25,33
Net earnings (loss) per share, EUR	0,07	-0,12	-0,06

Formulas for calculation of indicators:

EBITDA = profit (loss) before tax + financial operational costs – financial operational income + depreciation and amortisation costs + impairment costs + asset write-offs
Net financial debt = financial debt – cash and cash equivalents
EBITDA margin = EBITDA/ revenue

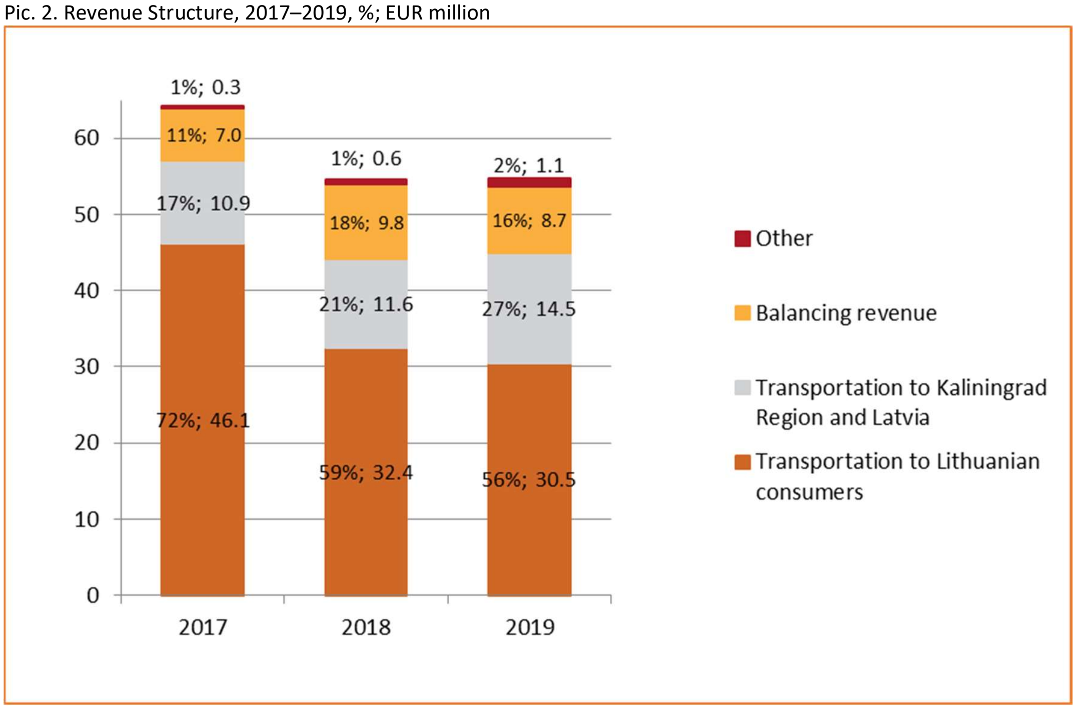
[2] The Company's financial indicators were calculated after elimination of the assets or liabilities generated by the LNG terminal funds. The Company's data is presented as at 2017.

Net profit (loss) margin = net profit (loss) / revenue
ROA = net profit (loss) / average asset value
ROE = net profit (loss) / average equity
Current ratio = current assets / current liabilities
Quick Ratio = (current assets – inventories) / current liabilities
Equity to assets ratio = equity / assets
Financial debt to equity ratio = financial debt / equity
Financial debt to EBITDA ratio = financial debt / EBITDA
Share price /earnings per share ratio = share price at the end of period / (net earnings / number of shares)

5.2. REVENUE

In 2019, the Company's revenue totalled EUR 54,756 thousand and, compared to 2018, increased by 0.4%. The record volumes of gas transportation to Latvia and the corresponding increase in revenues allowed to offset the decrease in revenue of balancing and transportation services for Lithuanian consumers. Revenue from transportation services for domestic consumers decreased due to lower service prices. Balancing revenues fell due to lower balancing gas prices. Other revenue – revenue for administration of LNG terminal funds, revenues from licensed gas market operator (UAB GET Baltic) and other – totalled EUR 1,071 thousand in 2019 (Pic. 2).

Pic. 2. Revenue Structure, 2017–2019, %; EUR million



Balancing revenue includes:

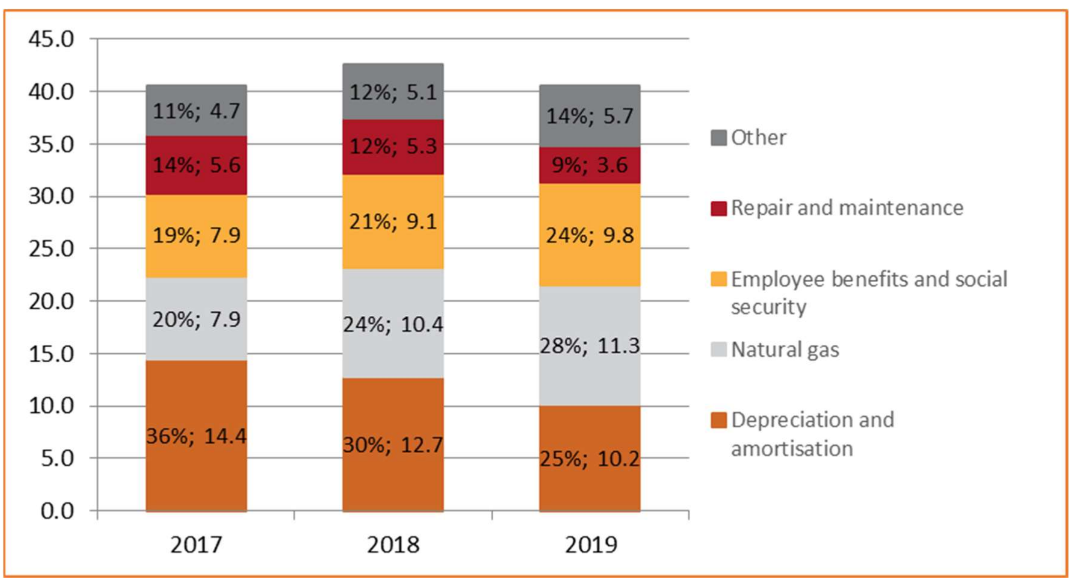
- Balancing of gas flows for the system users and other gas market participants involved in the balancing of the transmission system;
- Operational balancing of the transmission system determined by the technical characteristics of the transmission system and gas flow deviations (imbalances) for technical reasons.

The Company is obliged to administer the LNG terminal funds under the law. For more information and disclosures about the calculation of the LNG terminal funds, see the Company's financial statements for 2019.

5.3. COSTS

In 2019, the Company's costs (after elimination of non-current assets' impairment costs amount to EUR 37,686 thousand) totalled EUR 40,544 thousand and, compared to 2018, decreased by 4.8%. This was mostly influenced by the increase in purchase costs of natural gas.
In 2019, depreciation and amortisation costs of non-current assets amounted to EUR 10,159 thousand and accounted for 25% of total costs, and reduced by 20.1% compared to 2018 (Pic. 3). Reduction in depreciation and amortisation costs was determined by the impairment and extended useful life of certain units of assets accounted for at the end of 2018.
Natural gas costs amounted to EUR 11,336 thousand (28% of all costs) and increased by 8.8% compared to 2018 due to the growth in balancing gas flows. The Company purchased natural gas for technological needs, for balancing gas flows for system users and other gas market participants involved in the balancing of transmission system and technical balancing. Payroll and social security costs amounted to EUR 9,784 thousand (24% of all costs) and increased by 8.0% compared to 2018. Repair and maintenance costs amounted to EUR 3.573 thousand (9% of total costs) and decreased by 32% compared to 2018.

Pic. 3. Cost Structure (calculated after elimination of 2017-2018 assets' impairment costs), 2017–2018, %; EUR million



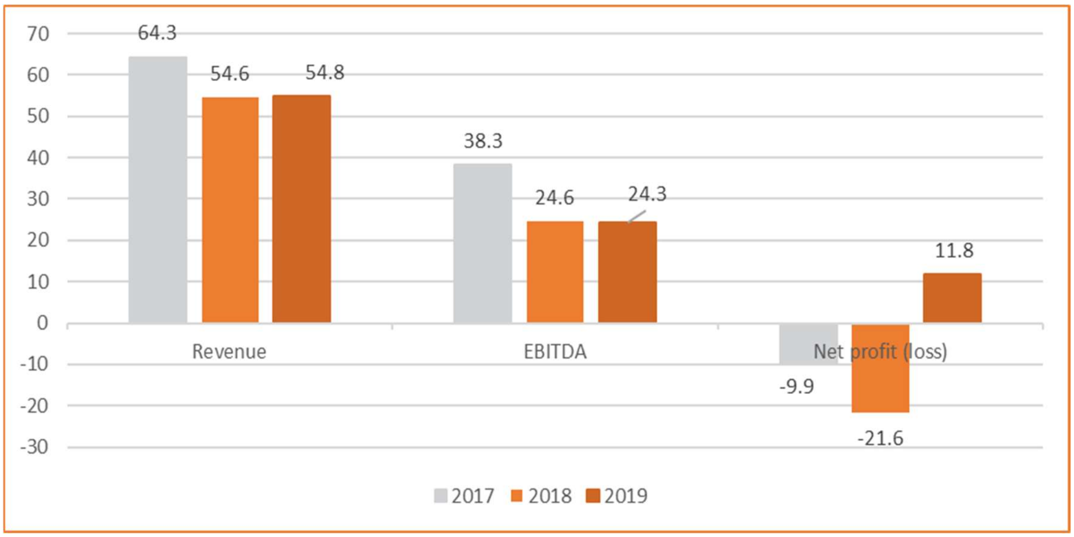
5.4. OPERATING RESULTS

In 2019, the Group was profitable with net profit of EUR 11,838 thousand (2018: loss of EUR 21,608 due to revaluation of non-current assets).

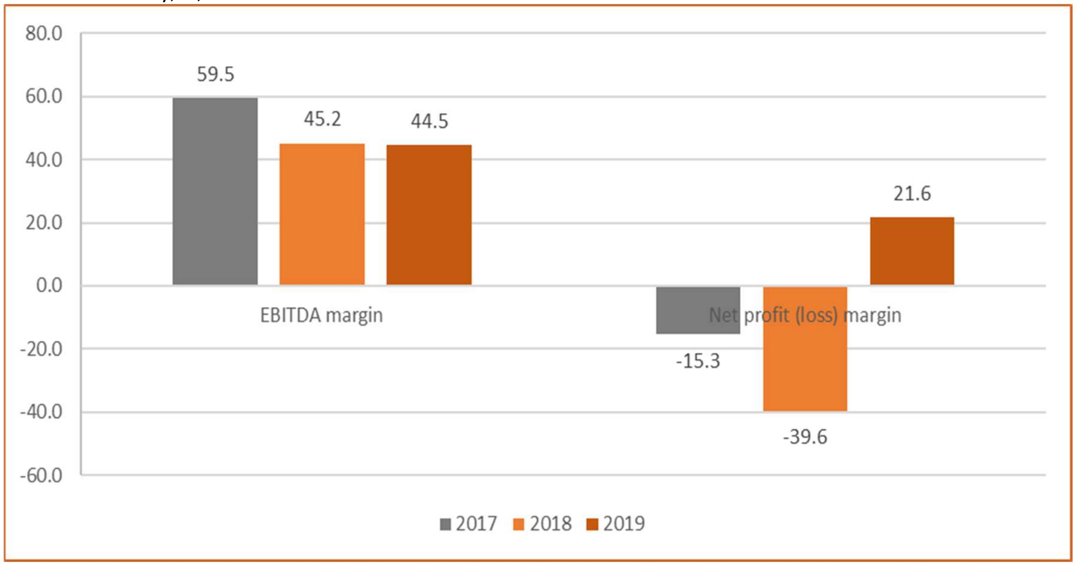
In 2019, the Group profit before taxes amounted to EUR 13,871 thousand (2018: loss of EUR 26,027 thousand), while earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 24,343 thousand (2018 - EUR 24.636 thousand).

Non-current assets' impairment was largely determined by the fact that when the new price regulation period 2019-2023 for natural gas transmission services has begun, the Company has started applying the methodology for determining the rate of return on investment approved by the NCC already in 2015, and the rate of return on the assets attributed to the regulated activity was recalculated and set at 3.33% level, i.e. significantly lower compared to the rate of return applied to the previous regulation period (7.09%).

Pic. 4. Financial Results, EUR million, 2017–2019.



Pic. 5. Profitability, %, 2017–2019.



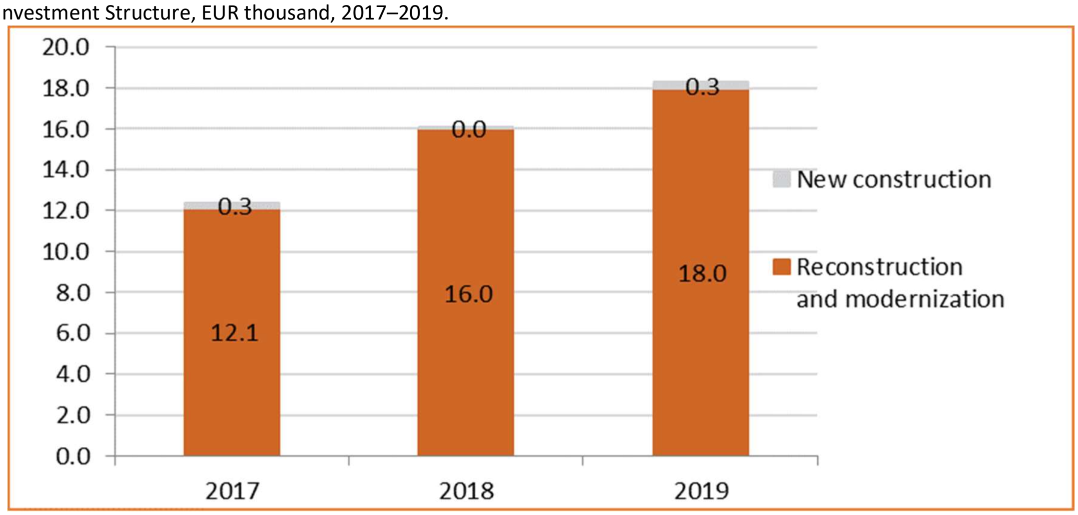
5.5. INVESTMENTS

In 2019, investments totalled EUR 18,279 thousand (in 2018 – EUR 16,034 thousand) (Pic. 6).

In the process of maintenance and development of the natural gas transmission network the Company makes consistent infrastructure investments. Investments to development of transmission network were insignificant due to protracted procurement procedures of GIPL project.

Investments in reconstruction and modernisation increased by 12.4% compared to 2018 and amounted to EUR 17,994 thousand. The increase was determined by the volume of the reconstruction projects of gas transmission pipelines carried out in 2018.

Pic. 6. Investment Structure, EUR thousand, 2017–2019.



5.6. ASSETS

At the end of 2019, the value of assets amounted to EUR 256,129 thousand: non-current assets accounted for 81.7%, current assets – for 18.3% of the total Company's assets.

Non-current assets increased by 1.2% in 2019 and totalled EUR 209,346 thousand due to investments exceeding depreciation. Current assets of the Group amounted to EUR 46,783 thousand at the end of 2019, i.e. increased by 20.5% compared to 2018. The change was mainly influenced by the increase in deposit guarantees and deposit position.

5.7. EQUITY AND LIABILITIES

In 2019, the Company's equity increased by 5% and at the end of the reporting period amounted to EUR 137,854 thousand. At the end of the reporting period, equity accounted for 57.4% of the total Company assets.
In 2019, amounts payable and liabilities increased by 3.3% and at the end of the reporting period amounted to EUR 118,275 thousand. Increase in payables and liabilities was determined by increased prepayments received.
On 31 December 2019, the Company's financial debt amounted to EUR 71,809 thousand and decreased by EUR 8,315 thousand during the reporting period. Ratio of financial liabilities to credit institutions to equity amounted to 52.1%.

5.8. CASH FLOWS

In 2019, the Company's cash flows from the main activity amounted to EUR 27,190 thousand (in 2018 – EUR 23.359 thousand). To purchase non-current assets, EUR 19,915 thousand was used (in 2018 – EUR 20,546 thousand), for the to pay out dividends – EUR 5,228 thousand (in 2018 – EUR 20,291 thousand). In 2019, to finance investment projects, the amount of EUR 6,941 thousand of EUR support was obtained from EU Structural Funds (in 2018 – EUR 8,173 thousand).

5.9. REFERENCES AND ADDITIONAL EXPLANATIONS OF DATA REPORTED IN THE ANNUAL FINANCIAL STATEMENTS

Other information is disclosed in the notes to the audited financial statements of Amber Grid for 2019.

5.10. INFORMATION ON MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

Material events after the end of the reporting period presented in the notes to the audited financial statements of Amber Grid for the year 2019.

5.11. INFORMATION ABOUT ANY FINANCIAL ASSISTANCE

The financial assistance (support) policy is provided in the Social Responsibility Report 2019. The Company provided no other form of financial assistance during the reporting period.

5.12. INFORMATION ON TRANSACTIONS OF RELATED PARTIES, MATERIAL ARRANGEMENTS AND DETRIMENTAL TRANSACTIONS

Information on related-party transactions is disclosed in the Company's financial statements for 2019.

As at 31 December 2018, the Company was party to the following significant contracts entitling the counterparties to respective contracts to terminate transactions concluded with the Company following any changes in the Company's control: the loan agreement of 30 December 2014 with Swedbank, AB, the loan agreement of 19 August 2015 with the Nordic Investment Bank, and the loan agreement with OP Corporate Bank plc, Lithuanian branch, of 18 May 2018. The terms of the aforesaid contracts are deemed to constitute two-way confidential information of the parties to respective contracts, and their disclosure could inflict damage on the Company.

During the reporting period, the Company did not enter into any detrimental transactions (transactions that are inconsistent with the Company’s objectives or usual market terms and conditions, infringe on the interests of the shareholders or any other stakeholders, etc.), nor into any transactions concluded under the conflict of interests between the management’s, controlling shareholders’ or any other related parties’ commitments to the Company and their private interests and/or other commitments.

The Audit Committee of EPSO-G, which operates in the group of companies and performs the functions of the Audit Committee of Amber Grid, delivers opinions on each Amber Grid transaction with the related party. The Audit Committee assesses whether the relevant transaction between related parties is made under market conditions and whether such a transaction is fair vis-à-vis all shareholders.

5.13. INFORMATION ON DIRECTLY MATERIAL DIRECTLY AND INDIRECTLY MANAGED STAKES

On 31 December 2019, the Company controlled 100% of its subsidiary’s UAB GET Baltic shares. More details on the controlled company are provided in the Company’s financial statements.

6. RISKS AND THEIR MANAGEMENT

6.1. RISKS AND THEIR MANAGEMENT

Risk in the Company is understood as the possibility of unplanned events that may impact achievement of strategy and business goals both negatively and positively. The Company seeks actively manage the risk and by doing it achieve following goals:

- To increase achievement probability of the Company‘s operating goals and operating efficiency;
- To plan in advance and to implement actions which reduce negative impact of possible events and (or) their occurrence;
- To improve safety of employees, third parties and environment;
- To improve prevention and management of unforeseen events;
- To build the confidence within community and state in respect of the Company.

Risks management performed in accordance with the provisions of international standard COSO ERM (June 2017 edition). The Company is fully connected to the Risks Management Policy of EPSO-G group companies and applies general Risks Management Methodology of the Group. Risks Management Policy and Risks Management Methodology is approved and changed based on decision of the Company‘s Board and process is coordinated by EPSO-G Audit Committee which also performs Audit Committee functions for the Company.

The Board and Audit Committee of the Company periodically prioritize the risks identified in daily activity, evaluate these risks (assess probabilities and impacts), set tolerance limits of separate risks and risk monitoring indicators, establish risk management measures and control implementation of management plan.

The Company is exposed to the following risk categories:

Political: Impact of decisions of state institutions of Lithuania and neighbour countries to the Company‘s and (or) the Group‘s activity including energy reforms, tax policy, remuneration and (or) safety and (or) other related regulations, trade restrictions and political stability.

Economic: Lithuanian and international market impact on the Company‘s activity including situation regarding competition of subcontractors, industry development trend, changes of electricity and gas prices in the market, concentration of consumers, changes of interest, inflation, exchange rates, credit availability, GNP, etc..

Social: demographic changes such as age and education of employees and distribution of consumer wealth, changes of consumer habits or energy use impact on the Company‘s operation.

Technological: breakdown of equipment, innovation and technology changes in the market and cyberattacks impact on the Company‘s operation.

Legal: risk that the Group shall be prosecuted in accordance with legal acts due to failure to meet obligations to its employees, customers and suppliers, timing of performed works and other reasons.

Information on risks related to concentration, gas purchase price and financial risks (liquidity, credit, interest rate fluctuation) disclosed more detail in the financial statements of the Company for 2019.

6.2. INTERNAL CONTROL OF THE COMPANY

The Company's financial statements are prepared according to the International Financial Reporting Standards as adopted by the EU.

The Company has adopted the Manual of Accounting Procedures and Policies which defines the principles, methods and rules of accounting, financial reporting and presentation. Besides, to ensure timely preparation of the financial statements, the Company follows the internal rules which define the deadlines for the submission of accounting documents and drawing up of the financial statements.

The "four-eye" principle is followed when drawing up the financial statements. The Accounting Unit is responsible for overseeing the preparation of the financial statements and the final review thereof.

7. GOVERNANCE

7.1. INFORMATION ON COMPLIANCE WITH THE GOVERNANCE CODE

The Company complies with Corporate Governance Code for the Companies Listed on AB NASDAQ Vilnius (available on www.nasdaqbaltic.com; hereinafter referred to as the "Governance Code"). The Governance Code is applied to the extent to which it does not contradict the Article of Association of the Company. The Company has disclosed its compliance with the requirements of the Governance Code in the information published on the Company's website at www.ambergrid.lt and in the Central Storage Facility at www.crib.lt.

7.2. SHARE CAPITAL

The Company's authorised capital amounts to EUR 51,730,929.06. It is divided into 178,382,514 ordinary registered shares of EUR 0.29 par value. An ordinary registered share of EUR 0.29 par value grants its holder one vote at the General Meeting of Shareholders. All the shares have been fully paid.

There were no changes in the Company's ownership structure in 2019. UAB EPSO-G retained its 96.58% shareholding in the Company and was the only shareholder holding more than 5% of the Company's shares. UAB EPSO-G has a casting vote in the decision-making process at the General Meeting of Shareholders.

7.3. SHARES AND SHAREHOLDER RIGHTS

The number of the Company's shares that entitle their holders to vote at the General Meeting of Shareholders coincides with the number of shares in issue which is equal to 178,382,514 pcs. All shareholders of Amber Grid have equal property and non-property rights conferred on by the shares of the Company, and none of the Company's shareholders has special control rights. In accordance with the Company's Articles of Association, only the General Meeting of Shareholders can adopt decision on issuing new shares and on acquisition of own shares.

To the knowledge of the Company, there are no mutual agreements between the shareholders that might result in restrictions on the transfer of securities and/or on voting rights. The Company has imposed no restrictions on voting rights.

In 2019, the Company did not acquire its own shares and had no transactions relating to acquisition of disposal of its own shares.

7.4. SHAREHOLDERS

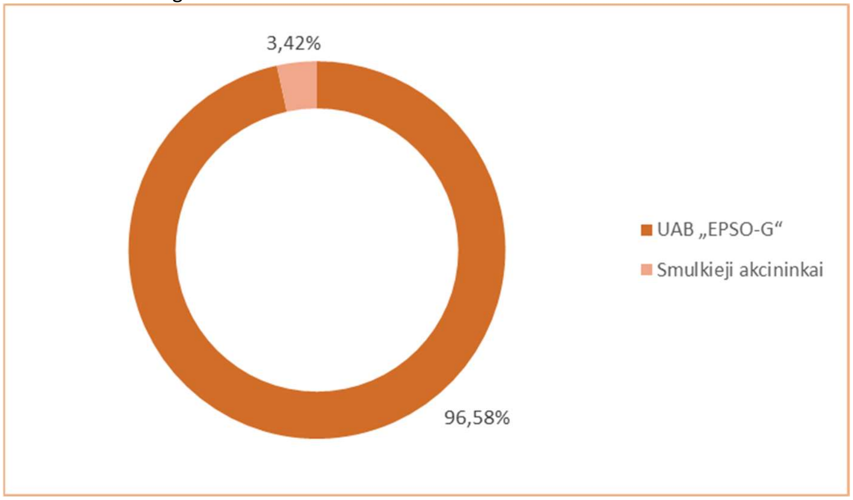
As at 31 December 2019, Amber Grid had 2,200 shareholders (Lithuanian and foreign natural and legal persons), including one shareholder holding more than 5% of the Company's shares.

Table 2. Shareholders of the Company

Shareholder	Registered office address / legal entity code	Number of shares owned, pcs.
UAB EPSO-G	Gedimino Ave. 20, Vilnius, Lithuania/ 302826889	172,279,125
Minority shareholders		6,103,389
In total:		178,382,514

The Company's shareholding structure is provided in Picture 7 below.

Pic. 7. Shareholding Structure as of 31 December 2019.



UAB EPSO-G controls 96.58% of the Company's shares and has a casting vote in the decision-making process at the General Meeting of Shareholders.

7.5. DETAILS ON TRADING IN SECURITIES ON REGULATED MARKETS

Since 1 August 2013, the Company's shares have been traded on the regulated market and quoted on the Secondary List of *NASDAQ Vilnius* Stock Exchange.

Table 2. Main Details on Amber Grid Shares.

Main details on Amber Grid shares	
ISIN	LT0000128696
Ticker	AMG1L
Issue size (number of shares)	178,382,514

In 2019, the trading turnover in the Company's shares was EUR 0.38 million (in 2018 – EUR 0.52 million) with 345,565 shares (in 2018 – 364,443 shares) transferred under the transactions. The Company's share price dynamics is presented in Table 3, and details on the price and turnover of the Company's shares (in 2016–2019) are provided in Pic. 8.

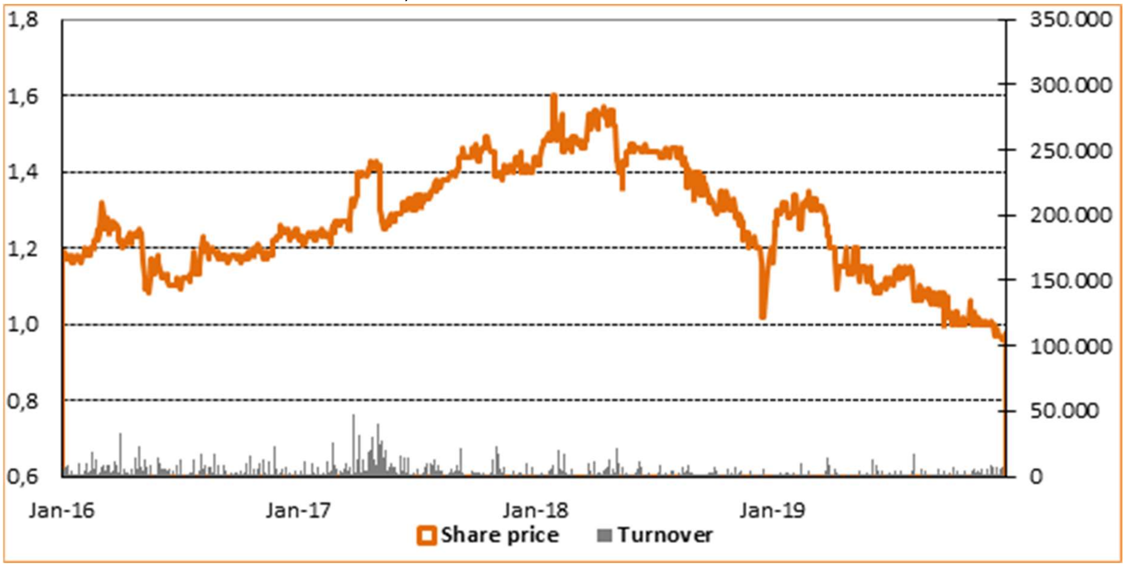
Table 3. Share Price Dynamics at NASDAQ Vilnius, 2016–2019.

Opening price, 04-01-2016	Highest price per share, 07-03-2016	Lowest price per share 27-06-2016	Weighted average price per share	Closing price, 30-12-2016
EUR 1.19	EUR 1.32	EUR 1.08	EUR 1.192	EUR 1.24

Opening price, 02-01-2017	Highest price per share, 18-10-2017	Lowest price per share, 10-01-2017	Weighted average price per share	Closing price, 29-12-2017
EUR 1.24	EUR 1.49	EUR 1.21	EUR 1.340	EUR 1.40

Opening price, 02-01-2018	Highest price per share, 01-02-2018	Lowest price per share, 19-12-2018	Weighted average price per share	Closing price, 31-12-2018
EUR 1.40	EUR 1.60	EUR 1.02	EUR 1.428	EUR 1.14
Opening price, 02-01-2019	Highest price per share, 28-02-2019	Lowest price per share, 23-12-2019	Weighted average price per share	Closing price, 30-12-2019
EUR 1.40	EUR 1.35	EUR 0.95	EUR 1.10	EUR 0.98

Pic. 8. Amber Grid Share Price and Turnover, 2016–2019.



As at 31 December 2019, Amber Grid's stock capitalisation amounted to EUR 174.81 million. The price per share on the stock exchange and the capitalisation decreased by 14.0% in 2019.

7.6. DIVIDENDS

At the General Meeting of Shareholders held on 23 April 2019, the Company's shareholders decided to pay out dividends in the amount of EUR 5.2 million or EUR 0,0293 per share.

7.7. AGREEMENT WITH INTERMEDIARIES OF PUBLIC TRADING IN SECURITIES

Amber Grid has an agreement with AB SEB Bank on the accounting of the securities issued by the Company and the provision of services related to the securities' accounting.

On 15 May 2015, the Company concluded an agreement with AB SEB Bank on the payment/distribution of dividends to minority shareholders under which AB SEB Bank calculates and pays out dividends to all shareholders of the Company, excluding the majority shareholder UAB EPSO-G.

Details of AB SEB Bank	
Company code	112021238
Registered office address	Gedimino Ave. 12, Vilnius, Lithuania
Phone	+370 5 268 2800 or 1518
Email	info@seb.lt
Website	www.seb.lt

7.8. MANAGEMENT STRUCTURE

In performing its activities, the Company complies with the law on Companies, the Law on Securities, the Company's Articles of Association and other legislation of the Republic of Lithuania. The powers of the General Meeting of Shareholders, the rights of shareholders and the exercise of such rights are defined in the Law on Companies and the Articles of Association of the Company, which are available on the Company's website: www.ambergrid.lt/en/about-us/investors-relations/bylaws. The last time the Articles of Association of the Company were amended as at 6 December 2019.

On 6 December 2019 the General Meeting of Shareholders adopted the decision to amend the Articles of Association of the Company, stipulating that the Board shall elect the Board‘s lawyer and shall be accountable for its activities by submitting an annual report to the General Meeting of Shareholders.

The Articles of Association provide for the following management bodies:

- General Meeting of Shareholders;
- The Board;
- The head of the Company – General Manager.

Information about the members of the Board, the Managing Director and the Chief Accountant of Amber Grid is presented in Table 4 below.

Table 4. Information about the Members of the Board, the General Manager and the Chief Accountant

Position	Full name	Start of term of office	End of term of office	Participation in the issuer's capital	
				Share of authorised capital held, %	Share of voting rights held, %
Chairperson of the Board	Nemunas Biknius*	April 2016	April 2020	0.001055	0.001055
Board Member, **acting** Chairperson of the Board	Algirdas Juozaponis	September 2018	April 2020	–	–
Independent Board Member	Nerijus Datkūnas	April 2016	April 2020	–	–
Board Member	Rimvydas Štilinis	April 2016	April 2020	–	–
Independent Board Member	Sigitas Žutautas	September 2018	April 2020	–	–
General Manager	Saulius Bilys	June 2013	October 2019	–	–
Acting General Manager	Nemunas Biknius	October 2019	–	0.001505	0.001505
Chief Accountant	Dzintra Tamulienė	June 2013	December 2019	–	–
Head of Accounting	Rasa Baltaragienė	December 2019	–	–	–

* In October 2019, after the resignation of Saulius Bilius as General Manager and appointment of Nemunas Biknius as General Manager on a temporary basis he also suspended his authorizations as Board Member and Chairman of the Board.

In 2019, 22 Board meetings were held.

Attendance of the Board meetings during and main decisions adopted:

● Present
○ Absent

No	Meeting date	Nemunas Biknius	Algirdas Juozaponis	Rimvydas Štilinis	Nerijus Datkūnas	Sigitas Žutautas
1.	29 January	●	●	●	●	●
2.	31 January	●	●	●	●	●
3.	26 February	●	●	●	●	●
4.	20 March	●	●	●	●	●
5.	28 March	●	●	●	●	●
6.	30 April	●	●	●	●	●
7.	20 May	●	●	●	●	●
8.	25 June	●	●	●	●	●
9.	6 August	●	●	●	●	●
10	27 August	●	●	●	●	●
11	23 September	●	●	●	●	●
12	17 October	●	●	●	●	●
13	22 October	●	●	○	●	●
14	28 October	●	●	●	●	●
15	29 October	-	●	●	●	●
16	31 October	-	●	●	●	●
17	12 November	-	●	●	●	●
18	14 November	-	●	●	●	●
19	19 November	-	●	●	●	●
20	29 November	-	●	●	●	●
21	11 December	-	●	●	●	●
22	17 December	-	●	●	●	●

The Board decisions adopted in the first half of 2019:

January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
01-29 Implementation of goals set for General Manager for the year 2018 evaluated and goals set for 2019. Remuneration limits for the management set. **01-31** Technical balancing agreement with Lietuvos energijos tiekimas UAB approved.	**02-26** Connected to EPSO-G Group account, transactions of lending and borrowing. Organizational structure changed. Adopted group staff guidelines of policy of performance evaluation, code of ethics, research and development and innovation activities. Revised Action Plan for 2019-2021 approved.	**03-20** Connection of the subsidiary GET Baltic UAB to EPSO-G Group account, transactions of lending and borrowing considered. Connected to the Group Risk Management Policy and Risk Management Methodology, the policy of the Group transactions with related parties, Corporate Governance Policy, Selection Policy of the Group. Approved Report on implementation of the Company Action Plan for 2018 and variable share of remuneration of General Manager and senior management for the year 2018.	**04-30** Connected to the Group staff Remuneration Policy, the Group's members Interest Management policy of members of the Group's collegial bodies, management and employees. Approved levels of management positions, limits of main remuneration part and maximum variable share of remuneration. Organizational structure changed. Variable share of remuneration for the year 2018 approved. Independence of independent members evaluated by the Board members. Voting position for GET Baltic UAB EGMS formulated.	**05-20** The main terms of transactions of purchase and sales of servers, virtualization software and emergency recovery software and infrastructure equipment for server networks approved.	**06-25** The conclusion of contract for the purchase of pipes for construction of GIPL and its main terms approved. An Extraordinary General Meeting of Shareholders of Amber grid AB called. Energy savings transfer agreement with LITGRID AB approved. Voting position for GET Baltic UAB GMS formulated. Decision on organizational structure adopted.

		03-28 Approved Annual Report, financial statements and draft of profit distribution of the Company for the year 2018 and Decision to call General Meeting of Shareholders adopted. Voting position for GET Baltic UAB General Meeting of Shareholders formulated.			

The Board decisions adopted in the second half of 2019:

July 2019	August 2019	September 2019	October 2019	November 2019	December 2019
-	**08-06** Implementation of recommendations of internal audit discussed. Main terms of the procurement contract for GIPL construction works approved. An Extraordinary General Meeting of Shareholders of Amber grid AB called. Agreement with EPSO-G UAB on holding management services approved. **08-27** Prior approval of main terms of the planned natural gas purchase agreement for 2020 considered. Delegated representative to the Committee on Innovation, New Activities and the Group Operating Effectiveness.	**09-23** Implementation terms of the Group policies approved. The prices for the services of the Company natural gas transmission approved. Main terms of agreement for the planned operating lease of vehicles have been accepted Interim implementation of the goals set for General Manager for the year 2019 evaluated.	**10-17** The course of the GIPL project discussed. **10-22** The course of the GIPL project discussed. Risk plan updated. **10-28** General Manager recalled, temporarily General Manager assigned. **10-29** The Board decision dated 06-08-2019 cancelled. **10-31** The course of the GIPL project discussed.	**11-12** Strategy for 2017-2022 and Action Plan for 2020-2022 of Amber Grid AB approved. Connected to the policy of integrated planning and monitoring. The list of main terms and conditions of transactions and the order of conclusion thereof approved. **11-14** Decision to call an extraordinary GMS adopted. **11-19** Amended rules for the use of Amber Grid AB natural gas transmission network approved. Decision made on the selection of General Manager. **11-29**	**12-11** Approval of conclusion of the contract for the construction of gas interconnection between Lithuania and Poland (GIPL) and updated agenda of the General Meeting of Shareholders. **12-17** The main terms purchase and sale agreement for SCADA data processing and kits for expansion of storage server approved. Investment projects discussed. Transaction of purchase of natural gas for 2020 approved. The Company budget for 2020 approved. Connected to the Group policies of competence

				Decision to call an extraordinary GMS adopted.	management, corporate governance and transport. The work regulation of the Board approved. Voting position for GET Baltic UAB an extraordinary General Meeting of Shareholders formulated.

On 20 February 2020, during session of self-assessment, the Board identified and will seek for improvement in the following areas:
• to improve monitoring of implementation of decisions made by collegial bodies and recommendation obtained
• to focus more on risks and its management,
• to increase awareness of specificities of energy sector activity.

During the reporting period, payments to the independent members of the Company's Board amounted to EUR 26,430, of them, EUR 12,305 were paid out to Nerijus Datkūnas and EUR 14,125 – to Sigitas Žutautas.

Total remuneration of the Company's General Manager and Chief Accountant during the reporting period amounted to EUR 316 thousand.

In accordance with the Articles of Association of the Company, the functions of an Audit Committee of Amber Grid are performed by the Audit Committee of the parent company UAB EPSO-G. The Articles of Association stipulate that they can be amended by decision of the General Meeting of Shareholders adopted by a 2/3 majority vote of those present at the meeting.

The Company has no branches or representative offices.

7.9. INFORMATION ON INTERNAL AND EXTERNAL AUDIT

To ensure transparency and efficiency of operation, EPSO-G Group has a centralised internal audit system. It means that an internal audit unit carries out the assigned functions on the scale of the Group and is directly accountable to the Board of UAB EPSO-G the majority of which is constituted by independent members. Auditors of UAB EPSO-G are not subordinate to the administration of the audited company.

Audit of the Company's financial statements was conducted by external audit firms:

- UAB PricewaterhouseCoopers for the year 2017;
- UAB Deloitte Lietuva for the year 2018.
- UAB Deloitte Lietuva for the year 2019.

8. STAFF

Amber Grid employees are experienced and competent professionals implementing projects that have strategic importance to the State. As at 31 December 2019, the Company had 316 employees, and on 31 December 2018 – 329 employees[3] (organisational structure of the Company is provided in Annex 1). Employee structure by group is provided in Table 5 below.

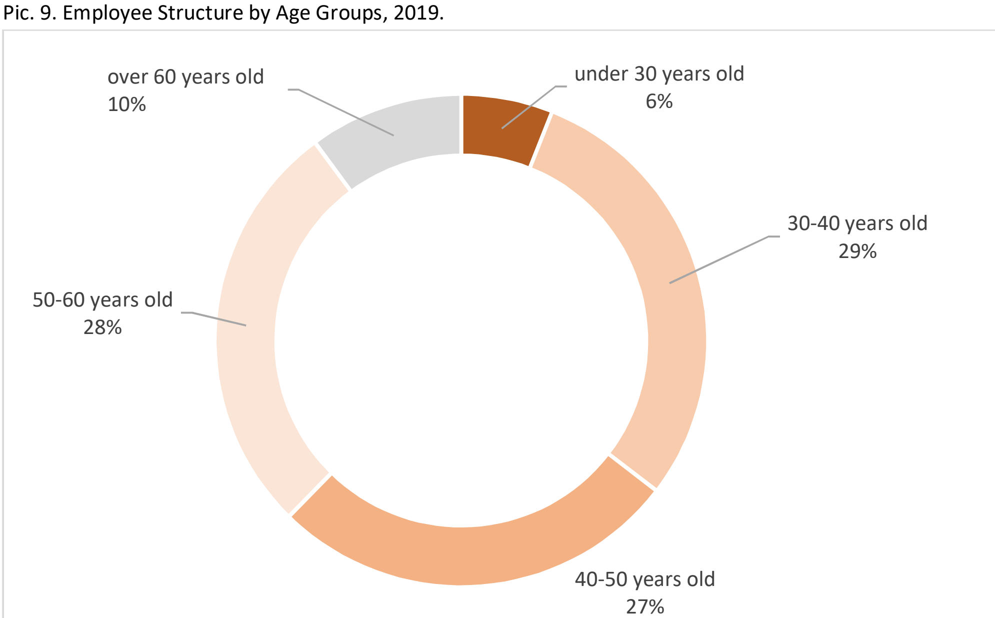
Table 5. Number of Employees in 2018–2019

Position groups	Number of employees as at 31 December 2019	Number of employees as at 31 December 2018
General Manager	1	1
Executives	3	4
Medium-level managers	28	27
Expert specialists	178	173
Workers	106	124
IN TOTAL	316	329

In 2019, the Company's employee turnover rate was 13.9%, in 2018 – 12.4%.

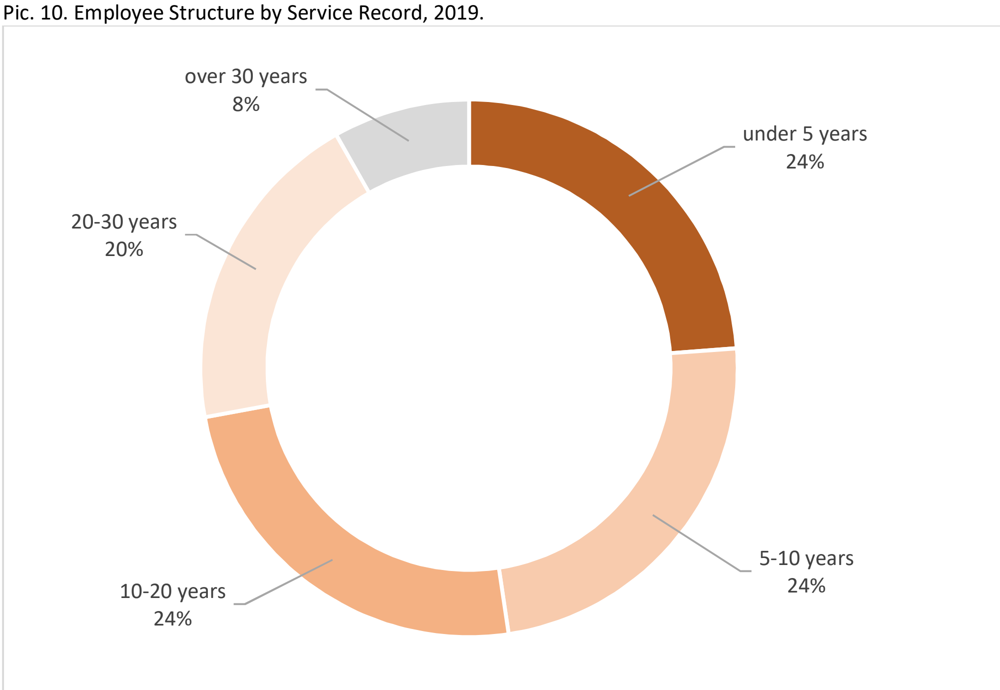
In 2019, the average age of the Company's employees was 44.85 years (Pic. 9), and the average service record was – 13.54 years (Pic. 10). Employees with higher educational attainment accounted for 61% of the Company's total workforce (Pic. 11).

Pic. 9. Employee Structure by Age Groups, 2019.

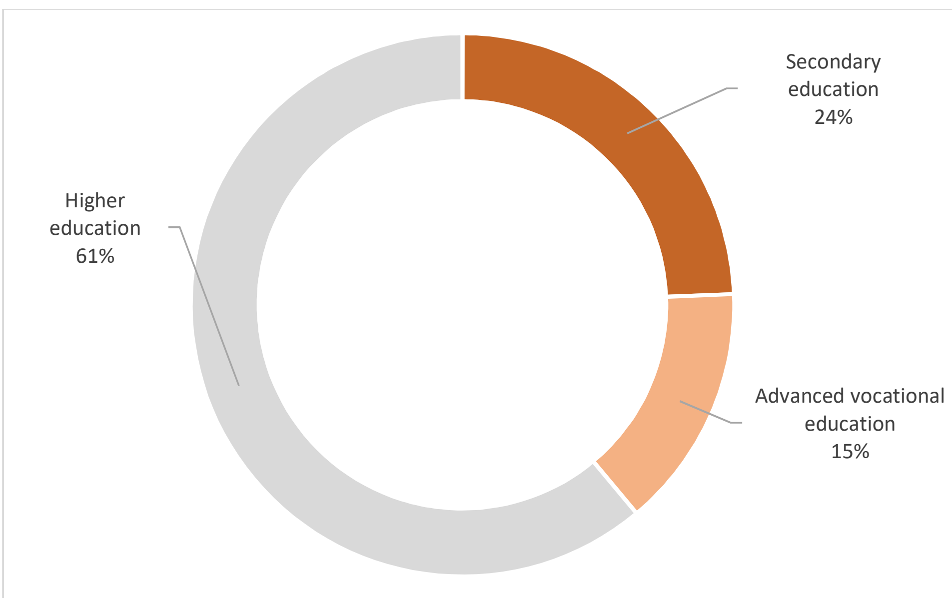


[3] The number of employees recalculated without including those employees who were on parental leave.

Pic. 10. Employee Structure by Service Record, 2019.



Pic. 11. Employee Structure by Education, 2019.



Due to the specificity of the energy sector, men account for the largest part of the Company's workforce – 250 (79%) and women – 66 (21%) (Table 6).

Table 6. Employee Structure by Gender, 2019.

	As of 31 December 2019, %	As of 31 December 2018, %
Male employees	79	82
Female employees	21	18

POLICY OF REMUNERATION

Amber Grid is subject to the common EPSO-G Group Remuneration Policy which applies to all employees of the Company. Remuneration policy is approved and amended by decision of the Company's Board taking into consideration recommendations brought forward by the EPSO-G Remuneration and Appointment Committee. The EPSO-G Remuneration and Appointment Committee periodically assessed the provisions of the remuneration policy, its efficiency, implementation and application.

The purpose of the Amber Grid Remuneration policy is to effectively, clearly and transparently manage remuneration costs and at the same time create motivational incentives to employees to contribute to the implementation of the Company's mission, vision, values and objectives.

Remuneration of all employees is composed of two constituents – fixed and variable. The fixed constituent depends on the level of responsibility of the occupied position which is established on the basis of the methodology applicable in international practice. The variable constituent is paid when individual goals set during the annual performance assessment are attained, and the Company reports to the shareholders and the board for the achievement of annual goals.

The Company's Remuneration policy is publicly announced on the website www.ambergrid.lt (heading *About Us* section *Management*).

Average monthly pay of the Company's employees by group in 2019 is presented in Table 8.

Table 8. Average Monthly Pay by Employee Group

	Group		Company	
Position group	Number of employees (end of period)	Average monthly pay (with variable component)	Number of employees (end of period)	Average monthly pay (with variable component)
General Manager	2	9.752	1	13.890
Executives	4	6.967	3	7.255
Medium level managers	28	4.127	28	4.127
Expert specialists	183	2.154	178	2.151
Workers	106	1.217	106	1.217
Average	323	2.070	316	2.047
Wages guarantee fund, EUR thou		9.069		8.819

Information on the Company's fixed and variable pay in 2019 is presented in Table 9.

Table 8. The Company's average fixed and variable pay by Employee Group

Position group	Average number of employees in full-time units	Average accounted monthly earnings (constant share), EUR	Paid variable share of remuneration accounted as variable monthly share remuneraion for the year , EUR
General Manager	1	9 495	4 395
Executives	4	5 601	1 654
Medium level managers	27	3 643	483
Expert specialists	185	1 925	226
Workers	130	1 085	132
Total	**347**	**1 808**	**239**

Policy of remuneration to collegial members and management

Principles of remuneration to management bodies in EPSO-G Group is laid down in the Guidelines on Remuneration for Performance in Company Bodies of the Group approved by the decision of the sole shareholder of UAB EPSO-G. Decisions adopted at the General Meeting of Shareholders held on 28 August 2019 determined annual remuneration budget for the performance of Board members and the Activity in the Board, i.e. not exceeding EUR 26,550 for costs related to remuneration of Board's members and not exceeding EUR 3,450 for costs related to the activity in the Board including training costs for increase of qualification. Based on decision of 6 December 2019, remuneration for Board members considering their held positions in the Committees of the Group companies was changed as well as approved terms and conditions of agreements concluded with the Board Members on the Activity in the Board.

Fixed and variable pay to the Company's head is set by the Company's Board, pay to the executives – by the Head of the Company in accordance with the remuneration policy approved by the Company's Board. Variable constituent to the Head and the management is paid out once a year after the Board of the Company approves the attainment of the objectives set to the Company's Head.

COLLECTIVE AGREEMENT

On 10 August 2018, a new collective agreement for the employees of Amber Grid was signed after the Employer's negotiations with the Works Council of Amber Grid. The purpose of the collective agreement is to represent the rights and legitimate interests of all employees. The agreement stipulates additional work, remuneration, social, economic and professional conditions and guarantees that are not regulated by laws or other regulatory acts. With regard to the amendments to the Laws on Personal Income Tax, State Social Insurance, Sickness and Maternity Social Insurance of the Republic of Lithuania that came into force on 1 January 2019, an agreement to amend the collective agreement was signed.

TRAINING

Taking into account the operational objectives, training plans and other needs for improvement, the Company pays great attention to the development of employee competences. Amber Grid encourages its employees to improve their qualification and enhance the available competences.

The Company is mainly operating in regulated energy environment with clear requirements for staff professional training and certification for performance of key and ancillary functions. The Company organizes professional and other compulsory trainings for the employees and certification of energy employees in accordance with legal regulation.

The Company pays great attention to the quality of internal trainings. Due to this, training programs for energy employees and training materials are constantly revised and updated. In 2019, the Company has approved and agreed with the State Energy Inspectorate 6 basic training programs intended for the employees maintaining objects and equipment of natural gas transmission system. In order to enable other training providers to train employees of other companies (e.g. employees of contractors' organizations) training programs developed by the Company are publicly available on the Company's website.

The Company ensures timely organization of compulsory trainings (fire safety, civil protection, first aid), and that employees involved receive not only theoretical knowledge but also practical skills. For this purpose the Company periodically organizes different type of trainings involving all employees of the Company.

The Company organizes additional trainings on safety, technical and environmental issues (work with chemical materials, use and testing of platforms, use of fall protection equipment, raising environmental awareness among employees) for the development of professional competences of its employees.

The Company organizes general competence training courses, provides opportunity for employees to participate in various seminars, conferences where employees develop their working skills and become familiar with the innovations in their field and best practices of other companies.

Number of employees participated in trainings during 2019

Item No	Type of Trainings	Number of training participants	Number of employees participated in trainings	% of employees participated in trainings from total number of employees
1	Professional trainings	116	84	25,5
2	Certification of energy employees	233	114	34,7
3	Compulsory trainings	778	318	96,7
4	Technical trainings	109	78	23,7
5	Special trainings	82	77	23,4
6	General trainings	552	187	56,8

** % calculated from the average annual number of employees (2019: 329 employees)*

9. SOCIAL RESPONSIBILITY, ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

The Company is guided by the following internal policies and procedures:

- Collective Agreement
- Ethical Employment and Working Conditions Policy;
- Environmental Protection and Safety and Health at Work Policy;
- Equal Opportunities Policy;

By the documents applied in the companies of EPSO-G Group:

- Corporate Governance Policy
- Social Responsibility Policy;
- Transparency and Communication Policy;
- Corruption Prevention Policy;
- Remuneration Policy;
- Accounting Policy;
- Dividend Policy;
- Interest Management Policy;
- Policy for the Protection of Sensitive Information;
- Policy for the Development and Exploitation of Technology Assets;
- Support Policy;
- Risk Management Policy;
- Employee Performance Assessment Policy
- Selection Policy
- Competence Management Policy
- Personal Data Protection Policy
- Other.

9.1. PRINCIPLES AND PRIORITIES OF SOCIAL RESPONSIBILITY

Carrying out its activity in a responsible manner Amber Grid consistently sticks to the principle that was used to reach the result are important. For this reason, referring to accumulated good experience of the country and international organisations, the Company aims at improving its business practice, implement modern human resource management, applies technology that is friendly to natural resources, and uses materials and processes that preserve human health. In planning its activities Amber Grid takes into account economic and social expectations of interest holders, ensure transparent governance, develops ethical relations in the market, implements corruption prevention measures and contributes to creating good business climate in the country. The Company aims at keeping the status of a reliable social partner by contributing to resolving the relevant social issues faced by the society.

The Company's Social Responsibility Policy is based on the Company's vision, mission, values, as well as on the activities and objectives adopted in the five-year strategy – the development of regional activity and the implementation of strategic projects efficient operations, as well as the formation of a creative and progressive organisation. The Company’s responsibility in the broad sense is focused on the following key areas:

Socially responsible activities in the market: efficient and transparent business – open and fair cooperation with interest holders helping to implement socially responsible business provisions, safe and reliable natural gas transmission to system users, fight against corruption and bribery, competitiveness-proofing and fairly paid taxes;

Social responsibility in the field of environmental protection – efficient use of natural resources in activities, participation in ecological preventive programmes for landscape and biodiversity, promotion of environmentally friendly attitude among employees, contractors, suppliers and society;

Social responsibility in relations with employees – responsibility towards employees, taking care of employees' health, safety and equal rights, application of advanced performance management and reward systems, creating conditions for employees' personal and professional development and development of their general competencies;

Social responsibility in public relations – development of various social initiatives, volunteering and other projects for local communities and at the national level, cooperation with scientific institutions.

CORRUPTION PREVENTION

The Company has zero tolerance to any form of corruption, inappropriate acceptance of benefit, its provision, offering, promise or demand by abusing the occupied position.

The Company's corruption prevention activities are based on national legislation and on voluntary commitments going beyond what is legally required:

- All CEOs of the Company are directly responsible for the implementation of anti-corruption measures and they set an example for their employees;
- Proportional, risk-based anti-corruption procedures are applied;
- Regular assessment of corruption-related risks is carried out, as well as planning and adaptation of anti-corruption measures, monitoring of anti-corruption performance and, if necessary, implementation of more effective measures.

HUMAN RIGHTS

The Company implements its Policies of Ethical employment and Equal Opportunities approved in 2017, which emphasize that all forms of discrimination are strictly prohibited (Conventions No. 100 and No. 111 of the International Labour Organization). The Company ensures equal rights for all employees and does not tolerate discrimination in the areas of employment, remuneration, training, careers, termination of employment, retirement and other areas due to race, nationality, gender, sexual orientation, age, political views as well as other aspects which could lead to discrimination, and does not tolerate any threatening, harassing or exploiting behaviour among the employees.

In 2019, no discrimination or other incidents related to human rights violations were identified in the Company (nor they were identified in 2017-2018).

9.2. ENVIRONMENTAL PROTECTION AND SAFETY OF EMPLOYEES

Amber Grid principles and commitments related to environmental protection and safety and health at work are established in the Environmental Protection and Safety and Health at Work Policy.

The provisions of the policy form the basis for as efficiently as possible reducing any impact of the Company's operation on the environment at ensuring safety and health of employees at work. Principles of prevention, safety, environmental sustainability must be followed by all stakeholders and their groups involved in the activities of Amber Grid.

Management system

Since 2014, the Company has implemented environmental management system in accordance with the international standard ISO 14001 and since 2016, occupational health and safety management system compliant with OHSAS 18001. The system has been integrated into the Company's planning, organisation and governance processes.

In 2019, The Company's management system was repeatedly certified in accordance with the standard ISO 14001, and certified in accordance with the new standard ISO 45001 for management system of employees safety and health. New certification affirmed that management of environmental protection, employees safety and health in accordance with the Company's standards ensures continuous reduction of environmental impact, professional risk for employees safety and health, and compliance with the requirements applied to the activity by international and Lithuanian legal acts, regulations and other normative documents.

Considering social and economic situation and the Company's financial and technical possibilities, management of the Company is committed to assure continuous improvement of management processes of environmental protection and employees safety and health, increase efficiency of environmental protection and employees safety and health, and manage in accordance with standards applied to management process.

All employees of the Company are regularly informed and educated about social cooperation and partnership on environmental protection and occupational safety and health issues.

PUBLIC RELATIONS: SPONSORSHIP

By its decision of 22 August 2017, the Board of Amber Grid approved the Company's Sponsorship Procedure drawn up according to strategic goals of the Company's operational strategy goals for 2017-2022 and EPSO-G Group Sponsorship policy and with the aim to ensure relevance, publicity and transparency of the process of sponsorship.

In 2019, no financial support was provided.

9.3. SOCIAL INITIATIVES

Project. Cultural dialogue and cooperation. In 2018-2019 Amber Grid has started and in 2020 continues long-term project of community meetings in municipalities where main gas pipeline connecting Lithuania and Poland will be built. In 2019, 50 meetings were held.

As Lithuania is implementing the EU gas interconnection project (GIPL) which will connect Lithuania with Western Europe through Poland, Amber Grid has begun construction of the pipeline this January. The total length of the gas pipeline that will run from Širvintos district to Lazdijai in the Lithuanian territory will be 165 km. The project work will be directly relevant to approximately 1,500 land owners in Lithuania, and indirectly – to residents of nine municipalities. As a result, in 2018, Amber Grid launched the project "The Culture of Dialogue and Cooperation" to provide local communities with the information on the project of gas interconnection between Lithuania and Poland.

We aim to provide residents with information on the importance, workflow and process of a project in their neighbourhood and raise public awareness, foster a culture of responsibility, rational creativity and dialogue. This allows us to build lasting relationships with the communities in which we operate. For meetings with local communities, we invite public figures to discuss topics that develop people's curiosity and critical attitude to various social phenomenon.

In response to the social and environmental needs of the public and local communities, Amber Grid people participated in a number of volunteering activities during 2019. Several times a year, employees of Amber Grid spend full day for volunteering at **"Food Bank"** warehouse in Vilnius. Colleagues sort out 2-3 tons of food a day which is provided by social organisations to 800 beneficiaries on the same day. One day the staff devoted time to volunteering in **Horse Protection Association**. Taking care of the environment, 100 employees of the Company, together with their family members, participated in the voluntary environment cleaning campaign **"We are doing"** in spring for the sixth time.

By representing the activities of the Company and introducing the profession of a gasman, we contributed to annual career days for senior schoolchildren organised by Vilnius Gediminas Technical University Lyceum of Engineering.

We encourage blood donation. This year, 50 employees of Amber Grid participated in citizen campaign **"Blood donor day"** by donating their blood and contributing to saving the health and lives of sick people.

During the Company's summer party, a **charity auction** was held and funds collected were donated to the charity and support fund **"Rugutė".** The fund provides the assistance for children with oncological diseases.

We participated in volunteering campaign **"Pinwheels of Favourable Wind"** organised by the support fund „Rugutė" during which we coloured pinwheels. Our employees joined the project **"Children dream"** and fulfil biggest dreams of children growing under difficult conditions. Before Christmas the staff of Amber Grid traditionally invited the youth of the Lithuanian Special Society of Creative Works „Guboja" to their office. Creative disabled artists oragnized a handcraft exhibition–fair. In addition to Amber Grid, other companies based in the same office building also took part in this event and contributed to the support of this society.

More details on the Company's social responsibility and related activities are provided in a separate report of social responsibility which is drawn up in accordance with the principles of agreement and recommendations of the *Global Reporting Initiative* (GRI) which help assess performance according to economic, environmental, employees, human rights, public relations and market related indicators.

10. MATERIAL EVENTS IN THE REPORTING PERIOD

In fulfilling its obligations established in the legal acts governing the securities market, the Company publishes notices of its material events and other regulated information on the EU-wide basis. The information is available on the Company's website (www.ambergrid.lt/en/about-us/investors-relations/materialevents) and the website of securities exchange *NASDAQ Vilnius* (www.nasdaqbaltic.com).

Main events in the reporting period 2019:

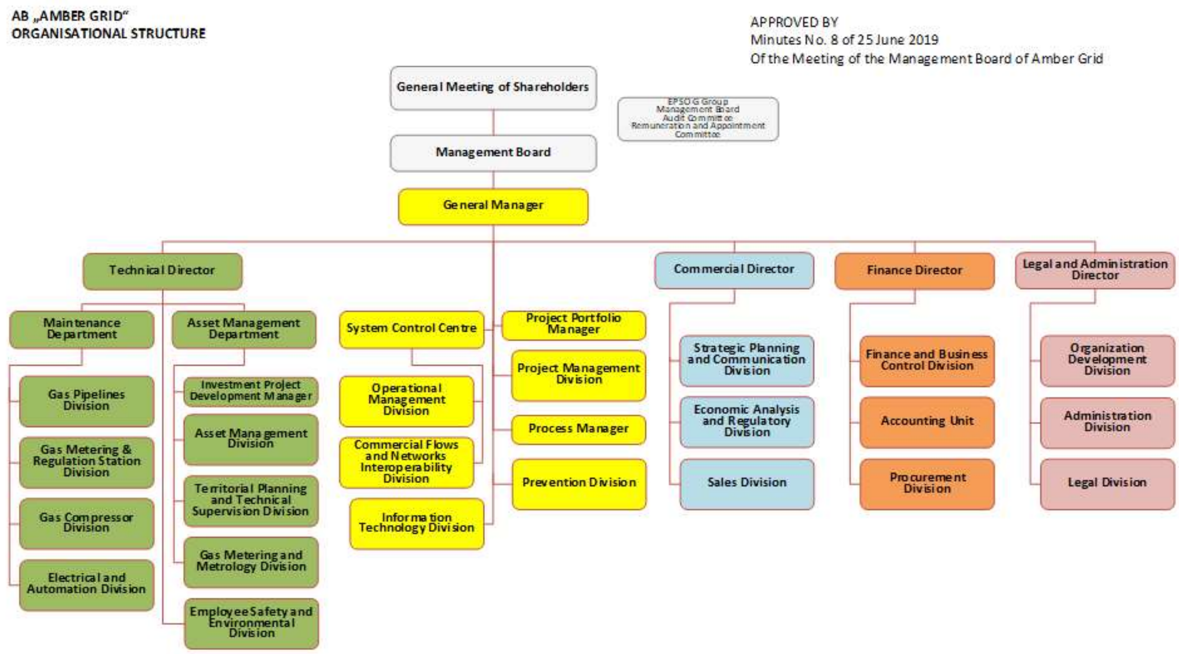
Date	Main events in the reporting period
14-02-2019	Unaudited results of AB Amber Grid for the year 2018
19-02-2019	Regarding opinion of Audit Committee
22-02-2019	Regarding opinion of Audit Committee
28-02-2019	Regarding conclusion of mutual loan and borrowing from the Group general account services agreement with EPSO-G UAB
19-03-2019	CORRECTION: the publication of AB Amber Grid operating results calendar for 2019
28-03-2019	Notice on Convening an ordinary General Meeting of Shareholders of AB Amber Grid
23-04-2019	Regarding decisions adopted by General Meeting of Shareholders of AB Amber Grid
23-04-2019	Annual information of AB Amber Grid for 2018
02-05-2019	Regarding payment of dividends and ex-day
08-05-2019	Consolidated results of Amber Grid Group for the 1st quarter of 2019
31-05-2019	Regarding register of guarantees of origin for green gas
10-06-2019	Regarding Revenue Cap for regulated activities of Natural Gas Transmission System Operator for 2020
19-06-2019	Received opinion of the Audit Committee on the transaction with the related party
26-06-2019	Notice on Convening an Extraordinary General Meeting of Shareholders of AB Amber Grid
10-07-2019	Regarding conclusion of the transaction of with the related party
23-07-2019	On decisions of an Extraordinary General Meeting of Shareholders of AB Amber Grid
29-07-2019	Amber Grid has received conclusion on possible transaction compliance with the interests of national security
31-07-2019	Received opinion of the Audit Committee on the transaction with the related party
06-08-2019	Notice on Convening an Extraordinary General Meeting of Shareholders of AB Amber Grid
07-08-2019	Consolidated results of Amber Grid Group for the 1st half of 2019
28-08-2019	Regarding decisions adopted by an Extraordinary General Meeting of Shareholders of AB Amber Grid
16-09-2019	Correction: Annual information of Amber Grid for 2018
16-09-2019	Correction: Regarding decisions adopted by ordinary General Meeting of Shareholders of AB Amber Grid
24-09-2019	Regarding new Prices for Natural Gas Transmission Services
10-10-2019	New Prices for Natural Gas Transmission Services Are Set
28-10-2019	Regarding resignation of AB Amber Grid General Manager

29-10-2019	Regarding cancellation of the Board decision dated 6 August 2019
06-11-2019	Consolidated results of Amber Grid Group for the 9 months of 2019
14-11-2019	Notice on Convening an Extraordinary General Meeting of Shareholders of AB Amber Grid
29-11-2019	Notice on Convening an Extraordinary General Meeting of Shareholders of AB Amber Grid
05-12-2019	„Regarding the publication of AB Amber Grid interim information and Investor's Calendar for 2020
06-12-2019	Regarding decisions adopted by an Extraordinary General Meeting of Shareholders of AB Amber Grid
10-12-2019	Regarding the winner of the construction works for the gas interconnection between Lithuania and Poland (GIPL)
11-12-2019	Regarding Amber Grid Board's decision to approve the conclusion of GIPL construction contract and its main terms, and amendment of agenda of the General Meeting of Shareholders on 23 12 2019
23-12-2019	Regarding the winner of the construction works for the gas interconnection between Lithuania and Poland (GIPL)
23-12-2019	Amber Grid has signed the contract for GIPL construction

All public reports that are to be published according to the law are made available in an electronic publication of the Manager of the Register of Legal Entities. All notices on convening the Company's General Meeting of Shareholders and other material events are announced in accordance with the procedure established in the Law on Securities on the Central Storage Facility at www.crib.lt and on the Company's website www.ambergrid.lt. The shareholders whose shares entitle them to at least 10% of total voting rights receive notices on convocation of the General Meetings of Shareholders in accordance with the procedure established in the Company's Articles of Association.

Annex 1

AMBER GRID ORGANISATIONAL STRUCTURE

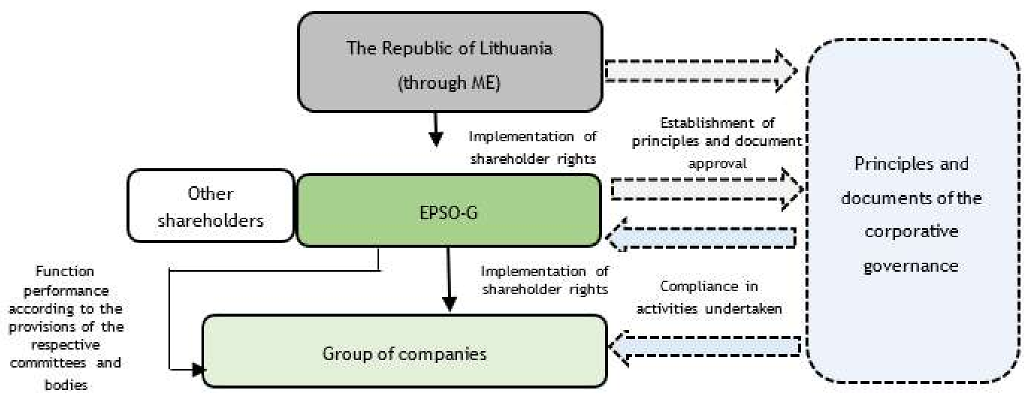


AB Amber Grid Notice of Compliance with the Corporate Governance Code for the Companies Listed on AB NASDAQ OMX

Amber Grid, a public company (hereinafter referred to as the "Company"), acting in accordance with Article 22(3) of the Law on Securities of the Republic of Lithuania and Clause 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, hereby discloses its compliance with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In the event of non-compliance with the Code or with certain provisions or recommendations thereof, it must be specified which certain provisions or recommendations are not complied with and the reasons of non-compliance, as well as other submitted explanatory information provided for in this form.

1. Free-form summary of the corporate governance statement

AB Amber Grid belongs to UAB EPSO-G group of companies (hereinafter referred to as the "Group"). The Articles of Association of the Company, the corporate governance guidelines of UAB EPSO-G group of companies approved on 24 April 2018 by the sole shareholder of the parent company UAB EPSO-G – the Ministry of Energy (ME) and the policy of the corporate governance of UAB EPSO-G group of companies determine corporate governance structure, governance model. All the above documents are made publicly available on the Company's website and on the website of EPSO-G.



Picture 1. Principal scheme of the implementation of corporate governance at the Group level.

Although the Company belongs to the Group, it does not contradict the independence of the Company – the Company operates independently so that the objectives sought (set out in the Articles of Association of the Company) are obtained and has an access to the independent assessment whether the compliance with the Group's corporate governance documents does not affect the interests of the Company, its creditors, shareholders, or other parties concerned.

Corporate governance structure:

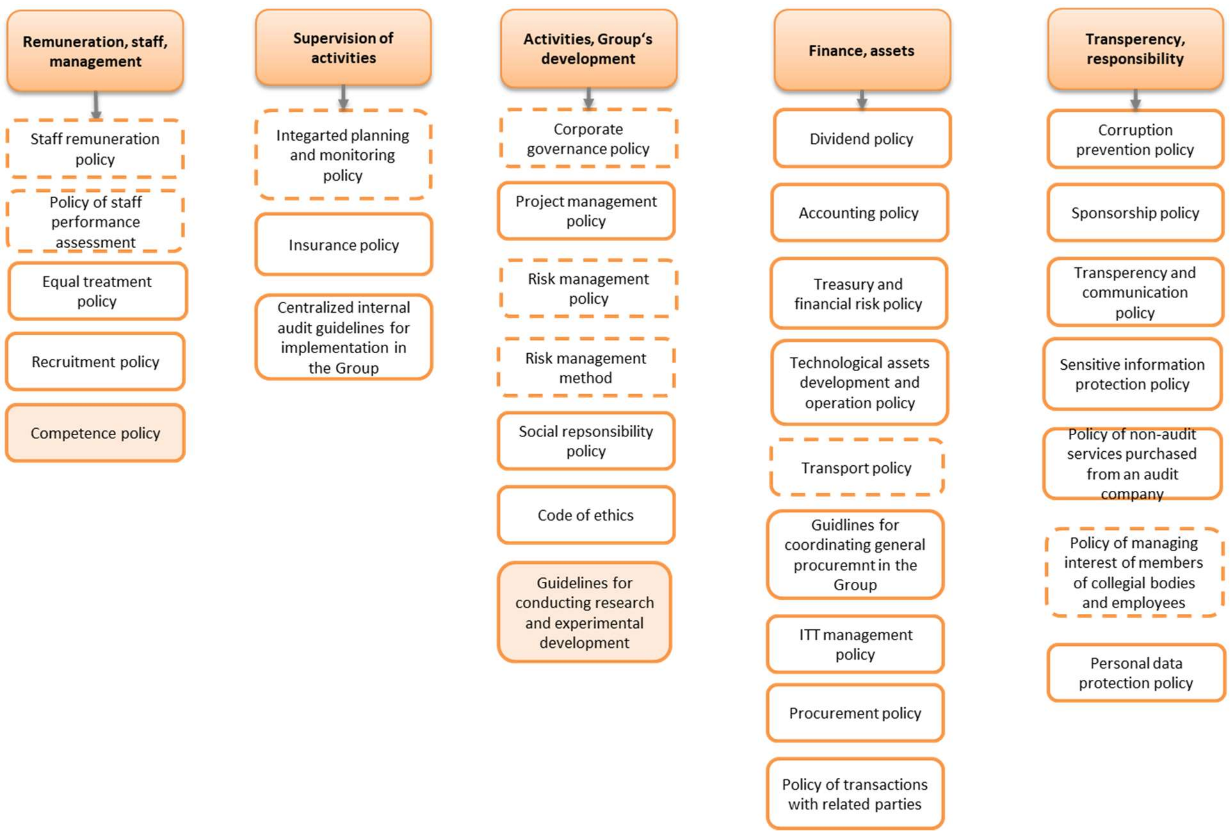
- General Meeting of Shareholders;
- The Board (five members, out of which two are independent members, other 3 members nominated by shareholder UAB EPSO-G);
- Committees operating at the Group level:
  - Remuneration and Appointment Committee (majority of the independent members);
  - Audit Committee (majority of the independent members);
  - Innovation and Development Committee (majority of the independent members);
- Chief Executive Officer.

The Group has a centralised internal audit. In order to ensure the independence of the internal audit, it is established that the Head of the internal audit is being appointed and dismissed by the Board of UAB EPSO-G, which mostly consists of independent members. The internal audit shall also be accountable to the Audit Committee, which also mostly consists of independent members. The internal audit recommendations are analysed by the Board of the Company, which also approves the plan of measures for the implementation of recommendations.

On the basis of the policy of risk management of UAB EPSO-G group of companies, the Company implements a unified Group's risk management system according to the COSO ERM standards applicable in the international practice, setting out risk identification, assessment and management principles and responsibilities. Risk management coordination is performed at the Group level.

The operating policies of the Group are intended to implement a consistent and effective organizational management system helping the employees in successful implementation of important strategic projects and transparent and effective benefit creation for both the people of the country and the business. To ensure the efficiency of the operating policies, the Company annually reports on the progress of implementation of the operating policies.

Operating policies currently applicable in the Company:



Explanatory notes:

– The policy changes made and a new version of Group policy adopted in 2019.

– The new Group policy approved in 2019.

In the government statement of the state-owned enterprises, it is stated that the Group is implementing and complying with the principles of good governance. The Group is awarded the highest A+ rating. The standards of transparency, formed collegial bodies and the strategy are carried out at the highest scores.

2. Structured table:

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENTS
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights. **The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.**		
1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	**YES**	Pursuant to the Law on Companies of the Republic of Lithuania and the Chapter IX of the Articles of Association, publicly available information about convening a General Meeting of Shareholders, draft resolutions and decisions taken, in Lithuanian and English, is publicly published on the Company's website and NASDAQ OMX Vilnius.
1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.	**YES**	The Articles 13-15 of the Articles of Association of the Company define that all shares of the Company are ordinary registered shares of EUR 0,29 per value. All shares are ordinary registered uncertified shares that are recorded in the shareholders' personal securities accounts managed by the securities account manager, which is contracted to manage the share accounting.
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	**YES**	Please refer to Comment under Item 1.2. In addition, Chapter IV of the Articles of Association of the Company provides for the rights and obligations of the shareholders.

1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	**YES**	Article 38 of the Articles of Association of the Company specifies the cases in which the Board takes a decision on the transfer of the Company's assets approved together by a decision of the General Meeting of Shareholders.
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	**YES**	Each time the General Meeting of Shareholders is convened, general shareholders' rights are listed on the Company's website.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	**YES**	Please refer to Comment under Item 1.1.
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	**YES**	The standard notice of convening of the General Meeting of Shareholders always indicates the possibility for shareholders to vote in writing by filling in the attached form of the ballot paper.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	**NO**	The standard notice of convening of the General Meeting of Shareholders always indicates that there will be no participation and voting by electronic means of communication. So far there is no need to vote by electronic means of communication. Upon requests by the shareholders, the introduction of such a voting option would be considered.

1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	**YES**	The standard notice of convening of the General Meeting of Shareholders always encompasses draft decisions with compulsory information required under the Law on Companies of the Republic of Lithuania, including candidates of new collegial bodies, remuneration offered to them, a proposed audit firm and remuneration offered to it.
1.10. Members of the company's collegial management body, heads of the administration[1] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	**YES** **NO**	Concerned competent persons that are able to provide information related to the agenda of the General Meeting of Shareholders always attend the General Meeting of Shareholders. Meanwhile the proposed candidates to the collegiate body not always attend the General Meetings of Shareholders.

[1] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

Principle 2: Supervisory board 2.1. Functions and liability of the supervisory board The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company. The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	**Irrelevant**	The Supervisory Board is not formed in the Company.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	**Irrelevant**	-
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	**Irrelevant**	-
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[2] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	**Irrelevant**	-
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	**Irrelevant**	-
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	**Irrelevant**	-
2.2. Formation of the supervisory board **The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.**		

[2] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	**Irrelevant**	-
2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	**Irrelevant**	-
2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	**Irrelevant**	-
2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	**Irrelevant**	-
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	**Irrelevant**	-
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	**Irrelevant**	-
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.	**Irrelevant**	-

Principle 3: Management board **3.1. Functions and liability of the management board** **The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.**		
3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	**YES**	Article 36 of the Articles of Association of the Company defines that the Board approves the Company's strategy. In addition, the Board regularly reviews reports on the implementation of the strategy carrying out its supervisory function.
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs *inter alia* the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	**YES**	Article 7.3. of the Articles of Association of the Company provides that the Board of the Company performs supervisory functions.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	**YES**	Article 36(xi) of the Articles of Association of the Company defines that the Board considers the Group's documents (e.g. guidelines, policies, procedures, etc.) and decides on the scope of their application in the Company. In addition, by separate decisions, the Board appoints the CEO to provide regular reports on the indicators followed by the Board (e.g. the Company's strategy, activity plan, budget etc.).

3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[3] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	**YES**	The Company has a variety of documents to ensure the highest level of internal control, ethics and compliance management tools, such as: - internal audit is accountable to the Board which is formed from external members (2 members are independent); - the Audit Committee is composed of the majority of independent members, to whom internal audit is also accountable; - the Company applies the Code of Conduct and the Corruption Prevention Policy of UAB EPSO-G group of companies, the Sponsorship and Charity Policy of UAB EPSO-G group of companies, the Interest Management Policy of UAB EPSO-G group of companies, the Risk Management Policy of UAB EPSO-G group of companies, the Transparency and Communication Policy of UAB EPSO-G group of companies, etc.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	**YES**	Article 54 of the Articles of Association of the Company defines that the Company's CEO is appointed by the Board taking into account the recommendations of the Remuneration and Appointment Committee. Article 56 of the Articles of Association of the Company defines that, in assessment of suitability of the candidate for the position of the CEO, the Board shall consider his/her compliance with requirements specified by these Articles of Association and regulations, and therefore may require that the candidate submitted documents supporting this compliance and/or contact competent authorities for obtaining necessary information about the candidate.

[3] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

3.2. Formation of the management board		
3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	**YES**	Article 28 of the Articles of Association of the Company provides that members of the Board shall be elected ensuring that the Board consists of at least 2 (two) independent members, the independence whereof shall be defined following the criteria laid down in the Code of Management, the Policy of Management of Interests of Members of Collegial Bodies, Executives and Employees of the Company Group (the Interest Management Policy) as well as the requirements set forth by other applicable legal acts; also ensuring that at least 3 (three) Board members have no employment relations with the Company and, if possible, seeking to have no employees of the Company appointed to the Board, also seeking for the Board members to have competences taking into account the areas of responsibility and functions of the Board. The selection of members of the Board of the Company is carried out by the Remuneration and Appointment Committee in accordance with the approved matrix of competences of the Board. The Board members have a yearly assessment of their performance. In addition, the Remuneration and Appointment Committee evaluates the performance of the Board on an annual basis with recommendations on performance improvement.

3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	**YES** **NO**	The specified information is published and updated on the Company's website. This information is not repeated additionally in the Annual Report.
3.2.3. All new members of the management board should be familiarised with their duties and the structure and operations of the company.	**YES**	The Board members are introduced to the duties, the Company's structure and operations by sharing key corporate documents of the Company.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	**YES**	Article 27 of the Articles of Association of the Company defines that the Board shall be the Company's collegial management body consisting of 5 members. The General Meeting of Shareholders to whom the Board is accountable shall elect Board members for 4 years' term of office in accordance with the recommendations of the Remuneration and Appointment Committee. A member of the Board may continuously serve maximum 2 subsequent full terms of office, i.e. no longer than 8 years in a row.
3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	**YES**	Article 29 of the Articles of Association of the Company provides the criteria for which a person cannot be elected as a member of the Board at all. One of the measures for ensuring the impartiality of the Chairman of the Board is established in Article 46 of the Articles of Association of the Company – the Chairman of the Board may not be elected from the Company's employees elected to the Board of the Company.

3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	**YES**	The Company's protocols record the attendance of the Board members and voting in decision-making process. As described in Article 52 of the Articles of Association of the Company, each Board member performs an assessment of his/her activities, the results of which are submitted to the shareholders and the Remuneration and Appointment Committee. The Board's participation in the meetings is set out in the Annual Report.
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent[4], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company related circumstances.	**YES**	The Company's website and Annual Report contain information about the members of the Board of the Company, specifying the independent members.
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	**YES**	Article 34 of the Articles of Association of the Company defines that the General Meeting of Shareholders may, by its decision, determine that the members of the Board must be remunerated.

[4] For the purposes of this Code, the criteria of independence of the members of the management board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.

3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to non-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	**YES** **NO**	Taking into account the objective to monitor the absence of conflicts of interest of the members of the Board of the Company, each year the members of the Board renew their declarations of interests. In addition, Article 33 of the Articles of Association of the Company stipulates that the members of the Board may have another job or occupy another position compatible with their activities in the Board, including without limitation the managing positions occupied in other legal entities, a job in a state or statutory service, position in the Company and in other legal entities (in observance of the restrictions laid down in Article 29 of these Articles of Association) as well as in legal entities where the Company or the Parent Company is participant only with prior notice to the Board. The Company applies the policy for managing the conflict of interests of the members, executives and employees of collegiate management and supervision bodies of UAB EPSO-G group of companies. The Board members have signed commitments to protect confidential information. There are no non-compete agreements concluded with the members of the Board, as the Company is engaged in monopolistic activities and there is no need for that.

3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organisation and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	**YES**	The Board carries out an assessment of its activities every year and prepares a performance improvement plan on its basis. The Remuneration and Appointment Committee and the Audit Committee acting at the level of UAB EPSO-G group of companies evaluate annually the decisions taken by the Board and submit recommendations for performance improvement. The results of the assessment of the Board's performance are presented in the Company's Annual Report.

Principle 4: Rules of procedure of the supervisory board and the management board of the company **The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.**		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform the supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	**Irrelevant**	The Supervisory Board is not formed in the Company.
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	**YES**	Article 45 of the Articles of Association of the Company stipulates that the Board takes its decisions in the Board meetings that are usually convened as necessary for the Board to be able to properly perform its functions and take decisions attributed to its competence, but not less than 12 per calendar year. At the end or at the beginning of each year, the Board of the Company approves the schedule and activity plan of the current year (preliminary questions for the respective Board meeting).

4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	**YES**	Article 52 of the Rules of Procedures of the Board stipulates that no later than 6 working days before the pre-scheduled date of the Regular Board Meeting, the Board's secretary must prepare the draft agenda of the Board Meeting in accordance with the submitted proposals and present it to the Chairman of the Board for coordination. In addition, Article 36 of the aforementioned Regulation establishes that the material of the Regular Board Meeting shall be submitted to the members of the Board no later than 2 working days prior to the pre-scheduled date of the meeting.
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	**Irrelevant**	The Supervisory Board is not formed in the Company.
Principle 5: Appointment, remuneration and audit committees **5.1. Purpose and formation of committees** **The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.** **Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.**		
5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the appointment, remuneration and audit committees[5].	**YES**	The Company has the Remuneration and Appointment Committee formed by the Board of UAB EPSO-G, which operates in accordance with the rules of procedures approved by the body that forms it, and the

[5] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	**YES**	Audit Committee formed by the sole shareholder UAB EPSO-G operating at the Group level and acting in compliance with the rules of procedures approved by the body that forms it. Given that the issues of remuneration and appointment are closely related and experts with the same qualifications are required to deal with these issues, it was decided to form a single Remuneration and Appointment Committee.
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	**Irrelevant**	Please refer to Comment under Item 5.1.1.
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	**YES**	Chapters 7.8 and 7.9 of the Articles of Association of EPSO-G UAB regulate the formation and competence of committees within EPSO-G UAB group of companies. The aforementioned Articles of Association stipulate that the Remuneration and Appointment Committee and the Audit Committee shall consist of not less than 3 members. The Remuneration and Appointment Committee ensures that there is at least 1 independent member and at least 2 independent members in the Audit Committee in the group of 3 members. Not all members of the Remuneration and Appointment Committee and the Audit Committee are appointed from the Board of EPSO-G. One member to each of the Committees is appointed on the basis of competence when performing the external selection of an independent member of the Committee.

5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	**YES** **NO**	The authorization for the Committees are formed in the Articles of Association of UAB EPSO-G and under the decision of the body forming the Committee – the Rules of Procedures of the Remuneration and Appointment Committee are approved by the decision of the Board of UAB EPSO-G, while the Rules of Procedures of the Audit Committee are approved by the decision of the sole shareholder UAB EPSO-G, as it is consented by the Requirements for Members of the Audit Committee approved by the Bank of Lithuania (Article 5). The Rules of Procedures of the Committees are published on the EPSO-G website. Information about the structure of committees, activities, etc. is presented in the Consolidated Group's Annual Report.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	**YES**	The Rules of Procedures of the Committees provide for the right of the members of the Committees to invite, at their discretion, to their meetings the members of the bodies, employees, representatives, candidates for certain positions of UAB EPSO-G group of companies, or other persons, and to obtain from them the necessary explanations within their competence as well as require for that purpose that necessary actions would be carried out needed for the performance of the functions of the Committees.

5.2. Appointment committee		
5.2.1. The key functions of the appointment committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The appointment committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 4) devote the attention necessary to ensure succession planning.	**YES**	The Remuneration and Appointment Committee of UAB EPSO-G serves as the advisory body to the Supervisory Board and the Board, the main functions of which are the following: - assists in the selection of candidates for members of the collegial bodies in all undertakings of the group of companies; - provides recommendations for the undertakings of the group of companies on the appointment of members of the collegial bodies, conclusion of contracts with them and determination of remuneration for them; - provides recommendations on the policies of the group of companies that govern the remuneration policy and employee performance assessment; - provides recommendations on the planning system of shifts of critical positions.

5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Appointment Committee.	**YES**	It is defined in the Rules of Procedures that that the right of initiative to convene the Remuneration and Appointment Committee is exercised by the Boards or managers of the group of companies, as well as to propose the agenda of the meeting by submitting issue-related material and draft resolutions. This provision is not practically relevant at the moment, as there are no employees of the Company in the Board.

5.3. Remuneration committee		
The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	**YES**	Please refer to Comment under Item 5.2.1.
5.4. Audit committee		
5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[6].	**YES**	The Audit Committee of UAB EPSO-G serves as an advisory body to the Board of UAB EPSO-G and the Company's Board, the main functions of which are the following: - supervises the audit and financial reporting of the group of companies; - takes responsibility for ensuring compliance with the principles of independence and objectivity of the auditors of the Group's companies and audit firms; - takes responsibility for monitoring the internal control, risk management and internal audit systems, effectiveness of operational processes of the Group's companies;
5.4.1. 5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.		

[6] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

		- takes responsibility for monitoring the provision of non-audit services by the auditor of the Group's companies and/or audit firm; - ensures the functioning of complaints system and complaints handling; - evaluates transactions with related parties.
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	**YES**	The Rules of Procedures of the Audit Committee stipulate that the members of the Committee, at their own discretion, may invite to their meetings the members of the bodies, employees, representatives, candidates for certain positions of the group of companies, or other persons, and obtain from them the necessary explanations within their competence, as well as require for that purpose that necessary actions would be taken for the performance of the functions of the Committee.
5.4.4. The audit committee should be informed about the internal auditor's work programme and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work programme of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	**YES**	Please refer to Comment under Item 5.4.3. The Audit Committee organizes a meeting with the auditors to discuss the audit work plan.
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	**YES**	The Audit Committee ensures the functioning of the complaints system and complaints handling.
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	**YES**	The Rules of Procedures of the Audit Committee stipulate that the Audit Committee shall submit quarterly activity report to the Board of UAB EPSO-G. In addition, the Committee submits consolidated report for the General Meeting of Shareholders and the Board of UAB EPSO-G.

Principle 6: Prevention and disclosure of conflicts of interest **The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.** **The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept *"stakeholders"* includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.**		
Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	**YES**	Such an obligation is set out in Articles 57-58 of the Articles of Association of the Company, work regulations of the management bodies and the policy of managing the interests of members of the collegial bodies, managers and employees of UAB EPSO-G group of companies.

Principle 7: Remuneration policy of the company **The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.**		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	**YES**	The Company applies the Guidelines on the establishment of remuneration for the activity at UAB EPSO-G and corporate bodies of UAB EPSO-G group of companies approved by the sole shareholder of UAB EPSO-G, which are publicly available. The Company applies the Remuneration Policy of UAB EPSO-G group of companies and Employee Performance Assessment Policy of EPSO-G UAB group of companies in full. The Remuneration Policy is publicly available.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	**YES**	The aforementioned forms of remuneration are regulated by the Remuneration Policy of UAB EPSO-G group.
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	**YES**	The Company applies the Guidelines on the establishment of remuneration for the activity at UAB EPSO-G and corporate bodies of UAB EPSO-G group of companies, which regulate the fixed remuneration for members of collegial bodies. The members of the Board are not paid remuneration, which depends on the results of the Company.

7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	**NO**	The Remuneration Policy of UAB EPSO-G group of companies stipulates that the Group's companies do not conclude advance agreements on termination benefits (except for the CEOs whose terms of employment are determined by the Board). The amounts of benefits related to the termination of employment relationships are determined by taking into account the mandatory minimum amounts of such benefits under labour law, excluding exceptional cases where there are objective reasons for the agreement on higher benefits. The relevant Board of the Group's company shall be informed of the disbursement of such benefits and the grounds for their payment at its forthcoming meeting.
7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	**Irrelevant**	Such schemes are not applied in the Company.

7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	**YES**	General information on the implementation of the Company's Remuneration Policy and average salary levels of individual employee groups is publicly disclosed in the Company's Annual Report. In accordance with Article 25(5) of the Law of Energy of the Republic of Lithuania, the Company shall publicly announce the remuneration established for the members of the management bodies of the Company and other benefits related to the functions of the members of the management bodies. Public information on the remuneration of employees is provided on a quarterly basis on the Company's website.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	**YES**	The remuneration of the members of the Board of the Company is determines by the General Meeting of Shareholders of the Company. Remuneration, is subject to the Guidelines on the establishment of remuneration for the activity at UAB EPSO-G and corporate bodies of UAB EPSO-G group of companies, which are approved by the sole shareholder of UAB EPSO-G. Such schemes are not applied in the Company.

Principle 8: Role of stakeholders in corporate governance **The corporate governance framework should recognise the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle, the concept *"stakeholders"* includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.**		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	**YES**	The Company applies the Transparency and Communication Policy of UAB EPSO-G group of companies, which establishes goals to increase awareness and understanding of stakeholders about the activities of UAB EPSO-G group of companies and individual group companies; to ensure employee engagement; to create and maintain sustainable relationship with stakeholders based on the mutual respect.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorised capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	**YES**	The Company, together with the representatives of the Company's employees, conducts consultations, negotiations and briefings on the optimisation processes implemented in the Company. According to the Company's collective agreement signed with the representatives of the Company's employees, the Company informs the trade union representatives about the changes planned in the Company, financial situation of the Company, etc. Stakeholders can take part in the corporate governance to the extent permitted by law.
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	**YES**	Please refer to Comment under Items 8.1. and 8.2.

8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	**NO**	The Company's website contains the Trust Line contacts, which invite interested persons to report breaches of occupational safety and health, environmental regulations, ethics, work practices, and corruption prevention policies. Interested persons are informed about the possibility to contact directly the CEO of the Company or the Chairman of the Board.

Principle 9: Disclosure of information **The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.**		
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:	**YES**	The Transparency and Communication Policy is established at UAB EPSO-G. This information is disclosed in the Company's Annual Report and on the Company's website.
9.1.1. operating and financial results of the company;	**YES**	
9.1.2. objectives and non-financial information of the company;	**YES**	
9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	**YES**	
9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	**YES**	
9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	**YES**	
9.1.6. potential key risk factors, the company's risk management and supervision policy;	**YES**	
9.1.7. the company's transactions with related parties;	**YES**	
9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	**YES**	

9.1.9. structure and strategy of corporate governance;	**YES**	
9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	**YES**	
9.2. When disclosing the information specified in Item 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	**YES**	UAB EPSO-G, as a parent company, discloses consolidated information in the Consolidated Annual Report.
9.3. When disclosing the information specified in Item 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	**YES**	This information is disclosed in the Company's Annual Report and on the Company's website.
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	**YES**	The Company publishes information through the information disclosure system used by the Vilnius Stock Exchange in Lithuanian and English simultaneously. The Company publishes information prior to or after the trading session at Vilnius Stock Exchange and submits it simultaneously to all the markets in which the Company's securities are traded. The Company does not disclose information that may affect the price of the securities issued by it in any comments, interviews or in any other manner until such information is made public through the Stock Exchange Information System.

Principle 10: Selection of the company's audit firm The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	**YES**	Such an obligation is set out in Article 20(1)(5) of the Law on Companies of the Republic of Lithuania.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	**YES**	The Audit Committee operating at the Group level is actively involved in the selection process of an auditor. The Audit Committee provides a recommendation to the Board on the auditor's nomination. The final decision shall be made by the General Meeting of Shareholders, convened by the Board, which also proposes draft decisions.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	**YES**	The audit firm provides non-audit services in accordance with the policy approved by the Audit Committee of UAB EPSO-G on the procurement of non-audit services of UAB EPSO-G group of companies from an audit firm or other firm that is a part of the network of the audit firm. The provision of non-audit services is supervised by the Audit Committee operating at the Group level, which, as mentioned in Item 10.2, actively involved in the selection process of an auditor. Thus, the Audit Committee, when submitting a recommendation to the Board on the auditor, has all the necessary information on auditors.

INFORMATION ON COMPLIANCE WITH TRANSPARENCY GUIDELINES

UAB EPSO-G and its subsidiaries comply[1] with the Government Resolution No 1052 of 14 July 2010 on the Approval of the Description of the Guidelines for Ensuring Transparency of State-Owned Enterprises (hereinafter – the Transparency Guidelines). The Transparency Guidelines are mandatory for EPSO-G because EPSO-G is a State-owned enterprise (hereinafter – **the SOE**). For the implementation of the compliance with the Transparency Guidelines within EPSO-G Group, the Operational Transparency and Communication Policy of EPSO-G Group has been approved at the group level. This Policy takes into account in detail the requirements laid down in the Transparency Guidelines and sets out their application for the companies of EPSO-G Group.

The implementation of the Transparency Guidelines in AB Amber Grid is, in principle, ensured through the information disclosed in the Annual Report and through information disclosure on the website of Amber Grid, by disclosing and presenting information in a format that is accessible and understandable to stakeholders.

It is specified in Article 3 of the Transparency Guidelines that the SOE complies with the provisions of the Corporate Governance Code[2] for the Companies Listed on Nasdaq Vilnius AB, that are related to public disclosure of information. Information on how Amber Grid complies with the provisions of this Code is disclosed in the Annex to the Annual Report of Amber Grid "Amber Grid Report on Compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB".

Below is provided the structured information on compliance with the Transparency Guidelines:

Information must be published on the website of Amber Grid (www.ambergrid.lt) / other requirements must be fulfilled:	
Name, code of the Company, and a register in which data about the Company is collected and stored, registered office (address)	Complies
Legal status if Amber Grid is being restructured, reorganized (the method of reorganization must be indicated), liquidated, is going or went bankrupt	Not applicable
Information about the Ministry of Energy, as an institution representing the state, and a link to its website	Complies
Operational Goals, Vision and Mission	Complies
Structure	Complies
Details of the CEO*	Complies
Details of the Chairman and of the members of the Board*	Complies
Details of the Chairman and of the members of the Supervisory Board*	Not applicable
Names of Committees, details of their Chairmen and members*	Not applicable
* *The following data shall be published: forename, surname, the starting date of the current position, other current managerial positions in other legal entities, educational background, qualification, professional experience; it must be indicated whether a member of the collegial body has been elected or appointed as an independent member.*	
The sum of the nominal values of the state-owned shares (in euros to the nearest euro cent) and the portion (in percentage) in the authorized capital of Amber Grid	Complies
Special obligations being executed, which are set in accordance with the recommendations approved by the Minister of Economy and Innovation of the	Complies

[1] *In accordance with Article 17.11 of the Transparency Guidelines, in the event of non-compliance with the Transparency Guidelines, explanations shall be given as to why they are not complied with.*

[2] *The Corporate Governance Code for the Companies Listed on Nasdaq Vilnius AB has been approved during the Board meeting of AB Nasdaq Vilnius, that was held on 15 January 2019, the minutes No 19-63*

Republic of Lithuania: the purpose of the special obligations, the State budget appropriations allocated in the current calendar year for their execution, the legislation delegating fulfilment of the special obligation to the SOE must be stated, the conditions for the fulfilment of the special obligation and/or the regulated pricing must be established	
Information on social responsibility initiatives and measures, significant ongoing or planned investment projects	Complies
If Amber Grid is a participant of other legal entities (does not apply to subsidiaries and subsequent subsidiaries), then name, code of such legal entities, and a register in which data about the Company is collected and stored, registered office (address), website addresses	Not applicable
A set of the annual financial statements of Amber Grid, the Annual Report of Amber Grid, as well as the auditor's report of the annual financial statements of Amber Grid must be published on the website of Amber Grid within 10 working days of approving a set of the annual financial statements	Complies
Sets of interim financial statements of Amber Grid, interim reports of Amber Grid must be published on the website no later than within 2 months after the end of the reporting period	Complies
Given that Amber Grid is a parent company, the following information must be additionally published on the website of Amber Grid (www.ambergrid.lt):	
Structure of Amber Grid Group of Companies	Complies
Of the subsidiaries and downstream subsidiaries of Amber Grid:	
Name, code of the Company, and a register in which data about the Company is collected and stored, registered office (address)	Complies
Website addresses	Complies
Portion (in percentage) of shares owned by Amber Grid in the authorized capital of companies	Complies
Annual consolidated financial statements and consolidated annual reports	Complies
The following documents must be published on the website of Amber Grid (www.ambergrid.lt) / other requirements must be fulfilled:	
Articles of Association of Amber Grid	Complies
The official letter from the Ministry of Energy on setting state goals and expectations for the Amber Grid	Not applicable
Operational strategy or its summary in cases where the operational strategy contains confidential information or information that is considered to be a trade (industrial) secret	Complies
The Remuneration Policy that includes determining the pay of the Head of Amber Grid and determining the remuneration of members of collegial bodies and committees formed by Amber Grid	Complies
Annual and interim reports of Amber Grid	Complies
Sets of the annual and interim financial statements for a period of at least 5 years, and the auditor‘s reports of the annual financial statements	Complies
The documents listed above are published in PDF format and technical possibilities are provided to print them out	Complies

The following must be published in the sets of financial statements / other requirements must be fulfilled:	
Amber Grid keeps its accounting records in a way as to ensure preparing financial statements in accordance with international accounting standards	Complies
Amber Grid prepares a set of the 6-month interim financial statements	Complies
In addition to the Annual Report, Amber Grid also prepares a 6-month interim report.	Complies
In addition to the content requirements laid down in the Law of the Republic of Lithuania on Financial Reporting by Undertakings, the following must be provided in the Annual Report of Amber Grid[3]:	
A brief description of the business model of Amber Grid	Complies
Information on significant events having occurred during and after the financial year (until the preparation of the Annual Report) and which had a pivotal meaning to the activities of Amber Grid	Complies
Results achieved in implementing the objectives provided for in the operational strategy	Complies
Profitability, liquidity, asset turnover, debt indicators	Complies
Fulfilment of special obligations	Complies
Implementation of the investment policy, ongoing and planned investment projects and investments during the reporting year	Complies
Implementation of the Risk Management Policy that is applicable in Amber Grid	Complies
Implementation of the Dividend Policy	Complies
Implementation of the Remuneration Policy	Complies
Total annual payroll fund, the average monthly wage by the position held and/or units	Complies
The SOEs that are not required to prepare social responsibility reports are recommended to provide, as appropriate, in the Annual Report or in the annual activity report information that is related to environmental, social and personnel, human rights, anti-corruption and bribery issues	Complies
The consolidated Annual Report presents the structure of the Group of Companies, as well as the name and code of each subsidiary, and a register in which data about the Company is collected and stored, registered office (address), portion (in percentage) of shares owned in the authorized capital of the subsidiary, information on financial and non-financial performance for the financial year	Complies
The interim report of Amber Grid presents a brief description of the business model of Amber Grid, analysis of the financial performance during the reporting period, information on significant events having occurred during the reporting period, as well as profitability, liquidity, asset turnover, debt indicators and their changes, compared to the corresponding period of the previous year	Complies

[3] *If information is considered as a commercial (industrial) secret or confidential information of the SOE, the SOE may not disclose such information. However, respectively, the Annual Report of the SOE must state that this information is not disclosed and the reason for non-disclosure thereof.*