Litgrid

**LITGRID AB**

CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT AND THE CONSOLIDATED ANNUAL REPORT

Litgrid

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## CONFIRMATION OF RESPONSIBLE PERSONS

March 21, 2019 Vilnius

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Information Disclosure approved by the Bank of Lithuania, we, Daivis Virbickas, Chief Executive Officer of LITGRID AB, Vytautas Tauras, Director of Finance Department of LITGRID AB and Žydrūnas Augutis, Chief Financier-Head of Accounting Division of LITGRID AB, hereby confirm that, to the best of our knowledge, the attached LITGRID AB Consolidated and the Company's financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union, for the 2018 year, give a true and fair view of the LITGRID AB and consolidated group assets, liabilities, financial position, profit and cash flows; Consolidated Annual Report for the 2018 year includes a fair review of the development and performance of the business, consolidated group financial position and undertakings in relation to the description of the main risks and contingencies faced thereby.

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|---|---|---|
| Daivis Virbickas | | Chief Executive Officer |
| Vytautas Tauras | | Director of Finance Department |
| Žydrūnas Augutis | | Chief Financier |

The financial statements were approved on 21 March 2019.

| | | |
|---|---|---|
| Daivis Virbickas<br>Chief Executive Officer | Vytautas Tauras<br>Director of Finance Department | Žydrūnas Augutis<br>Chief Financier |

# Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Litgrid AB:

## Report on the Audit of the Financial Statements

### Opinion

We have audited the separate financial statements of Litgrid AB (the Company) and consolidated financial statements of Litgrid AB and its subsidiaries (the Group), which comprise the statements of financial position of the Company and the Group as at 31 December 2018, and the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, of the financial position of the Company and the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

### Basis for Opinion

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

### Key Audit Matters

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Valuation of property, plant and equipment** | |
| *Refer to Note 5 of the notes to the financial statements*<br><br>The Company accounts for property, plant and equipment ('PPE') at revalued amounts. During the year ended 31 December 2018, the Company performed a valuation of its PPE and decreased its carrying value by EUR 56.3 million, recognizing additional revaluation expenses of EUR 51.0 million resulting from the exercise. | We assessed design and implementation of key controls management has established over the PPE revaluation process, including the following areas:<br>- validation of assumptions,<br>- budgeting,<br>- segregation of duties,<br>- determination of key inputs in the valuation model, and |

| | |
|---|---|
| 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. This requires management to apply significant level of judgement in evaluating the following critical areas:<br>- required levels of capital expenditure to maintain the existing electricity grid levels,<br>- current level and future regulatory development of return on investment approved by the regulator (National Commission for Energy Control and Prices, 'NCECP'),<br>- determination of the discount rate, which is the Company's weighted average cost of capital,<br>- determination and application of the annual growth rate to perpetuity, and<br>- evaluation of present regulatory environment as well as anticipated changes in this area – in particular, practical application of the Long Run Average Incremental Cost ('LRAIC') regulatory model for the forecasting of electricity transmission tariffs.<br><br>The Company performed the valuation internally, with limited support received from external valuation experts.<br><br>We consider valuation of PPE to be a key audit matter due to the size of the valued balance and the significant judgment involved regarding assumptions and estimates used in the valuation by the management. | - review, challenge and approval of the valuation results performed by management and those charged with governance.<br><br>We involved our internal valuation specialists to support us in forming an independent view on the PPE valuation performed by the management. We then:<br>- assessed appropriateness of selected PPE valuation methodology, as well as its application,<br>- 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,<br>- reviewed mathematical accuracy of the model, and<br>- discussed with management and NCECP and obtained written clarifications from NCECP regarding certain aspects of the valuation methodology as well as future developments of the regulatory environment. In particular, significant judgement area was the level of capital expenditure needed to achieve convergence of historical and LRAIC regulatory asset bases, as well as the timeline this convergence should take place.<br><br>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.<br><br>We also assessed sensitivity of the valuation exercise together with related disclosures presented in the financial statements. |

| **Initial application of IFRS 15** | |
|---|---|
| *Refer to Notes 2.18, 2.21, 3 and part a) of Note 2.1 of the notes to the financial statements*<br><br>The Company is generating revenues as well as is receiving cash inflows from several types of activities. We assessed how the newly adopted IFRS 15 standard "Revenue from contracts with customers" impacted existing revenue recognition practices.<br><br>We identified two sources of revenue which involve significant judgment and complexity: connection of energy producers to the Company's network and cash inflows from network congestion management. We consider revenue | We performed the following audit procedures in assessing the application of IFRS 15 on identified two revenue streams: connection to electricity network and network congestion management activities:<br>- assessed accuracy and level of detail management applied in their analysis of IFRS 15 requirements,<br>- analyzed relevant underlying documents to understand the substance and laws and regulations impacting such activities, such as signed agreements, EU and local laws and regulations, |

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

**Other Information**

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

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

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

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

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

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

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on other legal and regulatory requirements**

In accordance with the decision made by Shareholders on 27 October 2018 we have been chosen to carry out the audit of the Company's and the Group's separate and consolidated financial statements for first year. Our appointment to carry out the audit of the Company's and the Group's separate and consolidated financial statements in accordance with the decision made by Shareholders could be extended for another two years.

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

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

In the course of audit, we have not provided any other non-audit services except for the services of bank covenant compliance verification, audit 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.

**Other matter**

The financial statements of the Company and the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 21 March 2018.

Deloitte Lietuva UAB
Audit Company License No 001275

Saulius Bakas
Lithuanian Certified Auditor
License No 000604

Vilnius, Republic of Lithuania
21 March 2019

## *Statement of the Chief Executive Officer*

Dear shareholders, managers, colleagues, stakeholders,

I am proud to introduce you Litgrid achievements of 2018. Well before the year's end, we could already boldly title it as the year of breakthrough – we worked hard, efficiently and purposefully, as a result we have managed to achieve impressive results in a number of areas of our business. So what has the Litgrid team reached in 2018?

At the very start of the last year, in March the business daily *Verslo žinios* elected Litgrid as the year's leader of energy sector in the ratings of sector leaders. We are pleased that our contribution to the reliability of the energy system has been publicly appraised; especially when such news becomes an additional motivation for our employees and promotes a sense of pride.

In the synchronization process, we have achieved a special breakthrough at all levels; we have never been so close to the fruits of our 18-year effort and labour – in 2018, important political and economic agreements on continental European network development into the Baltic countries through Poland were concluded. We are creating value for the people of our country, thus joining the European networks will completely open up the European market, which means transparency, security and more opportunities to balance tariffs.

The repair of sleeves in the interconnection with Sweden was titled as the Company's project of the year. This title was granted not without reason – NordBalt is one of the most complicated technological projects in Lithuania. It is crucial for us that in the long run a steadily operating interconnection with Sweden would result in lower price fluctuations and reliability of electricity supply for the market. Having this in mind, we are pleased that the repair was completed ahead of schedule, which led to the reduction of the repair influence for the electricity market.

Last year, Nord Balt's total availability reached 97.4%, while the availability of interconnection with Poland LitPol Link was 98.09%. The network operated efficiently – the amount of non-delivered electricity last year was 34.075 MWh, and the average cut-off time was 1.237 min, which is one of the best results not only in the region but also throughout Europe.

A particularly delightful news reached us in October – the European Network of Transmission System Operators for Electricity (ENTSO-E) adopted a decision to extend the European transmission system synchronous space to the Baltic states. The synchronization is no longer just a project of the Baltic States – the whole Europe started to participate in it.

From talks, discussions and planning we proceeded to working – the green light gave a signal to apply for funding of the first works. The professionally developed application resulted in the largest possible funding of the Connecting Europe Facility (CEF) already at the beginning of this year. The renewal and enhancement of the Lithuanian electricity system will require EUR 167 million, out of which three quarters of the support are granted by the European Union – EUR 125.2 million.

Very shortly, we will make a huge step forward after the receipt of the technical conditions for accession from ENTSO-E – that is going to be the most serious challenge for the Company in comparison to all studies and consultations prepared so far. These conditions will be formulated not by consultants or academics, but rather experts of electricity transmission systems who will make the decisions regarding our accession issues, therefore this stage will become one of the most important and complicated.

With the year coming to an end, we have signed an agreement with Polish partners, the transmission system operator PSE, on the preparatory work for the construction of a new maritime interconnection with Poland, called "Harmony Link". This is yet another clear sign of political and professional consensus that will help the three Baltic states fully control their electricity networks. "Harmony Link" will not only assist in connecting networks with the Western Europe, but it will also enable the development of renewable wind power generation.

Last year, colleagues from the merged subsidiary Litgrid Power Link Service joined our ranks. Our team is getting stronger because of both new employees and the experience already gained by current colleagues, as well as the latest knowledge coming from various training or seminars. In preparation for the synchronization, innovation and continuous training has never been that important for the company.

Litgrid and Conresta signed the agreement on construction of system management and data security centre; the works were commenced in August. It is forecasted that the construction of the modern data centre will be completed before the end of 2019, and very soon, the energy system will be managed from one of the safest and most reliable centres in Europe.

The decision to make use of Lean last year gave special results: I would like to emphasize not quantitative results – how much Kaizens or PDCA Kaizens we implemented during the year – but rather a qualitative result: according to the results of the performed research, the involvement of the Company's employees was 64%, while the empowerment reached 84%. It was Lean that played a vital role here – giving employees more opportunities to act and feel capable of realizing ideas and initiating change.

So the past year helped to attain new heights – it is important that inspiration and enthusiasm would not fade and give energy to further achieve the best results.

Daivis Virbickas

## *Statement of the Chairman of the Board*

Dear All,

It is my honour to present the annual report of the electricity transmission system operator Litgrid, a company of EPSO-G Group.

It shows that we worked reliably in 2018, we provided more services, and by implementing projects important for the future of the country's energy, we are further ahead than ever before.

By actively working together with the Polish, Latvian and Estonian partners, we are invited to become part of the continental European energy system. The most important thing on this road was the political agreement between the European Commission, the three Baltic States and Poland signed on 28 June. Every other step of ours was in line with the content of this agreement – we have an approved synchronization scenario and a concrete action plan defining what we need to do in order to take over the management of the country's energy system by 2025.

We have already agreed with the Polish partners to start works of the Preparatory Phase of the new Lithuanian-Polish submarine HVDC cable construction.

At the same time, we are renewing and reconstructing the country's energy networks. We started to implement the project of reconstruction of the power transmission overhead line from the Lithuanian Power Plant to Vilnius. It is necessary to ensure reliable supply of electricity to residents and businesses of Vilnius city.

In preparation for synchronous operation with the continental European energy system, we optimize the North-East Lithuanian electricity transmission network. We will reconstruct two transformer substations in Ignalina and Utena. The shunt reactor will be moved from the Ignalina substation to the switchyard in Elektrėnai. We will dismantle the most powerful high-voltage line connecting the Ignalina NPP substation to Belarus.

At the same time, we ensured a very high level of security of energy supply – in 2018, due to high-voltage grid failures for which the operator was responsible, 0.95 MWh of electricity was not supplied to consumers. This is almost twice less compared to 1.68 MWh in 2017.

Asynchronous connections also worked reliably. After completing repair works ahead of schedule, the interconnection with Sweden was available to market participants for as much as 97% of the time. The interconnection with Poland "LitPol Link" also operated almost without disturbances.

With the growth of the Lithuanian economy, the demand for electricity and, at the same time, transmission services exceeded the overall pace of economic development in the country. Due to the increased demand for balancing and systemic services, we earned 19% more revenue despite the fact that, since the beginning of the year, we have provided services to residents and businesses at a lower price.

All of this has been achieved through the responsibility and professionalism of the employees of LITGRID AB in accordance with the values of EPSO-G Group – professionalism, cooperation and progress.

Looking ahead, I would define 2019 as the year of arrangements for the construction of the Lithuanian-Polish submarine HVDC interconnection. We need to carry out the necessary studies and submit an application to the European Commission for the financing the construction of this interconnection. This will require the attention and effort of each employee to work effectively, progressively, responsibly and transparently.

I am sure that, by the end of 2019, we will once again be proud of the results of our activities – further successful implementation of strategic projects and achievement of the objectives of the employees.

Yours faithfully,

Rimvydas Štilinis, Chairman of the Board

(All amounts are in EUR thousands unless otherwise stated)

# LITGRID AB CONSOLIDATED ANNUAL REPORT

## I. GENERAL INFORMATION

This consolidated annual report has been prepared for the twelve months period ended 31 December 2018.

### I.1. The Issuer and its contact details:

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

### Litgrid's activities

Litgrid, the Lithuanian electricity transmission system operator (the "TSO"), ensures the stable operation of the national electric power system, controls electricity flows and creates conditions for competition in the open electricity market. Litgrid is responsible for the integration of the Lithuanian electric power system with the European electricity infrastructure and the single market for electricity. Litgrid has implemented the strategic projects on electricity cross-border links, namely, NordBalt (Lithuania–Sweden) and LitPol Link (Lithuania–Poland), and prepares to launch a new interconnection project called "Harmony Link" and expand the LitPol Link interconnection. In its work aimed at the consolidation of the country's energy independence, Litgrid fosters a culture of responsibility, rational creativity and dialogue.

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

### Litgrid – part of the EPSO-G Group

EPSO-G is a state-owned group of energy transmission and exchange companies. The rights and obligations of the holding company EPSO-G shareholder are implemented by the Ministry of Energy of the Republic of Lithuania. EPSO-G UAB owns 97.5% of shares of the transmission system operator Litgrid AB.

The structure of services provided by the Group:


On 31 December 2018, the EPSO-G Group consisted of the holding company EPSO-G UAB, three direct subsidiaries Litgrid AB, Amber Grid AB and Baltpool UAB; as well as TETAS UAB controlled by Litgrid AB and Amber Grid AB controlled by GET Baltic UAB. By the decision of the Board of Litgrid, starting from 1 August 2018 operations of Litgrid Power Link Service UAB have been suspended, all employees were hired by Litgrid, and maintenance works of the Litpol Link and Nord Balt electricity interconnections have been carried out by Litgrid.

(All amounts are in EUR thousands unless otherwise stated)

The Litgrid AB Group consisted of the following companies:

| Name | Tetas UAB | Litgrid Power Link Service UAB |
|---|---|---|
| **Legal form** | Private company | Private company |
| **Registration date and place** | 08/12/2005, Register of Legal Entities of the Republic of Lithuania | 24/02/2014, Register of Legal Entities of the Republic of Lithuania |
| **Country of establishment** | Republic of Lithuania | Republic of Lithuania |
| **Company code** | 300513148 | 303249180 |
| **Registered office address** | Senamiesčio Str. 102B, LT-35116, Panevėžys | A. Juozapavičiaus Str.13, LT-09311, Vilnius |
| **Telephone** | +370 640 38334 | +370 707 020947 |
| **Type of activities** | Specialized services of transformer substations' and distribution stations', overhead electricity lines' design, reconstruction, repair and maintenance. | By the decision of the sole shareholder, company's activities have been suspended since August 1, 2018. From this date, the control and operation of the power system's links with Polish and Swedish systems have been organized organized by Litgrid. |
| **Country of operations** | Lithuania | Lithuania |
| **Litgrid shares** | 100% | 100% |

Other shares held by Litgrid Group as at 31 December 2018:

| Name | LitPol Link Sp.z.o.o | Duomenų logistikos centras UAB | **Nord Pool Holding AS** (since 2018 04 19 after the reorganization of Nord Pool AS**)** |
|---|---|---|---|
| **Country of establishment** | Republic of Poland | Republic of Lithuania | Kingdom of Norway |
| **Registered office address** | Warszawska 165, 05-520, Konstancin-Jeziorna, Poland | Žvejų Str. 14, LT-09310 Vilnius | PO Box 121, NO-1325 Lysaker, Norway |
| **Country of operations** | Lithuania and Poland | Lithuania | Norway, Sweden, Finland, Denmark, Lithuania, Latvia, Estonia, United Kingdom, Poland, Germany, Netherlands |
| **Litgrid shares** | 50% of shares and voting rights attached thereto | 20.36% of shares and voting rights attached thereto | 2% of shares and voting rights and a board member on rotation basis |

## II. STRATEGY

***The strategy of Litgrid AB***

On 20 December 2018, the Board of Litgrid approved the strategy of Litgrid for the years 2019-2028.

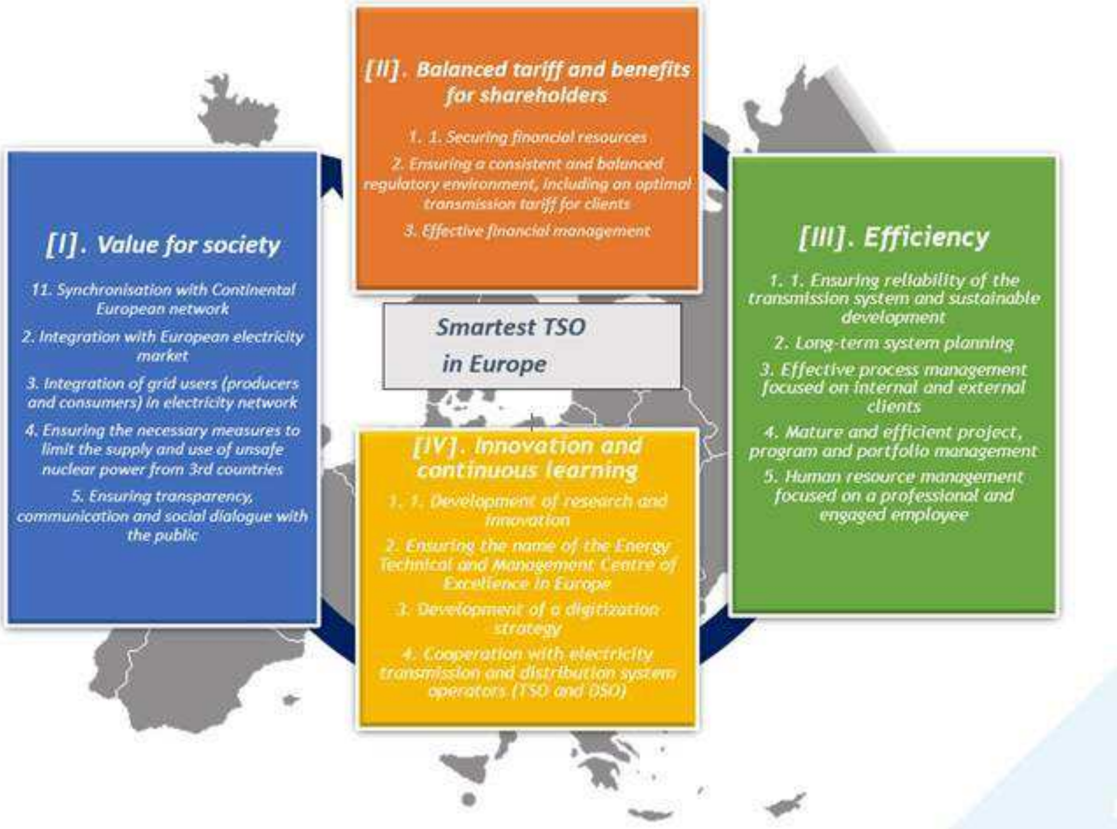
Constant changes in the electricity system encourage the organization to develop, increase its efficiency and meet the challenges of a rapidly changing environment. The Company aims to be innovative and progressive, having a long-term vision of becoming the Europe’s Smartest Transmission System Operator (TSO).

The company consolidates its commitments in the mission - to ensure a reliable transmission of high-quality electricity in the European market by creating value to society. In accordance with this goal Litgrid continues intensive development of the electricity market, deepening integration into the European market and applying European standards. Existing rules are being developed in order to open up new market opportunities and services to its participants, empower new users, ensure equal conditions and complete integration of the Lithuanian electricity market into the European electricity market.

The Company implements its mission and vision through its priorities:

1. Value for the society.
2. Balanced tariff and benefit to shareholders.
3. Effectiveness.
4. Innovation and continuous studies.

The following are the Litgrid's strategic goals and priorities for 2019-2028:



The following values are observed in the Company:


Values are reflected in behaviour:

Professionalism – I do my job better than it is expected from me; I say what I do, and I do what I say; I deliver my promises.

Cooperation – I communicate clearly and understandably; I show my position and respect others; I help others to achieve the result.

Progress – I take the initiative and learn from mistakes; I am looking for new ideas and implementing them; I am constantly strengthening my skills and sharing them.

***Business plans and prospects***

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

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

*Integration of the electricity transmission grid into the European electricity infrastructure*

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

*Expansion of European markets*

Litgrid puts a lot of effort into facilitating fair competition among energy generators, importers, exporters and independent electricity suppliers; to ensure market transparency and non-discriminatory conditions for all market participants, the maximum exploitation of cross-system interconnection capacities for electricity trading. It also aims to facilitate cross-border trade in systemic services in order to optimize the cost of these services, and therefore conditions and common principles of trade are being regulated.

Lithuanian energy market is a part of European day ahead market since 2014.

Among the first in Europe, Litgrid together with another 14 countries' Transmission System Operators and Nominated Electricity Market Operators launched a successfully functioning European intraday trading platform XBID on 12 June. XBID provides market participants with the means to trade electricity from northern countries to the Iberian Peninsula and provides more opportunities to maintain their trade and consumption/production balance. The interconnection of the Europe's intraday markets is a major step towards completing the creation of the European internal energy market.

Intraday power trading via the LitPol Link electricity interconnection is included in the XBID second wave schedule. The second wave is planned in the middle of 2019.

Baltic TSOs launched common Baltic balancing market from 1 January 2018.

*Network Codes*

Litgrid AB is responsible for the implementation of the European Union regulations – Network Codes – in Lithuania, unifying the requirements for the system management at European level, operation of the electricity market and connection. In accordance with the provisions of the approved Network Codes, LITGRID AB, together with other transmission network operators, develops specific implementing documents for the Network Codes: methodologies, proposals, rules and plans.

The year of 2018 for LITGRID AB was very significant in terms of implementation of the Network Codes. Among the most important implementing actions, it should be noted that, in accordance with the European Commission Regulation 2015/1222 establishing a guideline on capacity allocation and congestion management, the following methodologies were adopted:
- *Fallback procedure methodology*.
- *Capacity calculation methodology within the Baltic Capacity Calculation Region*.
- *Methodology on Cross-Zonal Capacity Calculation, Provision and Allocation with the 3rd Countries* (entered into force on 1 February 2019).

LITGRID AB also developed the common methodology for coordinated redispatching and countertrading, which was adopted by the national regulatory authority.

The proposal for a cross-zonal risk hedging offer was also approved, which LITGRID AB, together with the transmission system operators of neighbouring countries, prepared in accordance with the provisions of Regulation (EU) 2016/1719 of the European Commission of 26 September 2016 establishing a guideline on forward capacity allocation.

During 2018, LITGRID AB submitted the parameters of all 3 Connection Network Codes to the national regulator for approval, one of which – grid connection of generators – was approved in October 2018. In September 2018, two important methodologies – proposal for the methodology for coordinating operational security analysis and proposal for the methodology for assessing the relevance of assets for outage coordination – were provided in accordance with the System Management Guidelines.

By implementing Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration, LITGRID AB provided information to the national regulatory authority on the preparation of the System Defence Plan and Restoration Plan at the Company. Amendments to the Rules for Suspension and Restoration of Market Activities and Rules for Imbalance Settlement of Balancing Energy in Case of Suspension of Market Activities were also prepared and submitted for approval.

*Membership in international organizations*

International visibility of and support for projects implemented by Litgrid is ensured through participation in international associations. On 31 December 2018, the company was a member of these organizations and associations:

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

At the end of June 2018, Litgrid became a member of AIB (Association of Issuing Bodies, AIB). Litgrid signed the cooperation agreement and became a member of the association. By this agreement, Lithuania is granted the status of imports of guarantees of origin from other AIB member countries using AIB's central electronic system of origin guarantees (AIB HUB).

*Innovative and sustainable development of the system and assets*

In June 2018, Litgrid finished the process of implementation of Asset Management Information System (AMIS) system. Since the middle of July, the company has been working with AMIS only, abandoning other previously used programs. The main objective of the AMIS implementation is to improve and standardise asset management processes by covering technological assets of the entire Company. The AMIS will be used to accumulate digital operating data, evaluate equipment based on their condition and respectively control risks related to asset management. To list the assets the hierarchical data storage method will be used, which will be a more efficient and precise method to manage the actual asset data.

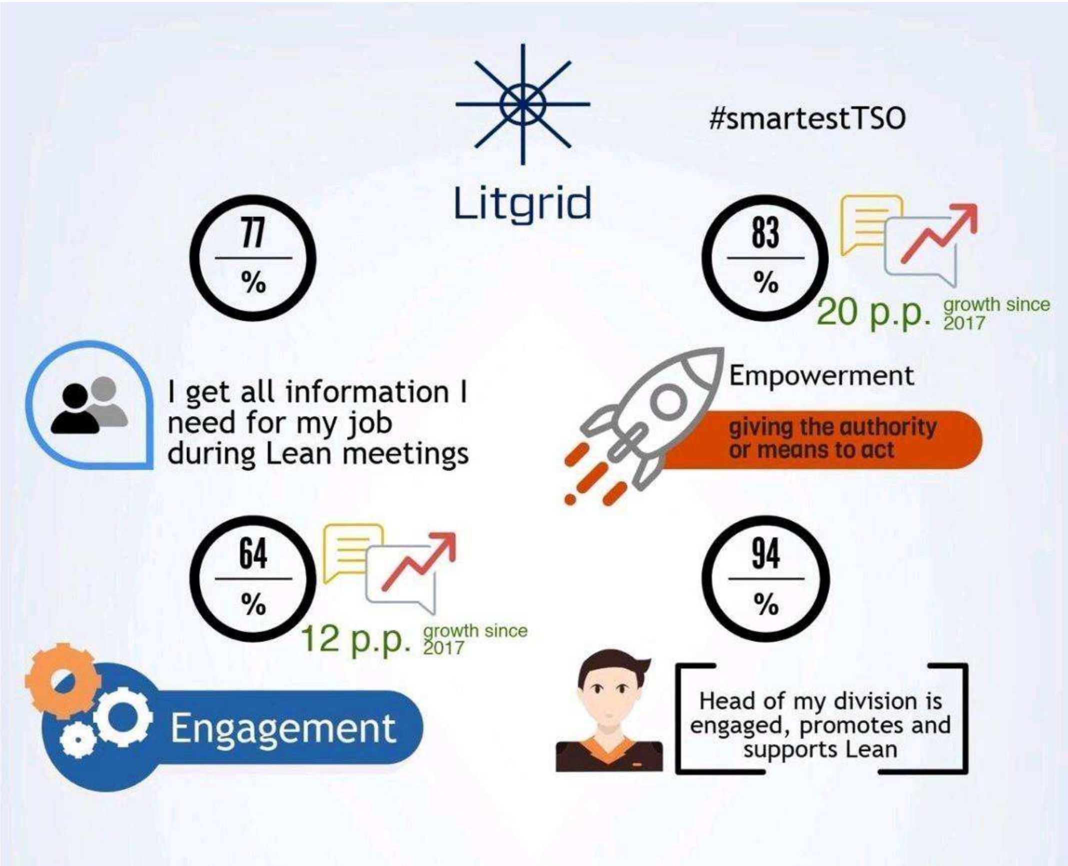
*ITC competence in the company*

Efficient information technology and communications (ITC) solutions are critically important in ensuring smooth and uninterrupted operations and form an integral part of the electricity system's planning and management as well as equipment control and servicing. Know-how in the automation of the power system control, pooled at Litgrid ITC Centre, ensure the continuity of the company's IT solutions, security control, and transparency of operations. Litgrid has implemented IT recovery solutions to ensure continuity of operation of its information systems. In the light of the interconnection with European continental networks and synchronization of continental Europe, the renewed energy transmission management system successfully employs the modern virtualization technologies.

*Development of the modern organization*

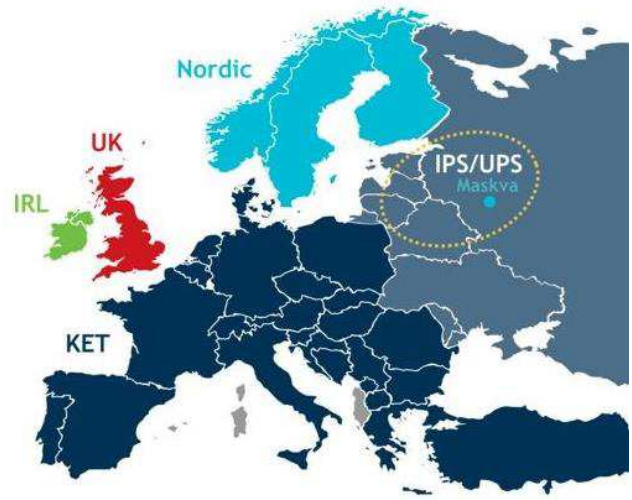
In 2017, the Company started to implement the LEAN principles in its daily activities, thus improving the speed and quality of solutions to problems, communication, employee engagement, collaboration, creating value for society.
Lean's activities have been launched by involving all employees of the company with a strong focus on staff development, as the application of the methodology requires specific knowledge and expertise. Employees shall be able to modulate meetings, properly identify and register problems, solve them and understand the benefits of the actions to the company, activities and processes. In 2018, both small improvements and larger projects were implemented throughout the organization, which allowed for the optimization of processes and provision of services in a faster, easier, better manner. A total of 592 Mini-Kaizens were implemented.

Together with Lean practices, employee engagement and empowerment have increased significantly.



***The preparation of energy system for the synchronous operations with the continental Europe grid***

The strategic goal set by the Parliament of Lithuania in 2012 – to reorient the country's electricity system towards synchronous operation with the continental European electricity networks. Full integration of Lithuania's power system into the European electricity infrastructure and common market for electricity, with the independent system control, is one of strategic objectives of Litgrid. Its attainment requires an understanding, harmonisation, and coordination of national and international interests.




On 28 June 2018, the President of Lithuania Dalia Grybauskaitė together with the heads of Government of Latvia, Estonia, Poland, and the President of the European Commission Jean-Claude Juncker signed a political agreement on synchronizing the Baltic States' electricity grid with the continental European network through Poland.

On 14 September 2018, BEMIP group based on frequency stability and adequacy studies confirmed the scenario for the synchronous operations with continental Europe through Poland. Based on this decision the Baltic and Polish TSO's addressed European Network of Transmission System Operators for Electricity ENTSO-E on 21st September for acquiring technical permission for the synchronization with the Western Europe, so that by the 2025 Baltic States could work synchronously with the European TSO's.

The value of the project, depending on the scenario, may vary from EUR 435 to 1.071 million for the Baltic countries. This project is included in the European Commission's third list of projects of common interest.

Accordingly, taking into account the results of the above studies, Litgrid initiated the internal transmission network development projects necessary for the integration of the direct current cable with Poland in September.

In 2018, works of transmission network preparation for the synchronization were carried out – reconstruction of two important power transmission nodes in Vilnius and Northeast Lithuania:

- On 9 February 2018, Litgrid started 330 kV overhead line reconstruction from Lietuvos Elektrine to Vilnius. An additional electricity line will be built during the reconstruction work at the existing overhead line. This is one of the projects of the Litgrid's managed transmission network preparation for the synchronization with the continental European networks. It is also needed to ensure reliable electricity supply to residents and businesses of the rapidly growing city of Vilnius. The main contractor, winning tenderer, is Žilinkis ir Co UAB. The project value is EUR 17.99 million (VAT excluded). Reconstruction works are expected to be completed by the end of 2020. 50% of the Project value is funded by the EU structural funds.

- On 10 April 2018, Litgrid signed the agreement with the winning tenderer, the group of entities (AB Kauno tiltai, ABB OY and ABB AS) on optimization of the electricity transmission grid in the Northern Lithuania and preparation for synchronous operation with the energy system of continental Europe. Two 330 kV transformer substations in Ignalina and Utena will be reconstructed. Variable Shunt Reactor will be transferred from Ignalina NPP substation to 330 kV distribution facility in Elektrėnai and 750 kV overhead line that connects Ignalina NPP substation with Belarus will be dismantled. On 17 May 2018, Minister of Energy Žygimantas Vaičiūnas signed an order to grant European Union support for this project. For this state-important economic project, EUR 10.8 million is allocated from the EU structural funds, which is 45% of the project value funded by the EU structural funds. During the project, advanced infrastructure will be installed, which will ensure reliable electricity transmission and higher quality of services for both existing and new electricity network users in Visaginas and Utena district municipalities. It is planned that the reconstruction of the electricity transmission system unit in Northeast Lithuania will last for four years and will be completed by spring 2021 at the latest. Total project value is EUR 23.9 million (VAT excluded).

On 19 September 2018, the Baltic TSO's submitted an application to ENTSO-E for the synchronization of the Baltic electricity grid with the continental Europe network through Poland.

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

## III. BUSINESS ENVIRONMENT AND OVERVIEW OF ACTIVITIES

*Services provided by Litgrid group of companies*

Litgrid, the electricity transmission system operator, provides the following services:

- Transmission of electricity via the high voltage (330 and 110 kV) electric installations;
- System services to maintain reliable operation of the system (capacity reserve);
- Trade in balancing and regulating electricity to ensure a balance between production and consumption;
- Public service obligations ensuring and enhancing national energy security (hereinafter referred to as „PSO“);
- Maintenance and repairs of the electricity grid;
- Maintenance, operation and control of HVDC links.

*Transmission of electricity*

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

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

*System services*

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

*Trade in balancing and regulating electricity*

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

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

*Public service obligations*

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

(All amounts are in EUR thousands unless otherwise stated)

Litgrid provides the following PSO services:

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

*Electricity grid maintenance and repairs*

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

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

*HVDC power links' maintenance, operation and control*

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

Since the beginning of 2016, Litgrid Power Link Service has taken over the operation of LitPol Link, and since June 2016, the operation of NordBalt as well. By the decision of the sole shareholder Litgrid, since 1 August 2018 Litgrid Power Link Service UAB activities have been suspended and all employees signed job agreements with Litgrid AB. As of 1 August 2018, all power link maintenance works have been organized by Litgrid.

*Customers of the transmission system operator*

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

Transmission grid users include:

- ESO, a distribution network operator;
- Customers whose electrical equipment is connected to the electricity transmission grid and who purchase electricity for use;
- Electricity producers connected to the electricity transmission grid.

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

***Operating indicators of transmission services***

| TSO's operating indicators | 2018 | 2017 | 2016 |
|---|---|---|---|
| Energy transmission volume, m kWh | 10 491 | 9 992 | 9 729 |
| Costs of compensating process losses in transmission network, % | 2.94 | 2.91 | 2.91 |
| ENS (Energy Not Supplied due to interruptions), MWh** | 0.95 | 1.68 | 1.03 |
| AIT (Average Interruption Time), min.** | 0.04 | 0.06 | 0.04 |

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

During 2018, Litgrid volumes of electricity transmission via high-voltage networks for national needs amounted to 10,491 million kilowatt-hours (kWh), which is 5% more compared to 2017. The volumes of transmission to customers of Energijos Skirstymo Operatorius amounted to 9,413 million kWh (4.7% more compared to 2017), other users - 1,077 mln. kWh or 7.3% more.

From 1 January 2018, due to the increasing transmission volumes and effective management of the Company, the electricity price for the end users are provided for smaller price – average tariff is by 7.9% smaller (up to 0.619 ct for kilowatt-hour), compared to the tariff for the same period in 2017.

The average Nord Pool market price for Lithuania in 2018 was 50.00 EUR/MWh – 42% bigger than for the same period in 2017. The main impacton price was caming from natural environmental factors (too little of rain, very hot weather, fires) increased price for pollution permits and the growing demand for electricity.

*Capacity reserves*

In order to ensure continuous transmission of electricity to the population and business of the country, three types of active power reserves are necessary for the sound functioning of the system – primary, secondary and tertiary.

The primary active power reserve is ensured by power stations operating in the synchronous electrical system (currently IPS/UPS) at that time (primary active power reserve shall be activated within 30 seconds).

In Lithuania, the secondary reserve service will be provided by Kruonis HAE in 2019 (secondary active power reserve shall be activated within 15 minutes and maintained for 12 hours), as it did in 2018. The amount of secondary active power reserve required in 2019 is set at 400 MW.

In 2018, Litgrid successfully organised an auction for the tertiary electric capacity reserve for 2019 and signed agreements with the suppliers of the reserve. The tertiary electric capacity reserve is necessary to ensure uninterrupted electricity supply for Lithuanian households and businesses. In 2019, the winners of the tertiary power reserve auction were Lietuvos energijos gamyba AB, Orlen Lietuva AB, Kauno termofikacijos elektrinė UAB, Panevėžio energija AB. The amount of tertiary active power reserve required in 2019 is set at 520 MW.

*Electricity interconnections*

Reliably functioning intersystem connections are an essential part of the system, providing an opportunity to operate together with the energy systems of other Western and Nordic countries and to develop a common European market.

LitPol Link is a double-circuit transmission line from Alytus in Lithuania to Elk in Poland and the Alytus back-to-back converter. LitPol Link interconnection was available to the market 98.09% of the time throughout the twelve months of 2018.

NordBalt electricity interconnection is one of the longest sea cables in the world, the operation of which significantly increases safety of energy supply to Lithuania and the Baltic countries. In 2018, NordBalt interconnection was available to the market 97.4% of the time (excluding warranty repair period). In order to increase NordBalt's availability to the market, the replacement of the underground cable joints was carried out from 16 August to 12 October 2018. In total 120 joints were changed, 22 in Lithuania, 98 in Sweden. The warranty period lasted for two weeks shorter than planned, and the warranty service was carried out by the Danish company NKT.

*Reliability of the transmission network*

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

Data on the reliability of the transmission network for the year 2018 are presented in the table above and in the company website www.litgrid.eu:

On 3 January 2018, ENTSO-E published Nordic and Baltic region (countries; Denmark, Estonia, Island, Latvia, Lithuania, Norway, Finland and Sweden) ENS (Energy Not Supplied) data for 2016. Litgrid electricity transmission network according to the network reliability indicator ENS – among the best in the region.

*Reconstruction of the electricity grid*

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

Litgrid operates high-voltage (400-330-110 kV) transmission lines with the length of 6,946 km and 236 transformer substations and switchyards in Lithuania.

On 8 February 2018, Litgrid started a Project to increase the power in Vilnius and Alytus transformer substations. The aim of the Project is to ensure reliable energy supply for Vilnius city and the east of Lithuania.

The following TSO projects were completed in 2018: construction of a 330 kV double-circuit overhead electricity line Kruonis PSHP-Alytus (2x58,25 km), construction of 110 kV electricity transmission line Kretinga-Benaičiai WP (30 km), reconstruction of a 330 kV overhead electricity line Jurbarkas–Bitėnai by replacing reinforced concrete pylons with metal ones (43,91 km); reconstruction of 110 kv switchyards of these transformer substations: 110/10 kV Kaunas HE, VE-2, 110/35/10 kV Pagėgiai TS, 110/35/10 kV Rietavas TS (including the installation of lightning protection rope with fiber optic cable in 110 kV overhead line Rietavas-Endriejavas-Klaipėda (about 37,63 km)) and 110/10 kV Juodupė TS.

During 2018, the following projects initiated by electricity network users were also completed: 330 kV overhead electricity line Kruonis PSHP-Sovetsk and 110 kV overhead electricity line Kapsai–Kazlų Rūda, and also reconstruction of 110 kV overhead electricity line Kaunas HE–Kazlų Rūda under the order of the Lithuanian Road Administration under the Ministry of Transport and Communications of the Republic of Lithuania on reconstruction works of the trunk-road No A5 Kaunas–Marijampolė–Suvalkai.

***<u>Research and development activities of the Litgrid Group</u>***

Every year Litgrid prepares the electric power system long-term development plans aimed at ensuring the reliable operation of the transmission grid and increasing the safety of electricity supply. The reconstruction of energy facilities involves the replacement of old equipment by installing modern equipment and the implementation of modern systems for relay protection, system automation, management, data collection and accounting. Plans for the construction and reconstruction of facilities are made for a 10-year period and being updated every year. These plans are publicly available and can be found on the corporate company website www.litgrid.eu.

On 18 January 2018, when preparing for the synchronisation of the electricity grid with the continental European networks, the electricity and gas distribution company Energijos Skirstymo Operatorius (ESO) and the electricity transmission system operator Litgrid signed an agreement on the joint implementation of the project, which will ensure reliable electricity supply to the residents and businesses of Eastern Lithuania. This decision will allow saving over EUR 19 million.

In fourth quarter of 2017, Baltic TSO's, together with the Polish TSO and ENTSO-E, initiated a study on the dynamic stability of the Baltic States' synchronous interconnection with the network of continental Europe. The aim of the study is to assess the dynamic stability of the Baltic States' system by working synchronously with the continental European networks via Poland and expected additional investment costs to ensure dynamic stability. The study was conducted by the Gdansk Institute of Power Engineering Research Institute in January-June of 2018.

In fourth quarter of 2017, Baltic TSO's together with ENTSO-E, initiated a study for frequency stability for synchronous connection of Baltic grids with the network of continental Europe. The aim of the study is to evaluate the expected additional investment, operational and socio-economic costs related to ensuring the stability of the Baltic's power system frequency stability in synchronous communication loss and working island mode for analyzed synchronization scenarios. The study was implemented by ENTSO-E in cooperation with the partner from Germany, Consentec, during the period of January-May, 2018.

The results of the two latter studies had significant impact on political decisions regarding the synchronization with continental Europe. On 28 June this year, the heads of the European Commission, Lithuania, Latvia, Estonia and Poland signed a political agreement on synchronizing the Baltic States' electricity grid with the continental European network through Poland.

An additional study on optimization of the implementation of frequency stability measures was initiated at the end of 2018, the results of which was a basis for the BEMIP High Level Group to take a decision on the scenario for the synchronization of the Baltic countries' electricity grids with the continental European networks via Poland. The study was conducted by the Gdansk Institute of Power Engineering Research Institute in July-August of 2018.

On 21 September 2018, the Baltic TSOs together with the Polish TSO submitted an application to the ENTSO-E Continental European TSO Regional Group on synchronous connection of the Baltic countries' systems to continental European networks.

The system operators of the ENTSO-E Regional Group Continental Europe, after examining the application, set up a Baltic project team that plans to issue a catalogue of necessary measures to synchronization by April of 2019.

During the informal meeting of the Energy Council in Sofia (Bulgaria) on 18 April 2018, a financing agreement for the dynamic stability study, which is important for the synchronization project, was signed. The agreement was signed by the European Commission's Innovations and Networks Executive Agency (INEA) and representatives of the transmission system operators of the Baltic States and Poland. The dynamic stability study, commissioned by the Baltic (Litgrid, AST and Elering) and Polish (PSE) transmission network operators, was conducted by scientists from the University of Gdansk. The study includes analysis of the stability of intersystem fluctuations and transient processes for the investigated synchronization with the network of continental Europe scenarios. The study was completed in June 2018. The price of the study – EUR 250 thousand. The Connecting Europe Facility (CEF) fund allocates EUR 125 thousand to the dynamic stability study.

At the beginning of the year 2018, Litgrid started a study which aim is define the ways which will enable Litgrid to execute it's vision to become the smartest TSO in Europe. On 5th June, the Company signed the agreement with the Consorcium of ENERGIANALYSE (DK), Ecofys (DE) and KPMG (DK), represented by Glimstedt (LT) legal office. The partners obliged to make a survey of the development areas and tendencies of European TSO's (technical innovation of energy sector, innovations, new management methods), strategy analyses and evaluations, which innovative measures Litgrid may adopt and that would lead Litgrid to ensure meeting strategic vision. After thorough examination of proposed opportunities Litgrid will adopt the most appropriate measures and guidelines to it's new Strategy and Action plan for 2019.

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

## IV. FINANCIAL INFORMATION

### Financial information

The main financial indicators of the Group and the Company:

| | January – December 2018 | | January – December 2017 | | January – December 2016 | |
|---|---|---|---|---|---|---|
| | Group | Company | Group | Company | Group | Company |
| **Financial indicators, EUR '000** | | | | | | |
| Revenue from electricity sales | 169 758 | 169 758 | 143 292 | 143 292 | 143 215 | 143 215 |
| Other operating income | 20 8883 | 2 191 | 16 896 | 1 065 | 23 840 | 8 114 |
| EBITDA* | 32 335 | 31 992 | 40 525 | 42 829 | 49 302 | 48 094 |
| Profit (loss) before tax | (46 200) | (44 932) | 11 794 | 10 245 | 19 794 | 18 883 |
| Net profit (loss) | (39 361) | (38 090) | 9 585 | 7 724 | 17 857 | 16 828 |
| Cash flows from operations | 25 872 | 24 306 | 43 416 | 45 128 | 23 243 | 22 483 |
| **Ratios** | | | | | | |
| EBITDA margin, % | 17.0 | 18.6 | 25.3 | 29.7 | 29.5 | 31.8 |
| Operating profit margin, % | -23.6 | -25.5 | 8.1 | 7.9 | 12.7 | 13.3 |
| Return on equity, % | -17.8 | -17.2 | 3.8 | 3.1 | 7.2 | 6.7 |
| Return on assets, % | -9.8 | -9.6 | 2.1 | 1.7 | 3.5 | 3.5 |
| Shareholder's equity / Assets, % | 53.2 | 54.3 | 56.1 | 57.1 | 55.1 | 56.2 |
| Financial liabilities / Equity, % | 62.4 | 61.7 | 61.8 | 60.8 | 65.0 | 64.2 |
| Liquidity ratio | 0.51 | 0.45 | 0.78 | 0.75 | 0.79 | 0.74 |

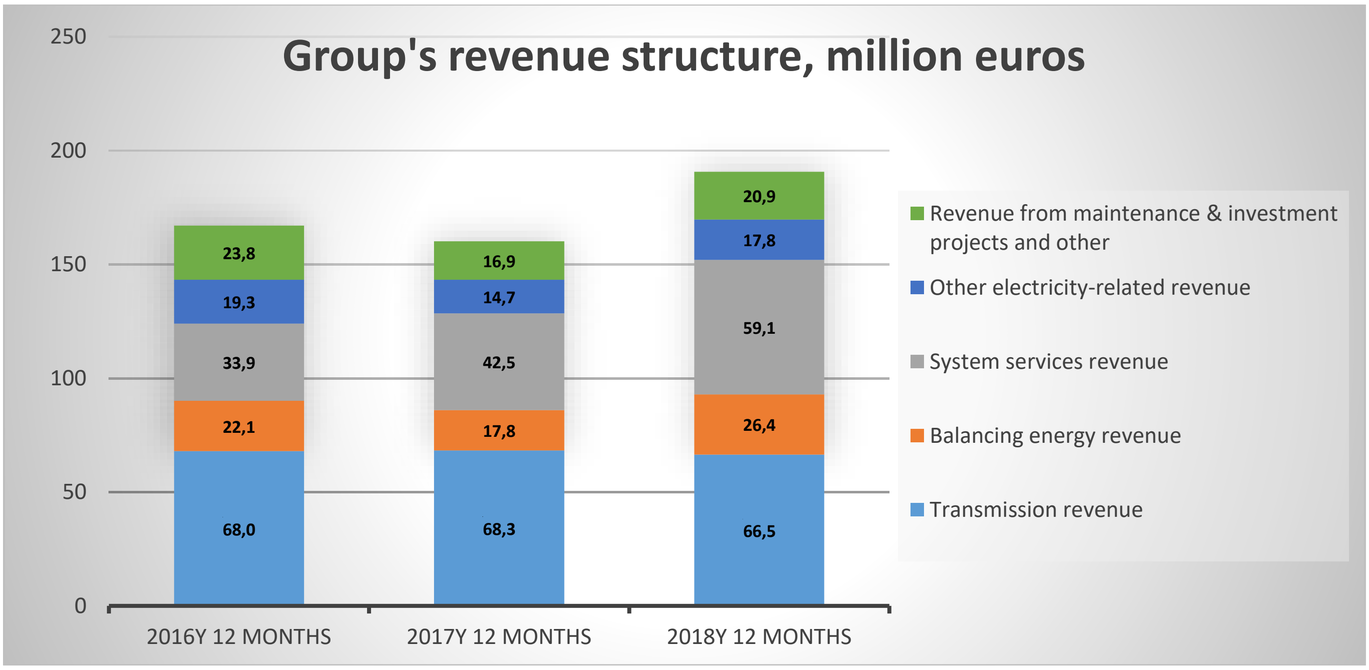
*EBITDA = Operating profit + Depreciation and amortisation + Impairment expenses of assets + Write-off expenses of assets;

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

In the year 2018, Litgrid via high-voltage networks for national needs transmitted 10,491 million kilowatt-hours (kWh) of electricity, which is 5% more than in 2017. The transmitted volume to customers of Energijos Skirstymo Operatorius amounted to 9,413 million kWh (+4.7% compared to 2017), and to other customers 1,077 million kWh (7.3% more compared to 2017).

**Revenue**

Revenue earned by the Litgrid Group in 2018 amounted EUR 190.6 million, a 19% increase compared to 2017.




Revenue from electricity transmission decreased by 2.6% (down to EUR 66.5 million) compared to the same period in 2017. Revenue from electricity transmission accounted for 35% of the Group's total revenue. The decrease in revenue has resulted from a 7.2% lower actual electricity transmission price compared to 2017, but the loss of revenue was compensated by increased demand of electricity.

Revenue from sale of balancing/regulating electricity increased by 49% to EUR 26.4 million. The increase has largely resulted from the growth in the balancing/regulating electricity sales volumes, which, in turn, was largely determined by securing the allocated capacity (i. e. the capacity traded on the electricity exchange) of the new power links with Sweden and Poland.

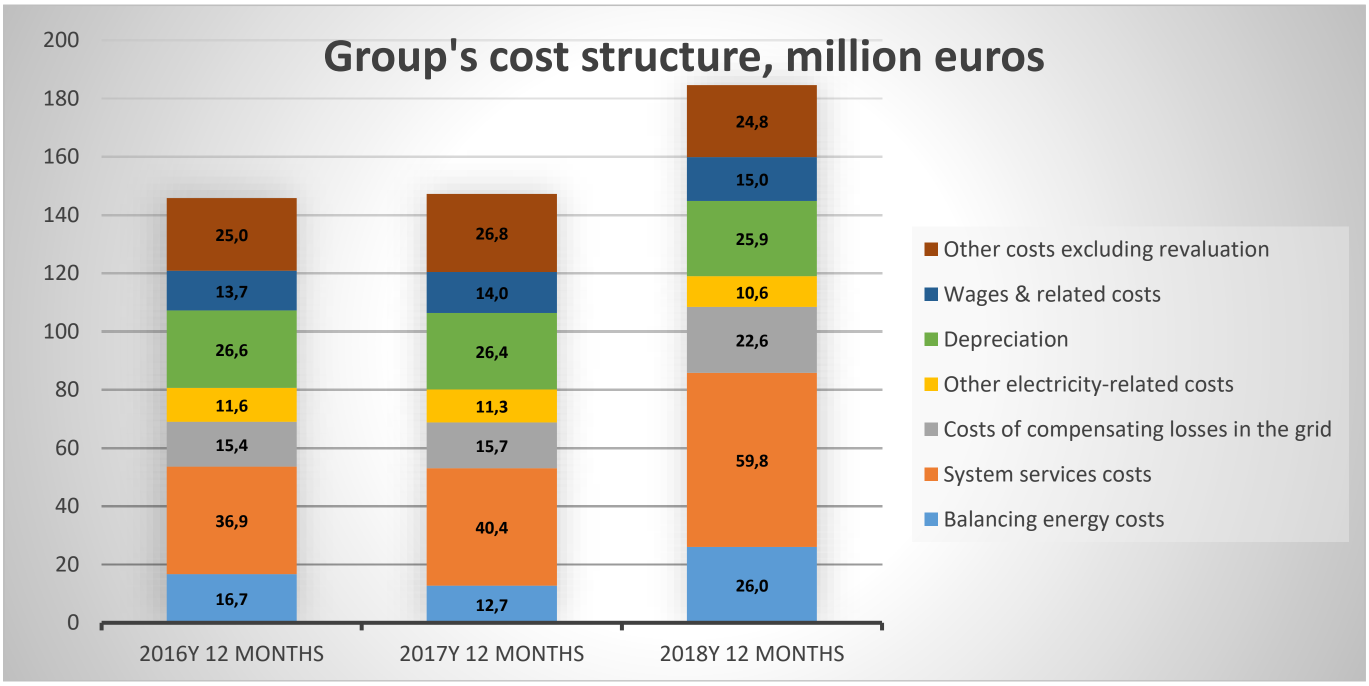
Income from system services increased by 39% to EUR 50.1 million. The main growth driver was the tariff for system services which had been increased 35% by the National Commission on Energy Control and Prices from 1 January 2018, the volume of service provided grew by 4% and the declared volume of services (contracted) was overexceeded, which is charged double price.

Congestion revenue from the Lithuanian-Polish, the Lithuanian-Swedish and the Lithuanian-Latvian interconnections increased by 27% in 2018 compared to the same period of 2017 and amounted to EUR 12.9 million. Congestion revenue arises from different electricity market prices on the Lithuanian, Swedish, Polish and Latvian electricity exchanges as a result of insufficient capacity of electricity lines. Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 stipulates that congestion revenue (proceeds) may be used for the following purposes: a) guaranteeing the actual availability of the allocated capacity of the interconnections; b) maintaining or increasing networks' capacities through network investments, in particular in new interconnections; c) if revenue cannot be efficiently used for the purposes set out in points a) and/or b) they may be used, subject to approval by the regulatory authorities of the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing network tariffs. In 2018, Litgrid recognised, in accordance with the Regulation: EUR 0.8 million as revenue, i.e. a part of congestion revenue received that was used for ensuring the allocated capacity of the power links; EUR 2.1 million for 330 kV overhead lines Kruonio HAE-Alytus construction; EUR 0.8 million for 330 kV Bitėnai swithchyard extension and 110 kV transmission line Pagėgiai-Bitėnai construction. Remaining part of revenue was reported under deferred revenue in the statement of financial position.

Other income related to transmission operations include: the ITC transit income (Inter-Transmission Operator Compensation Mechanism, i.e. payment for electricity imported from or exported to countries other than the EU) – EUR 3.8 million; PSO income – EUR 7.4 million; reactive energy income – EUR 1.4 million; connection of new manufacturers/customers and replacement of devices – EUR 4.3 million. Income from services provided by Tetas account for the largest part of income from repair works, investment projects etc.

**Expenses**

The Group's operating expenses, excluding the revaluation of the Company's tangible fixed assets, totalled EUR 184.7 million in 2018, which is 25% more compared to 2017.

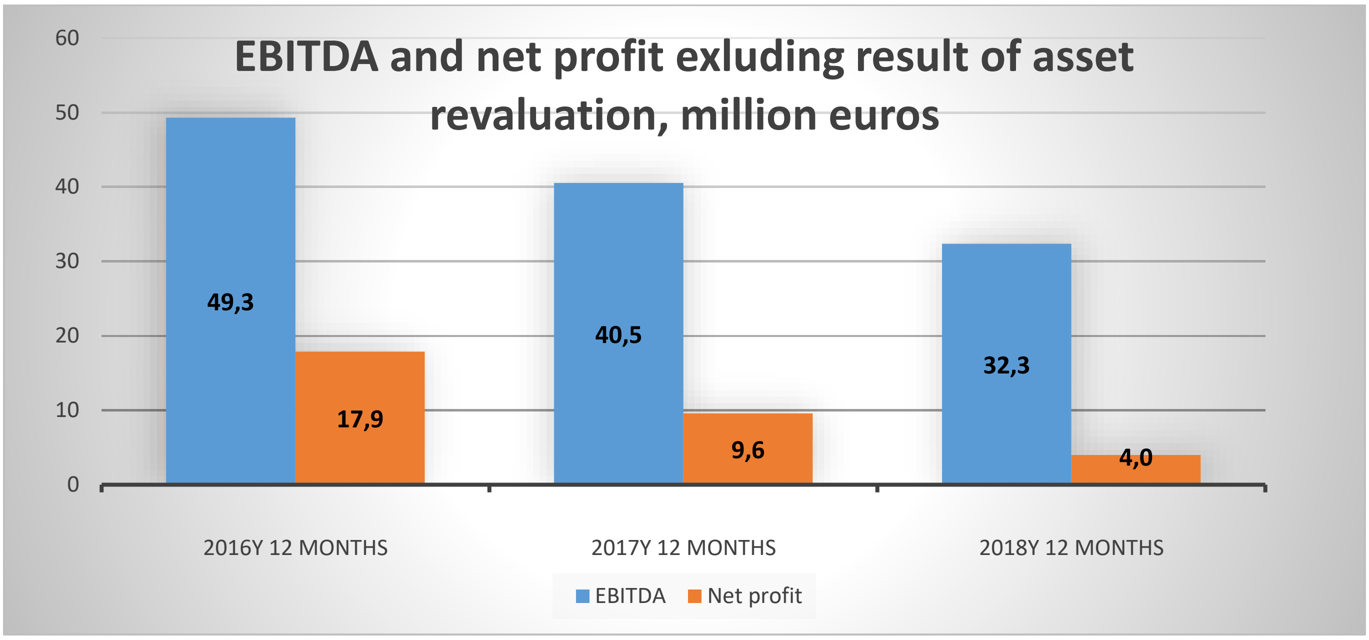



Costs of purchase of electricity and related services account for a major portion of the Group's operating expenses: EUR 119 million or 64% of total expenses. These costs increased by 49% compared to 2017. Balancing (regulating) electricity costs increased by 105% to EUR 26 million. The system service costs increased by 48% to EUR 59.8 million. Costs of compensating for electricity purchase technological losses in the transmission grid increased by 44% to EUR 22.6 million. Transit (ITC) costs were EUR 2,5 million, PSO provision costs equalled EUR 7.3 million, and costs of ensuring the allocated capacity of the Swedish and Polish interconnections totalled EUR 0.8 million.

Depreciation and amortisation expenses decreased by 2% compared to 2017 and amounted to EUR 25.9 million. Other expenses, excluding the revaluation of the Company's tangible fixed assets, decreased by 2% compared to 2017 and amounted to EUR 39,8 million.

The revaluation (conducted at the end of 2018) costs of the Company's tangible fixed assets – EUR 51 million.

**Profit**




The EBITDA for the year 2018 amounted to EUR 32.3 million. Compared to the same period of 2017, the EBITDA decreased by EUR 8.2 million, or 20%; the EBITDA margin decreased to 17% (in 2017 –25.3%). The Group's net profit, excluding the revaluation of the Company's tangible fixed assets, for the year 2018 was EUR 4 million (in 2017 – EUR 9.6 million), including the revaluation of the Company's tangible fixed assets – the Group's net loss amounted to EUR 39.4 million.

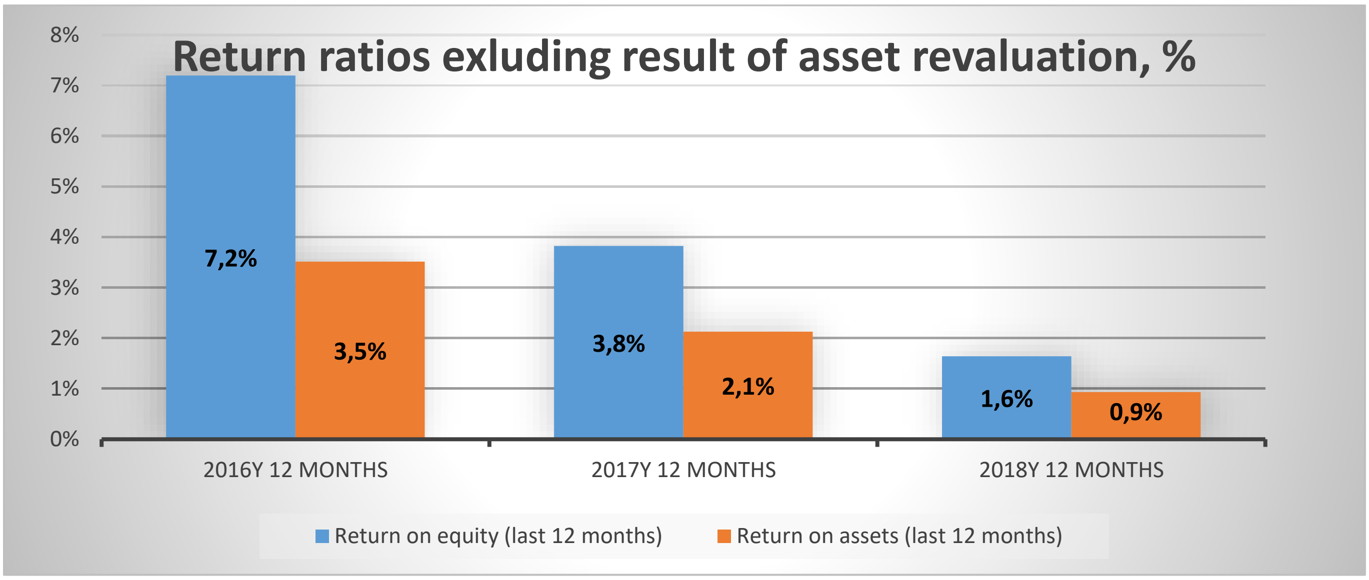
Main reasons for the decline of the Group's EBITDA:

- In 2018, the Company returned to consumers EUR 6.7 million more of the profits of the previous periods (which exceeds the amount determined by the Commission) compared to the amount returned in 2017.
- A common balancing market for the three Baltic countries has been launched since 1 January 2018 and, and according to the new pricing, Litgrid balancing revenues are equal to balancing costs and Litgrid's operating costs attributable to the balancing service. Due to the changed pricing in 2018, the result decreased by EUR 2 million, as the profit of the Company's balancing activity (excluding operating costs) amounted to EUR 5 million in 2017, while the Commission, by adjusting the transmission service price cap for 2017, had reduced transmission revenues by the forecasted profit of EUR 3 million in balancing services.
- In 2018, the result of systemic service activities (excluding operational costs) was EUR 2.9 million worse compared to the year 2017. The company reduced the revenues of systemic services by EUR 2.9 million due to the higher price of systemic services applied in January-February 2016 (the court ruling came into force only since March 2016).

The Group's EBITDA was boosted by the income from the connection of new producers/transfer of electrical equipment in 2018, which was EUR 3.6 million higher due to the reimbursement of the costs of connection of producers from renewable energy sources from the PSO funds.

The Group's operating profit for 2018 (excluding the revaluation of the Company's tangible fixed assets) consisted of: profit of the transmission segment EUR 7.2 million (in 2017 EUR 9.1 million profit), loss in the system services segment EUR 1.1 million (in 2017 EUR 1.7 million profit), profit in the balancing (regulating) electricity segment EUR 0.1 million (in 2017 4.8 million profit), loss from other activities EUR 0.2 million (in 2017 EUR 2.7 million loss).

**Return indicators**




In 2018, the annual ROE and ROA ratios, excluding the revaluation of the Company's tangible fixed assets, decreased compared to 2017 from 3.8% to 1.6 % and from 2.1% to 0.9% respectively.

After the revaluation of the Company‘s tangible fixed assets, the annual ROE and ROA were negative and made -17.8% and -9.8 % respectively.

**Balance sheet and cash flows**

As at 31 December 2018, the Group’s assets amounted to EUR 366.3 million. The Group's non-current assets represented 91% of the Group's total assets. Shareholders’ equity accounted for 53% of the total assets of the Group.

As at 31 December 2018, the Group’s financial liabilities to credit institutions amounted to EUR 121.8 million (a decline of EUR 30.6 million during a year). Financial liabilities to equity ratio was 62%. Financial debts repayable within one year accounted for 22% of the total financial debts. Cash and cash equivalents totalled EUR 0.6 million and the unwithdrawn overdraft balance was EUR 11.8 million.

The Group’s net cash flows from operations in 2018 amounted to EUR 25.9 million, while payments for tangible and intangible fixed assets were EUR 23 million; EUR 24.3 million were received as subsidies and EUR 12.2 million as congestion income for the financing of fixed assets investments.

The Group’s net cash flows in 2018 (excluding cash flows from financial activities) totalled EUR 39.5 million.

**Investments in non-current assets**

In 2018, investments of Litgrid (works performed and assets acquired irrespective of terms of payment) amounted to EUR 18.9 million, of which 25% were earmarked for the implementation of strategic electric energy projects of high importance to the State, and 75% for the reconstruction and development of the electricity transmission grid.

**Dividend policy**

On 18 August 2017, the Board of Litgrid passed a decision regarding the application of the EPSO-G UAB Group dividend policy, which was approved by the Board of EPSO-G UAB on 14 July 2017, at Litgrid AB in its entirety.

On 24 April 2018, the ordinary General Meeting of Shareholders of Litgrid was held, during which it was decided to pay out dividends amounting to EUR 7.7 million or EUR 0.0153 per share.

(All amounts are in EUR thousands unless otherwise stated)

## V. INFORMATION ABOUT PERSONNEL

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

As at 31 December 2018, the Litgrid Group had 638 employees: Litgrid – 267, Tetas – 369 and Litgrid Power Link Service – 2.

The wage fund of Litgrid for the reporting period amounted to EUR 6,290 thousand (in 2017 – EUR 5,504 thousand).

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Number of employees | Average monthly wage, in EUR | Number of employees | Average monthly wage, in EUR |
| Chief Executive Officer | 1 | 9 535 | 1 | 9 425 |
| Top-level managers | 6 | 6 400 | 6 | 5 895 |
| Medium-level managers | 21 | 3 439 | 21 | 3 360 |
| Experts-specialists | 239 | 1 906 | 201 | 1 687 |
| **Total** | **267** | **2 186** | **229** | **1 989** |

The total wage fund of Litgrid Group for the reporting period amounted to EUR 11,312 thousand (in 2017 – EUR 10,889 thousand).

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Number of employees | Average monthly wage, in EUR | Number of employees | Average monthly wage, in EUR |
| Chief Executive Officer | 3 | 5 970 | 3 | 6 531 |
| Top-level managers | 9 | 5 189 | 9 | 4 666 |
| Medium-level managers | 36 | 2 935 | 41 | 2 712 |
| Experts-specialists | 390 | 1 665 | 361 | 1 481 |
| Workers | 200 | 994 | 219 | 843 |
| **Total** | **638** | **1 622** | **633** | **1 413** |

*Remuneration policy and performance evaluation*

The common remuneration policy of the EPSO-G Group has been introduced at Litgrid and it is applicable to all employees of the Company. The remuneration policy is approved and amended by the decision of the Company's Board taking into consideration recommendations of the Remuneration and Appointment Committee of EPSO-G. The Remuneration and Appointment Committee of EPSO-G regularly reviews provisions of the remuneration policy, its effectiveness, implementation and application.
The goal of the remuneration policy is to contribute to the realisation of the mission and vision of the organisation that is being managed by modern and effective methods, to mobilise people for joint work and motivate them to implement the strategic priorities, to form and establish an attitude that employees are the Company's main asset, and to foster the corporate values of professionalism, cooperation, responsibility, initiative, and respect. Remuneration depends on the employee's position, performance, achievement of individual annual goals, level of competencies, and adherence to the values of organisation. The pay package consists of financial and non-financial elements: basic pay, variable part of pay, fringe benefits, and psychological reward.

(All amounts are in EUR thousands unless otherwise stated)

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

*Remuneration policy for collegial body members and management*

At the EPSO-G UAB Group the remuneration principles applied in respect of management body members are established according to the Guidelines on the establishment of remuneration for the activity at the bodies of the group companies as approved by the decision of the sole shareholder EPSO-G UAB. Based on the decisions passed at the General Meeting of the Company's Shareholders held on 29 July 2016, the maximum amount of the annual remuneration budget allocated for the payment of services as the Company's Board members was established. The hourly and maximum monthly pay as well as the terms of the agreements with the Board members regarding their activity at the Board were approved. Based on the decision passed at the General Meeting of Shareholders held on 26 July 2016, the hourly work pay of EUR 50.00 (fifty euros) (before tax) was established for services as a member of the Company's Board, without exceeding the maximum monthly pay of EUR 1,000.00 (one thousand euros) (before tax). The Board members who also are the employees of EPSO-G UAB, a company holding a controlling ownership interest in the Company, are not paid by the Company for their services as members of the Board.
There were 30 board meetings in 2018.

Remuneration of the members of the Board in 2018:

| Remuneration of the members of the Board of LITGRID AB for 2018 | | | |
|---|---|---|---|
| | **Estimated average monthly salary, EUR** | **Estimated and disbursed average monthly variable part of salary for the results of 2017, EUR** | **Estimated average monthly salary for activities on the Board, EUR** |
| Rimvydas Štilinis | - | - | - |
| Daivis Virbickas | 7903 | 1632 | 936 |
| Vidmantas Grušas | 5505 | 1204 | 846 |
| Domas Sidaravičius | - | - | 752 |
| Šarūnas Nedzinskas | - | - | 800 |
| Algirdas Juozaponis | - | - | - |

No other bonuses, tantjems or other benefits were paid to the members of the Board.

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

Information about Remuneration policy, Employees performance evaluation, wages and Company and CEO goals are published on the corporate website www.litgrid.eu.

*Collective agreement*

Litgrid recognises the right of employees to voluntarily unite into trade unions or associations, as well as the right to negotiate with the employer, and supports a constructive social dialogue.

On 20 February 2018, an updated Collective Agreement between Litgrid and the newly established trade union of Company employees was signed. The document defines and ensures a fair remuneration policy and balance between work and rest, and regulates social and economic relations between the employer and the employee. The Collective Agreement also contains provisions on how the Company supports employees when important or painful life events occur.

Meetings between trade union representatives and Company management are held periodically to discuss issues of relevance to the trade union.

*Line of Trust*

We encourage our employees, customers, business partners and other concerned parties to report the breaches of legal acts. The Company has a trust line, where is the possibility to make round-the-clock call by the indicated phone. Number and e-mail address published in the Company's website and intranet.

*Education*

252 employees have a university education, 14 employees have post-secondary education, and one employee has a secondary education.
Learning is a very important area for which the Company pays great attention. The staff is trained not only on topics of specialty, but also on general themes that encourage employees to work, plan, rest and learn new skills more effectively. A culture of knowledge sharing is strongly encouraged when employees share their acquired knowledge with colleagues.

*Ethics Committee*

The Ethics Committee has been established in the Company, the Code of Ethics and Conduct (published on the Company's website, www.litgrid.eu) is upheld, the values of which are in principle respected not only within the Company but also in cooperation with third parties.

# VI. GOVERNANCE

## *VI.1. Information on the share capital and the shareholders and their rights*

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

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

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

EPSO-G UAB (A. Juozapavičiaus 13, LT-09310 Vilnius, company code 302826889), a company wholly-owned by the Ministry of Energy of the Republic of Lithuania, controls 100% of Litgrid's shares. EPSO-G UAB possesses a decisive vote in making decisions at the General Meeting of Shareholders.

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

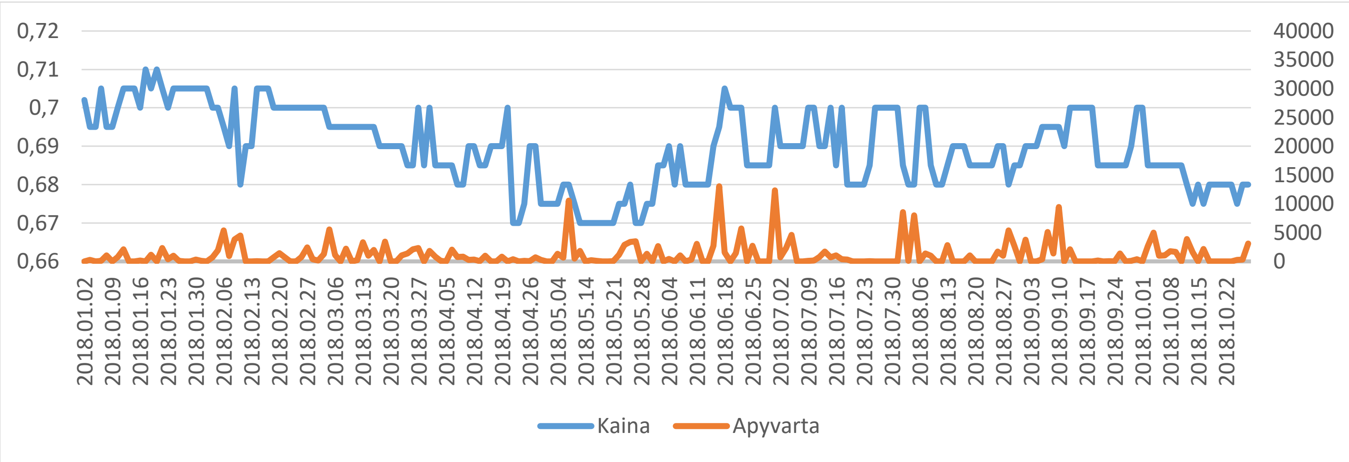
SEB Bankas AB is the provider of accounting and related services for Litgrid's securities for the period from 8 September 2017 until 7 September 2020.

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

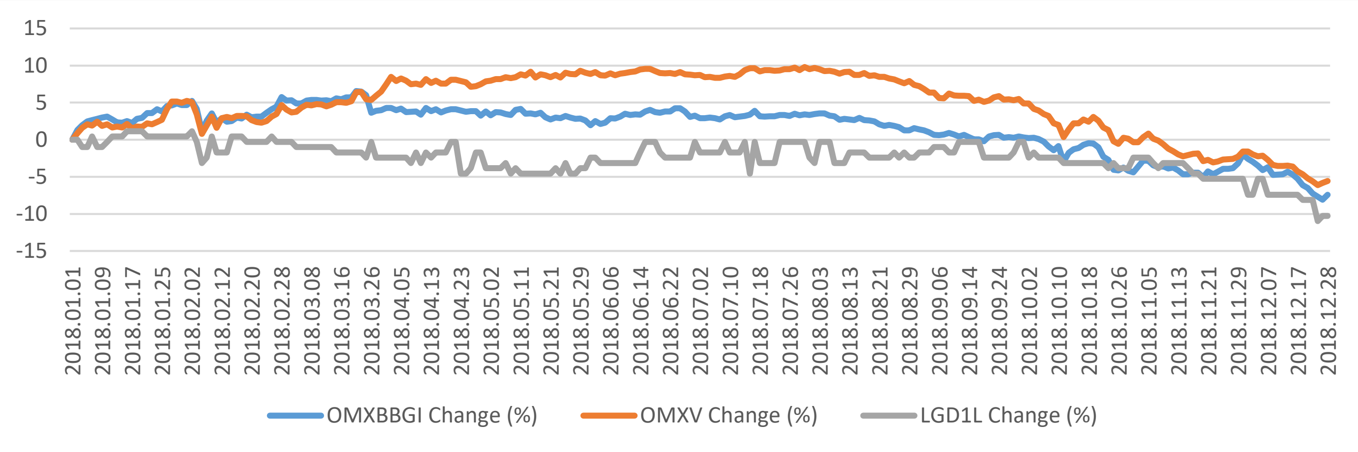
**Data on trading in Litgrid's securities on the regulated markets:**

| Indicator | 2016 | 2017 | 2018 |
|---|---|---|---|
| Opening price, EUR | 0.708 | 0.700 | 0.702 |
| Highest price, EUR | 0.745 | 0.751 | 0.71 |
| Lowest price, EUR | 0.676 | 0.676 | 0.625 |
| Closing price, EUR | 0.705 | 0.702 | 0.63 |
| Turnover, units | 788,916 | 608,001 | 383,524 |
| Turnover, EUR million | 0.56 | 0.43 | 0.26 |
| Capitalisation, EUR million | 355.55 | 354.04 | 317.73 |

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



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




*VI.2. Dividends*

On 18 August 2017, the Board of Litgrid passed a decision regarding the application of the EPSO-G UAB Group dividend policy, which was approved by the Board of EPSO-G UAB on 14 July 2017, at Litgrid AB in its entirety.

Based on the EPSO-G UAB dividend policy the amount of dividends payable was directly linked with the effective use of the company's equity, i.e. the higher benefits created by the Company for the shareholder are, the larger portion of profit can be allocated by the Company for a further development or implementation of other significant projects.

On 24 April 2018, the ordinary General Meeting of Shareholders of Litgrid was held, during which it was decided to pay out dividends amounting to EUR 7.7 million or EUR 0,0153 per share.

*VI.3. The Company's management bodies*

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

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

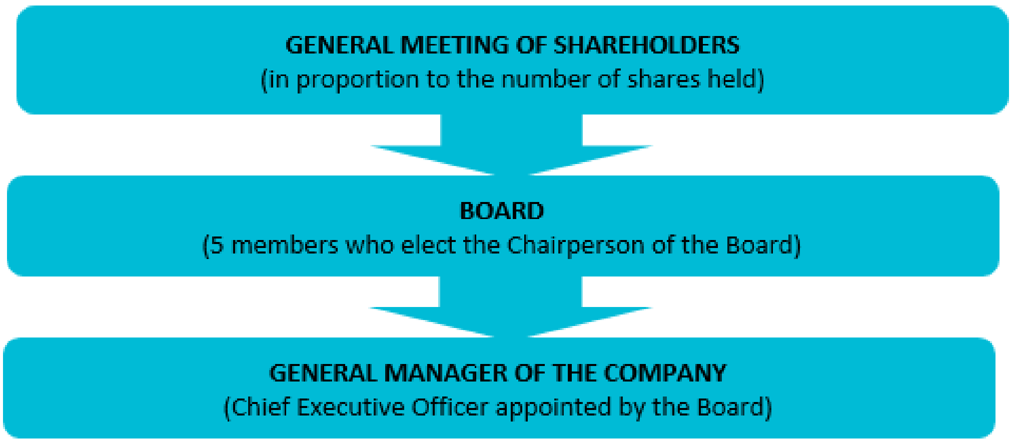



**Fig. 1.** LITGRID AB managing bodies

*Corporate governance principles*

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

The Company complies with the Corporate Governance Code, the compliance report of which is attached to this report in the form of a table.

*The Articles of Association*

The Articles of Association of Litgrid shall be amended in the manner prescribed by the Republic of Lithuania Law on Companies.

On 30 April 2018, revised edition of articles of association were registered (due to change of the requirements for the Board members).

*The General Meeting of Shareholders*

The General Meeting of Shareholders is the supreme management body of the Company. The competence of the General Meeting of Shareholders, the rights of shareholders and their implementation are laid down in the Law on Companies of the Republic of Lithuania and the Statutes of the Company.

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

*The Company's Board*

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

Where the Board or its member is recalled, resigns or for any other reason ceases to perform its duties before the expiry of the term of office, a new Board/Board member is elected for the remainder of the Board's term of office. In accordance with the new version of the Articles of Association, when electing new board members, it is ensured that there are not less than 2 (two) independent members, establishing their independence by taking into account the criteria set forth in the Governance Code and the Policy on the Managing Interests of Collegiate Bodies, Management and Employess of the Group of Companies and the requirements of other applicable legal acts; it is ensured that at least 3 (three) members of the Board are unrelated to the employment relationship with the Company and, if possible, the Company's employees are not appointed to the Board.

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

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

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

(All amounts are in EUR thousands unless otherwise stated)

*Areas of activities of the General Manager*

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

The Board, which carried out the assessment of the activities of the Chief Executive Officer, stated that the performance indicators were achieved by 91.8% in 2018.

Diversity Policy does not apply to the election of the CEO, management and supervisory bodies of the Company, but applies the Social Responsibility Policy (social responsibility in relations with employees), which defines fundamental principles, such as non-discrimination, fair remuneration, etc. All policies applied by the Company are published on the website www.litgrid.eu.

*As at 31 December 2018: Litgrid's Board members, the General Manager and the Chief Financier:*

| *Position* | *Full name* | *Start date* | *End date* | **Number of the issuer's shares held** |
|---|---|---|---|---|
| **Chairperson of the Board** | Rimvydas Štilinis | 2016 07 29 | | - |
| **Board member** | Daivis Virbickas | 2013 09 10 | 2018 04 30 | - |
| **Board member** | Vidmantas Grušas | 2013 09 10 | 2018 09 07 | - |
| **Board member** | Nemunas Biknius | 2016 07 29 | | - |
| **Independent Board member** | Domas Sidaravičius | 2016 07 29 | | - |
| **Independent Board member** | Šarūnas Nedzinskas | 2018 09 07 | | - |
| **Board member** | Algirdas Juozaponis | 2018 09 07 | | - |
| | | | | |
| **Chief Executive Officer** | Daivis Virbickas | 2013 09 10 | | - |
| **Chief Financier** | Žydrūnas Augutis | 2017 06 05 | | - |

The CVs of the Board members and the Company's CEO (information is also available on the website at www.litgrid.eu):

Rimvydas Štilinis
Chairperson of the Board

Born in 1978.
Rimvydas Štilinis holds master degree of electrical engineering from Kaunas University of Technology. He worked at Lietuvos energija UAB from 2002 to 2014. From 2008 to 2014, he served as Director of Nuclear energy, Construction and Infrastructure department and Head of General Infrastructure Competence Centre. In 2014-2015, R. Štilinis was CEO of VAE SPB. He is Director for Infrastructure of EPSO-G, the company which owns 97.5% of Litgrid shares and Member of the Board of Amber Grid, the Lithuanian natural gas transmission system operator. On 24 May 2018, he was appointed as an Independent Member of the Board of the State Enterprise Ignalina Nuclear Power Plant, and on 5 July, he was elected as a Chairman of Litgrid Board.
R. Štilinis holds no Litgrid shares.

Nemunas Biknius
Board member

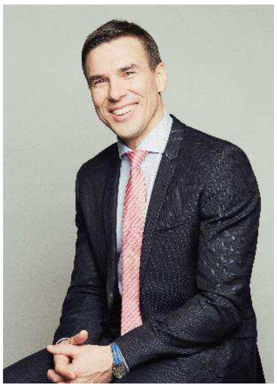
Born in 1978.
N. Biknius holds master degree of energy and termoengineering from Vilnius Gediminas Technical University. His previous experience involves positions in the Ministries of Energy and Economy and Lietuvos dujos, where he served as Member of the Board and Director for Service and Development. N. Biknius is Chairman of the Board at Lithuanian gas transmission operator Amber Grid, Member of the Board at the operator of the Lithuanian Energy Exchange Baltpool and Director of Strategy and Development at EPSO-G.
N. Biknius holds no Litgrid shares.

Domas Sidaravičius
Independent Board member

Born in 1975.
D. Sidaravičius holds a bachelor degree of business administration and management and a master degree of international trade from Vilnius University. D. Sidaravičius has a long term experience of financial and insurance services, business risk management. Since March 2016, Mr. Sidaravičius has been Member of the Board and CEO of ERGO Invest SIA.
D. Sidaravičius holds no Litgrid shares.

Algirdas Juozaponis
Board member

He worked as Economist and Senior Economist at Rytų skirtsomieji tinklai AB from 2005 to 2008, Finance Analyst at LEO LT AB from 2008 to 2010, Product Manager at Energijos tiekimas UAB from 2010 to 2011, Managing Director from 2011 to 2015 and Board Member from 2012 to 2013 at Energijos tiekimas UAB, Board Member at GETON Energy SIA (Latvia) and GETON Energy OÜ (Estonia) from 2013 to 2015, since 2015 has been working as Director of Finance and Board Member from 2016 to 2018 at EPSO-G UAB. During 2014-2015, he served as Member of the Council at National Association of Lithuanian electricity.
A. Juozaponis holds Bachelor degree since 2005 and Master degree since 2007 from Vilnius University (Banking program).
A. Juozaponis holds no Litgrid shares.



Šarūnas Nedzinskas
Independent Board member

He worked as Head of Credit Risk Management and Board Member at DNB bank (previously – Lietuvos žemės ūkio bank) from 1994 to 1997. During 1998-1999, he served as Deputy Chairman of the Board and Head of Credit Risk Management at bank Hermis AB, during 2000-2003 he worked as Head of Business Development department at SEB bank. During 2004-2007, he served as Head of Credit Risk Management and Corporate Customers and Board Member at Lietuvos draudimas AB, Chairman of the Board from 2007 to 2008 at bank Finasta AB, during 2008-2016 he served as Advisor to the President of the bank, Executive Vice President, Board Member, Head of Retail Banking at DNB bank. Since 2016, he holds position Head of Banking Portfolios, Baltics at Intrum Lietuva UAB.
Š. Nedzinskas holds PhD degree (Strategic management) from ISM since 2013, Master degree from BMI since 2007 and Master degree from Vilnius University, Faculty of Economics (Business planning and management) since 1993.
Š. Nedzinskas holds no Litgrid shares.

Daivis Virbickas
Chief Executive Officer

Born in 1978.
Daivis Virbickas holds Master of Science, Power System Control and Management from Kaunas University of Technology. Since 2013, he serves as Managing Director at Litgrid. During 2011-2013, he worked as Business Director at Switzerland holding Alpiq AG. He served as Chief Technology Officer at Litgrid AB from 2010 to 2011, Director of System Management and Control department at Lietuvos energija AB from 2000 to 2009. He was a Board Member from 2013 to 2018 and served as Chairman of the Board from 2016 to 2018 at Litgrid AB.
Since 2002 he is actively involved in the activities of ENTSO-E organization (served as member of System Operations Committee and System Development Committee), member of Expert group at European Commission.
D. Virbickas holds no Litgrid shares.

*Governance and control*

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

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

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

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

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

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

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

*Good governance practice of the EPSO-G group of companies*

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

The basis for the practical realisation of these Guidelines was created on 17 December 2015, with the approval of the newly revised Articles of Association of EPSO-G (hereinafter "the Articles of Association of EPSO-G"), as the company controlling the entire EPSO-G group of companies, by the Ministry of Energy, which is the owner of the shares of EPSO-G. The newly revised Articles of Association of EPSO-G lay the foundations for the establishment of new management bodies at the level of EPSO-G, i.e. the Supervisory Board and the Board, the Audit Committee, and the Remuneration and Appointment Committee, which, in turn, perform certain supervisory and management functions at the level of the entire group of companies.

*Information on transactions with related parties*

Related-party transactions are disclosed in the notes to the financial statements as of 31 December 2018.
During the reporting period, the Company did not conduct any harmful transactions (transactions which do not meet the All the Company's transactions with related parties were executed under market conditions (in accordance with the arm's length principle), including the transactions provided for in Article 37(2) of the Law on Companies.

## VII. RISK FACTORS AND THEIR MANAGEMENT

Risk is the possibility of unplanned events that may affect the achievement of the strategy and business objectives, both negatively and positively. Risk may have one or more consequences. No organization is protected from risk, therefore, it is necessary to take a proactive (take action to manage risk before risk occurs) and integrated approach to the risk management in order to achieve the objectives set.

The Company has implemented a system for risk management that comprises the identification of risks, their analysis, assessment and determination of control measures, preparation of the risk management action plan and implementation of measures stipulated in the plan, monitoring and supervision of the risk management process. Risk factors at LITGRID AB are identified and managed in accordance with the Risk Management Policy adopted in the first quarter of 2018 and its implementing risk management methodology developed under methodology updated in 2017 and standards of the Committee of Sponsoring Organisations of the Treadway Commission Enterprise Risk Management (COSO ERM) applied in international practice, defining the principles and responsibilities of risk identification, assessment and management.

Risk identification, analysis and assessment are carried out regularly on a quarterly basis, and a comprehensive risk assessment is usually performed once a year (in the context of the strategy update and operational planning process) when preparing a new risk management plan. There is also ongoing monitoring of the implementation of the measures planned to manage risks.

In the fourth quarter of 2018, the risk management measures plan of LITRGID AB was approved for 2019, covering the most relevant risks and their management tools when the Company implements the 2019 and future strategic objectives.

*Political, regulatory and compliance risks*

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

The Company focuses on the implementation of synchronization with the network of continental Europe and the management of risks related to this strategic objective. The representatives of the Company are actively involved in the preparation and execution of the plans for the implementation of synchronization and desynchronisation activities, with the aim of anticipating and informing in advance about possible relevant risks and preparing for their management.

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

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

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

*Operational risk*

Ensuring the reliability of electricity transmission and preventing disruptions of energy supply is one of the main functions and responsibilities of the Company. Main operational risks that could affect the reliability of the transmission are caused by external environmental factors: natural disasters, disruptions in the operations of main contractors, criminal acts of third parties, as well as internal factors such as information systems' failures. The Company has implemented solutions which meet the requirements of physical and information technology security set for enterprises that have strategic or important role for national security, and modern information systems. Taking into consideration the Company's status and global tendencies, a large attention was devoted at the Company for the identification and management of cyberspace risks. The more stable and secure operation of the country's energy system and the management of energy transmission flows will be ensured by the Litgrid system management and data security centre, which is currently under construction. After the synchronization, the frequency of the electricity system will be controlled from this centre, and the necessary physical and cyber security of the system control centre will be ensured.

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

In order to avoid potential delays in the fulfilment of projects on the grid reconstruction and construction of new objects of the grid, Litgrid has implemented the project management system in its operations, updated the project management policy. The results of the evaluation conducted in 2018 showed that the Company's design management maturity increased significantly (from 1 to 3). High standards are set by the qualification requirements for the selection of contractors aiming to ensure that contractors have necessary capacities to implement complex projects.

The Company endeavours to attract and retain highly-qualified employees who are able to implement ambitious operational and complex strategic plans. For that purpose, educational and substitutability plans are being developed and the employee remuneration, performance assessment policies have been updated, the annual calibration of remuneration with the market is being conducted, cooperation with Lithuanian universities is underway.

*Financial risk*

The companies of the Litgrid Group are exposed to financial risks in their operations including credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). In managing this risk, the Group companies seek to minimise the effects of factors that can have an adverse impact on financial results of the Group. The Company has approved the Treasury Management and Financial Risk Management Policy.

The Company has a significant concentration of credit risk. To manage credit risk the Company requires its customers/third parties to provide adequate securities to ensure the execution of contracts (measures are applied in view of the customer's/third party's risk rating).

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

*Technological risk*

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

From 2016, the operation of high-voltage direct current power links was ensured by the subsidiary Litgrid Power Link Service UAB. By the decision of the sole shareholder Litgrid, starting from 1 August 2018 operations of UAB „Litgrid Power Link Service" have been stopped, all employees were hired by Litgrid. In this context, since 1 August 2018, the operation of the power interconnections Litpol Link and Nord Balt has been carried out by Litgrid. The Company successfully ensures the reliable operation of high-voltage direct current power links. In order to ensure better access of the NordBalt interconnection to the market, the replacement of underground cable sleeves was carried out from 16 August to 12 October 2018. The employees of the company have acquired their specialist skills and knowledge on the operation and repairs of the power links at training courses provided by the links' equipment manufacturers as well as by participating in the testing of the relevant equipment, systems and links and the analyses of the causes of disconnection of the links during the trial operation. The team is currently fully prepared for the qualified operation of the HVDC power links

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

*Ecological risk factors*

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

*Financial reporting risk and internal control system*

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

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

## VIII. SIGNIFICANT EVENTS OF THE REPORTING PERIOD

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

***Significant events of the year 2018***:

On 14 February 2018, Interim unaudited financial results of Litgrid for the twelve months of 2017 were published.

On 1 March 2018, Litgrid was nominated the Leader of energy sector. The nomination was established by business paper „Verslo žinios“, announced in the conference „Verslo valdymas 2018: pergalių vadyba“. 6 main indicators were measured: profit, income, the yearly change of both, profitability and average wage of employees.

On 24 April 2018, the Ministry of Energy, the sole shareholder of the holding company EPSO-G, approved the up to date version of the corporate management guidelines of the group of companies of energy transmission and exchange and of the company's Articles of Association, which were registered in the Register of Legal Entities on 30 April 2018. The revision of the corporate management model of EPSO-G was induced by the amendments to the Law of the Republic of Lithuania on Companies. Pursuant to them, the management boards of the companies of EPSO-G group, whose shares are traded on a stock exchange will be strengthened by providing them with supervisory functions. Following the replenishment of the liabilities, the composition of the Management Boards of these companies will change – the external members of the Management Board will be appointed instead of the employees of the company's administration currently serving as a member of the Management Board and the number of independent board members will be increased.

On 24 April 2018, in the Ordinary shareholder meeting the decisions regarding 2017 financial year, profit distribution, new version of Articles of Association and recalling Board member were taken.

On 2 May 2018, the Nordic and Baltic Transmission System Operators (TSOs), owners of Nord Pool, Europe's leading power market, announced, the re-organization of the legal structure of the company—separating its market coupling operator's (MCO) functions from the commercial power exchange operator's (PEO) functions, by transferring these functions to individual legal entities. In order to ensure reliable operation, cooperation and cost-saving and control, these two legal entities will be managed by the holding company. The decision on a new governance structure was adopted by the General Assembly of Nord Pool on 19 April 2018. This means that, from 19 April 2018, Litgrid owns 2% (306 shares) of the shares of the holding company Start Up 170 Invest AS, which ultimately holds subsidiaries: Nord Pool AS (MCO activity) and Start Up 170 (PEO activity).

On 11 May 2018, the event Litgrid Report "Creating Value for Society" took place. In the event, Chief Executive Officer Daivis Virbickas presented the results of 2017, answered the questions of the public. The energy challenges were discussed by expert Romas Švedas, about Y generation staff and generational differences – Tomas Nemura. The event was attended by over 80 participants and the broadcast of the event was observed by another 50 people.

On 24 May 2018, the electricity transmission system operator Litgrid AB and Conresta UAB signed the agreement for building the secure data centre and system operations' centre. By the end of 2019, Litgrid will launch a new System Management and Data Security Centre worth EUR 10.183 million (VAT excluded). Investments in it will be financed by the company's funds.

On 13 June 2018, Litgrid informed the Management Board of the Company has approved termination of agreement (signed by parties on 7 August 2018) on the purchase-sale of the shares of Duomenų logistikos centras UAB, a daughter company of LIGRID AB with Telia Lietuva AB, and Lietuvos energija UAB whereby the Company has intended to sell to Telia Lietuva AB 20.36% shares of Duomenų logistikos centras UAB, together with the Company, Lietuvos energija UAB another shareholder of Duomenų logistikos centras UAB, had to sell 79.64% of its shares. The decision to terminate the agreement has been taken by mutual agreement of parties to the transaction, Lietuvos energija UAB, Litgrid AB and Telia Lietuva AB taking into consideration proposal of Telia Lietuva AB.

On 25 June 2018, Litgrid AB concluded a contract for a subordinated loan in the amount of EUR 1.0 million to be granted to TETAS UAB. The three-year loan will be granted for investment and working capital financing.

On 28 June 2018, the President of Lithuania Dalia Grybauskaitė together with the heads of Government of Latvia, Estonia, Poland, and the President of the European Commission Jean-Claude Juncker signed a political agreement on synchronizing the Baltic States' electricity grid with the continental European network through Poland.

On 13 July 2018, the Board of LITGRID AB approved decision to conclude agreements between the parent company EPSO-G UAB and LITGRID AB for the transfer of tax losses for the year 2014 and 2015 for 15% from the total amount of tax loss taken over. Theretofore, the Audit Committee provided an opinion confirming that the transaction was fair in relation to all shareholders of LITGRID AB, as the transfer of tax losses was carried out in accordance with the procedure provided for by the Law on Income Tax and would not affect the Company's financial results.

On 13-18 July 2018, the holding company EPSO-G concluded agreements with Litgrid and Amber Grid for the transfer of tax losses. The agreements were concluded when the Audit Committee of EPSO-G had provided opinion that the transactions were fair in relation to all shareholders of Litgrid and Amber Grid, the transfer of tax losses was carried out in accordance with the procedure provided for by the Law on Income Tax.

On 25 July 2018, the Government of the Republic of Lithuania approved the methodology for calculating and disbursing the maximum amount of one-off compensation for the use of land easement established by law or contract for the benefit of network operators, according to which one-off compensation for the use of land easement established by law or contract for the benefit of the network operator shall be calculated and paid. From 2 August 2018, Litgrid AB accepts applications for one-off compensation from natural and legal persons.

On 1 August 2018, by the decision of the Board of Litgrid, activity of patronized subsidiary Litgrid Power Link Service UAB was suspended and all employees were transferred to Litgrid. It means, that as of 1 of August 2018, exploitation works of Litpol Link and Nord Balt power links are performed by Litgrid.

On 16 August 2018, sleeves exchange works were started by Lithuanian and Swedish operators and company NKT Cables. The purpose of maintenance – ensuring stable performance of power link in log-term perspective.

On 21 August 2018, a symbolic capsule marking the beginning of the construction of Litgrid system management and data security center was launched in Vilnius. It is planned that the building to which system management and data security center will be transferred will be ready for exploitation till the end of 2019. This center will ensure more stable and secure operation of the country's energy system and management of energy flows. After synchronization, the frequency of the power system will be controlled, and the necessary physical and cyber security of the system control center will be ensured.

On 7 September 2018, the Boards performing the supervisory function of Litgrid and Amber Grid patronized by the parent company EPSO-G were formed – following the recommendations regarding Remuneration and Appointments of EPSO-G, shareholders of the companies appointed EPSO-G Finance Director Mr. Algirdas Juozaponis and one new independent member to the Boards of each company. Business and change management professional Dr. Šarūnas Nedzinskas was appointed as independent member to the Board of Litgrid. The shareholders of the companies also approved remuneration terms for the independent members of the Board. Remuneration to the nominated members for the work at the Boards of patronized companies will not be paid.

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

On 27 September 2018, Litgrid AB entered into a cash pool agreement with the parent shareholder EPSO-G, UAB. This means that Litgrid and EPSO-G may lend to each other by using a cashpool, which will allow more efficient use of temporary surplus funds of the group, create an alternative to short-term borrowings from credit institutions and reduce the risk of negative interest rates on positive cash balances in bank accounts. The agreement stipulates that the lending limit of EPSO-G is up to EUR 23 million, and LITGRID AB – up to EUR 20 million. EPSO-G pledges to provide the specified borrowing limit and Litgrid will only borrow money in the event of a positive balance on the bank account.

On 9 October 2018, Baltic TSO's submitted the request to European Commission for the financing of the first stage of the synchronization process with continental Europe. The total amount is EUR 432.5 million. It is expected that EU will finance 75% of the amount. Lithuanian part is EUR 167.45 million. This investment would cover the first of three stages of synchronisation.

On 11 October 2018, European Network of Transmission System Operators for Electricity regional group of continental Europe approved the decision to expand synchronous area into Baltic states. Since then, ENTSO-E started preparing a list of technical requirements to be met by the Baltic countries before joining the continental European energy network. This catalogue of measures should be prepared by the end of the first quarter of 2019.

On 12 October 2018, NordBalt, the operation of power link with Sweden, was restarted two weeks earlier than planned. Aiming to ensure higher accessability for the market and its reliable operation 120 ground cable sleeves were replaced: in Lithuania – 22, in Sweden – 98. The warranty repair was performed by Danish company NKT which took over the warranty obligations from the Swedish company ABB - producer and constructor of a cable.

On 17 October 2018, during the Extraordinary General Meeting of Shareholders of Litgrid AB, the decision was made to elect audit company Deloitte Lietuva UAB as an auditor and remuneration for the audit of financial statements and related servicers was fixed. Following the results of general public tender for the external audit services, Deloitte Lietuva UAB will provide these services to all EPSO-G group companies.

On 3 December 2018, Litgrid AB announced information regarding the publication of interim information and Investor's Calendar for 2019.

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

On 21 December 2018, the Management of Lithuanian and Polish Transmission System Operators, LITGRID and PSE, signed Initial Cooperation Agreement, being the commitment of both TSOs to undertake development activities in the Preparation Phase of the project of construction of new Polish-Lithuanian submarine HVDC cable. During the preparatory phase, actions will be taken on the basis of which investment decisions will be made, the procurement procedure will be announced to purchase the cable laying works and other preparatory works will be carried out. The investment decision should be made in 2020.

## IX. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

On 23 January 2019, the European Commission allocated funding for the synchronization of the Baltic countries' energy system with the continental European network for the first phase. The total value of the project amounts to EUR 432.5 million, EU funding will amount to EUR 323 million.
The renovation and enhancement of the Lithuanian electricity system will require EUR 167 million, of which three quarters of the support is allocated by the EU – EUR 125 million.

## X. SOCIAL RESPONSIBILITY

The transmission system operator Litgrid implements strategic high-value projects of historic significance, which contribute towards ensuring the energy independence of the country, and it is therefore understandable that great works carries with them great responsibility to the society. Support and promotion of a qualitative dialogue with the society is a key priority of the Company‘s daily operations.

The activities of Litgrid are based on the principles of social responsibility, sustainable development, transparency and advanced environmental protection, and documents that define Litgrid's responsibility and are followed in its activities include:

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

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

**Social responsibility in the market: efficient and transparent business**

In order to work responsibly and in accordance with the highest standards of quality, transparency and social responsibility, Litgrid pays particular attention to public procurements involving businesses and organisations providing electrical equipment maintenance, construction and other services.

In 2018, Litgrid organized "Contractors' day" – an informative event for business representatives – potential contractors. During the event, Litgrid representatives presented projects on forthcoming synchronization with the grids of continental Europe, emphasized employee safety and environmental protection requirements for the contractors, overviewed experience of investment projects implementation and planned tenders.

Such meetings encourage the participation of existing and potential partners in open and transparent tenders. It is a great opportunity for market participants to find out about planned works from the first lips, and for the Company – an opportunity to increase the visibility and interest of the projects in progress by encouraging competition between contractors and suppliers.

In addition, this is one of the ways to promote fair and non-discriminatory activities in the market and effective dialogue with its participants. In its activities, the Company focuses on the supervision of public procurement processes and prevention of corruption, as well as on dialogue with contractors and suppliers.

Business decisions and actions are based on the principle of the greatest benefit to the Company, consumers and shareholders. We undertake to avoid any conflicts of interest, which may negatively affect impartial and objective work with Litgrid.

The Company has a regulated procedure for declaring private interests – declarations of interest are submitted by all Company employees. The Company does not tolerate any forms of corruption, acceptance, granting, offer, promise or demand of inappropriate benefits by abusing the position held.

At Litgrid, corruption is considered to be an offer and acceptance of inappropriate privileges, trade in impact or influence, protection and nepotism. The aim is to eliminate the impact of personal interests and gain for personal advantage on decisions being made.

Prevention of corruption by the law is defined as detection and elimination the causes of and conditions for corruption through development and implementation of a system of appropriate measures, as well as deterrence against corruption-related acts.

In order to prevent the occurrence and spread of corruption, LITGRID AB approved the plan of measures to increase transparency (corruption prevention) in 2018, the purpose of which – consistent and efficient development of the Company transparency system, ensuring implementation of prevention and control measures and continuity of the existing ones affecting the most sensitive business areas and increasing transparency within the Company.

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

**Social responsibility in the field of environmental protection**

We are guided by the principle that harmony with the environment in which we work and live in is a basis for the successful operation and development of the company. The following are the principles of our environmental policy:

- We plan routes of new electricity transmission lines in such a way as to minimize harm to people's economic activity and nature.
- We envisage preventive environmental protection measures when designing reconstructed or newly built objects.
- We use environmentally friendly technologies, power-saving equipment.

Procedures for environmental impact assessment or screening are carried out for the electricity transmission lines to be constructed and their conclusions are taken into account in the preparation of technical designs. Environmental protection requirements are set in the design specifications for the construction of new or reconstruction of existing transformer substations and switchyards. In all cases, efforts are made to select such equipment which is less harmful to the environment. For example, in reconstructing substations, oil-consuming equipment is replaced with modern gas equipment. This both reduces the risk of pollution in case of an accident and cuts equipment operating costs.

As the 330 kW transformer substations are switched to remote control with no on-call staff, potentially contaminated rainwater purification systems with automatic oil contaminated flow closure and transmission of information to the System Management Centre are installed. Contractors are obliged to organize works in such a way as to eliminate or reduce any impact on the environment and to arrange construction waste, to record and declare imported taxable packages and to provide supporting documentation.

When procuring works, contractors are required to have the Environmental Management Systems according to LST EN ISO 14001 in place. When accepting completed works, contractors' compliance with the requirements is checked including waste management and relevant documentation.

Environmental monitoring of LitPol Link, an interconnection between Lithuania and Poland, which was started in 2016, was continued last year. In spring and autumn, accumulations of migrating geese and waterfowl were recorded in the established monitoring points. The monitoring of protected amphibians, reptiles, turtles and their natural habitats was also carried out as required by the monitoring programme.

A programme for monitoring the environmental impact of the newly built electricity transmission line Kruonis PSHP-Alytus was prepared, according to which the monitoring will be carried out in 2019-2021.

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

In 2018, in cooperation with the Lithuanian Ornithological Society, Litgrid implemented the project Implementation of Bird Protection Measures in the Lithuanian High-Voltage Electricity Transmission Grid, which was co-financed by the European Commission and the Ministry of Environment.

The objective of this project is to reduce the number of deaths of migrating birds, improve breeding conditions of kestrels in Lithuania, monitor bird death cases in the high-voltage electricity transmission network, and provide recommendations for the bird protection.
Implemented activities:

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

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

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

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

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

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

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

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

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

**Energy saving, waste management and sorting**

In line with the principles of climate change, sustainable development and pollution prevention, the Group's companies implement activities reducing energy consumption and greenhouse gas emissions, pay attention to waste monitoring, sorting, hazardous waste management, promote rational management and use of water, paper, energy and other resources.

Electricity saving is an important aspect of both environmental and sustainable development and operational efficiency. Since the signing of the energy saving agreement between the group of companies EPSO-G and the Ministry of Energy in 2017, the transmission system operator Litgrid has saved 69.43 GWh of electricity.

Under this agreement, by 2020 Litgrid pledged to save nearly 146.6 GWh (0.146 TWh) and the entire EPSO-G group of companies – 269.2 GWh.

In the Company, employees are encouraged to sort waste: special containers for glass, plastic and paper sorting are built in common areas. Plastic packaging is also collected and returned for recycling.

**Social responsibility in relations with the society**

**The Company pays great attention to maintaining open and constructive relations with the society.**
The Company has approved the Sponsorship and Charity Policy, but in 2018, the Company did not grant support under it. Litgrid implements social responsibility through employee initiative and volunteering.

During summer event for the Company's employees, the charity auction was organized – employees proposed symbolic goods and business gifts received during the year for purchase at the highest price for colleagues, and collected funds were allocated to Pivašiūnai Children's Day Centre "Support for Family" for the excursion in Vilnius.

On 6 November, the Company's employees organized the cake day – they baked cakes and everyone who tasted them was invited to donate money. In December, children from Alytus Children's Day Centre have visited Litgrid office where opened their photography exhibition, communicate to the employees, learned how to create jewellery, visited the System Control Centre, and learned how electricity distributed through the grid and how to treat it safety.

On the occasion of the Energy Day, the Company cherishes a tradition – every year in the chosen Lithuanian region, in a wooded territory where Litgrid is engaged in its activities – where overhead lines are built, substations are installed, etc., the Company is planting trees. Last year, Company's employees were planting trees in the sighing Gediminas forest in the Alovė municipality.

By 2018, Litgrid employees already planted more than 11 thousand of spruce, pine and birch trees in such areas.

The current flowing through the power transmission lines that Litgrid oversees is approximately 500 times higher than that at home. An electric discharge may occur if a safe distance is not maintained and you come too close – high voltage electricity can hit at a distance.

Therefore, Litgrid constantly reminds contractors working on the power grid of the necessity to observe employee safety requirements. In addition, controls are also applied – the Company's representatives are going to the places where contractors perform works and verify compliance with the safety requirements of the works, and if deficiencies are detected, the work is terminated.

The Company carried out information campaigns in regional media and social networks – information about safe behaviour is presented by infographics and feature video films.

Litgrid carries out educative and training activities and attracts future interns and employees by introducing electric power system to the schoolchildren, students and other interested persons.

Litgrid organizes tours for groups of 8 to 20 people. They take place at the System Control Centre (dispatcher office) in Vilnius, converter stations LitPol Link in Alytus and Nord Balt in Klaipėda.

Tours are guided by Litgrid special prepared employees who explain properly and clearly what is electricity, how dispatchers work in the System Control Centre, how to treat electricity safety.

In 2018, tours were visited by Vilnius schoolchildren, students from Kaunas University of Applied Engineering Sciences, Vilnius College of Technologies and Design, Vilnius Gediminas Technical University, foreign delegations, representatives of National Audit Office of Lithuania and Lithuanian Armed Forces for whom especially important to get understanding about operation of power system as a strategic resource. It is counted that on the average 2 tours took place each month in 2018.

At least once a year, Litgrid presents financial and non-financial activity reports in public to the holders of interests – shareholders and social partners.

**Social responsibility in relations with employees**

Litgrid employees are united and their interests are represented by the Trade Union of Employees of the Electricity Transmission Network. In order to achieve closer cooperation and partnership, it was agreed in 2018 on the periodic meetings between trade union representatives and company management to discuss issues of mutual interest.

At the end of the year of 2018, there were 96 members in the Trade Union of Employees of the Electricity Transmission Network, which is more than one third of the Company's employees.

On 20 February 2018, an updated Collective Agreement between Litgrid and the newly established trade union of Company employees was signed. The document defines and ensures a fair remuneration policy and balance between work and rest, and regulates social and economic relations between the employer and the employee. The Collective Agreement also contains provisions on how the Company supports employees when important or painful life events occur.

**INFORMATION ON COMPLIANCE WITH TRANSPARENCY GUIDELINES**

The company Litgrid AB complies with the policy of transparency and communication of the activities of EPSO-G UAB group of companies (adopted in full on 25 August 2017) with a detailed regard to requirements set out in the Transparency Guidelines and their established application for EPSO-G UAB group of companies.

The implementation of the Transparency Guidelines by Litgrid AB is materially ensured through information disclosable in the annual report and ant the disclosure of the information on the Company's website and reports at NASDAQ stock market aiming to submit the information for stakeholders in an accessible and understandable format.

Structured information on the implementation of the Transparency Guidelines by Litgrid AB:

| **I. Transparency Guidelines** | |
|---|---|
| **Information subject to publication on the website:** | |
| • Objectives and tasks of the Company set by the shareholder; | In progress |
| • Financial results; | In progress |
| • Performance results; | In progress |
| • Current number of employees; | In progress |
| • Annual wage fund; | In progress |
| • Monthly salary of heads of the Company and heads of department; | In progress |
| • Purchases and investments completed in the financial year, still in progress and planned; | In progress |
| • Information published on the website before April 30 on special responsibilities still in progress, annual financial statements reports issued by an independent auditor. | In progress |

| Other requirements subject to publication / implementation in the annual report and the set of financial statements: | |
|---|---|
| • The accounting shall be administered according to the International Financial Reporting Standards. | In progress |
| • The set of annual financial statements shall be audited in conformity with international auditing standards. | In progress |
| • The annual report shall be published on the website before April 30. | In progress |
| • The annual report of the Company shall include: | |
| - Operational strategy and objectives (financial and non-financial), in case it is not a commercial secret of SOE (if SOE's operational strategy and objectives contain information treated as a commercial secret, a shortened version of the operational strategy and objectives excluding this information is specified (submitted); | In progress |
| - Compliance of the operational results with the operational objectives; | In progress |
| - Major events of the reporting period essential for the activities; | In progress |
| - Information on the market of the rendered services or manufactured production, in case it is not a commercial secret; | In progress |
| - Major clients and their major groups, in case it is not the Company's commercial secret. If the Company discloses the segment information, the major clients shall be listed according to separate segments; | In progress |
| - Investments of the reporting period, the largest investment projects being performed or planned; | In progress |
| - The general annual wage fund, the average monthly salary according to a position and (or) departments; | In progress |
| - Social, environment protection initiatives and policy in progress; | In progress |
| - Information on the compliance with the provisions of the Transparency Guidelines: the way they are being implemented, the provisions that are failed to be complied with and reasoning are indicted; | In progress |
| - Major financial criteria describing the activity (profitability, liquidity, efficiency of the assets use), their fluctuation within 3 years; | In progress |
| - Management bodies; | In progress |
| - Information on the performed audit of the annual financial statements (the auditing entity, remuneration for the auditing); | In progress |
| - Other important information emerged before the publication date of the annual report affecting the activities of the state-owned enterprise; | In progress |
| - Information and statements subject to disclosure by listed companies in accordance with of the Law on Financial Reporting of the Republic of Lithuania and the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius in the annual report; | In progress |
| - Dividend policy; | In progress |
| - Information on the implementation of the operational strategy and objectives (financial and non-financial). | In progress |
| **The Ministry of Energy together with the annual report shall be submitted the following:** | |
| - Information on last year's salaries of the heads of the Company, | In progress |
| - Assessment indicators of the performance results applicable for the establishment of a variable component of the monthly salary of the heads of the Company, performance of these indicators, the variable component of the monthly salary established for the heads of the Company (in euros and a fixed component of the monthly salary established for the heads of the Company, %) and paid out variable component of the monthly salary established for the heads of the Company (in euros and a fixed component of the monthly salary established for the heads of the Company, %). | In progress |
| **Interim report** | |
| - 1st and 2nd category state-owned enterprises shall draw up an interim report for six months, which shall be published on NASDAQ stock market page before August 31. The interim report briefly presents the most important information on the indicators describing the operations of the state-owned enterprise and their changes in comparison with the last periods. | In progress |
| - A set of interim financial statements for the six months, published on NASDAQ stock market page before August 31, shall be drawn up. | In progress |

Article 10 of the Transparency Guidelines provides that SOE shall follow the provisions of the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius (hereinafter – the Code of Governance)[1] regarding the disclosure of information, other provisions detailing the principles set out in the Code of Governance with regard to public disclosure of information. Considering that the Company is part of EPSO-G companies and follows common principles, we hereby provide the structured information on the information disclosure requirements set out in the Code of Governance.

| **II. The implementation of the requirements of the Code of Governance regarding the information disclosure** | |
|---|---|
| The Company's governance system should ensure that the information on all substantial Company's issues, including the financial situation, operations and the Company's governance, be disclosed in a timely and accurate manner. | In progress |
| Information should be disclosed in a way that the shareholders or investors are not discriminated with regard to the method of receipt of information as well as its extent. The information should be disclosable for all and simultaneously. | In progress |
| In case the auditing company was remunerated by the Company for non-audit services, the Company should disclose the fact publicly. This information should also be available for disposition of the Company's Supervisory Board, and in case it is not formed in the Company – for the disposition of the Board of the Company when considering the suggestion of the candidacy of an auditing company for the General Meeting of Shareholders. | In progress |
| Without prejudice to the Company's confidential information and commercial secrecy procedures, as well as the requirements of the legislation governing the processing of personal data, the Company's public disclosures should include, but should not be limited to: | In progress |
| • The Company activities and financial results; | In progress |
| • Objectives of the Company activities and non-financial information; | In progress |
| • Persons owning or holding a block of shares or directly and / or indirectly and / or together with the related persons controlling it, and the structure of the group of companies and their interrelationship by indicating the final beneficiary; | In progress |
| • Members of the Company's supervisory and management bodies, who are considered to be independent, the head of the Company, their owned shares or votes in the Company and their participation in the management of other companies, their competence, remuneration.<br><br>When disclosing the above information, we recommend providing information about the professional experience, qualifications and potential conflicts of interest of the members of the Company's supervisory and management bodies, the head of the company that could affect their decisions. It is also recommended to disclose the remuneration received from the Company or other income of the members of the Company's supervisory and management bodies, the head of the Company, as it is regulated in more detail in Principle 7 of the Code of Governance. | In progress |
| • Reports by the existing committees on their composition, the number of meetings and member attendance at meetings in the previous year, as well as on the lines of their main activities and performance results; | In progress |
| • Potentially foreseen risk factors, the Company's risk management and supervision policy; | In progress |
| • The Company's transactions with related parties; | In progress |
| • Key issues related to employees and other stakeholders (for example, human resources policy, employee involvement in the Company's governance, promotion using the Company shares or stock options, relationships with creditors, suppliers, local community etc.); | In progress |
| • The Company's governance structure and strategy; | In progress |
| • Social responsibility policy, anti-corruption initiatives and tools, important ongoing or planned investment projects. | In progress |

[1] On 15 January 2019, Nasdaq Vilnius AB at the Board Meeting, the Minutes No 19-63, approved "The Corporate Governance Code for the Companies Listed on NASDAQ Vilnius"

| | |
|---|---|
| It is recommended that the documents prepared for the General Meeting of Shareholders be published in advance not only in Lithuanian, but also in English and / or other foreign languages. It is also recommended to publicly publish the minutes of the General Meeting of Shareholders after its signing and (or) the decisions made not only in Lithuanian but also in English and / or other foreign languages. It is recommended that this information be published on the Company's website.<br><br>Publicly available documents may not be published in full scope if their publication could harm the Company or reveal the commercial secrets of the Company. | In progress |
| The remuneration policy published on the Company's website. | In progress |
| The Company should publish on the Company's website information on the implementation of the remuneration policy, which mainly should focus on the remuneration policies of collegial bodies and managers for the upcoming and, where appropriate, subsequent financial years. It should also review in what way the remuneration policy was being implemented in the previous financial year. The information of such nature should not contain information of commercial value. Special attention should be paid to the fundamental changes in the Company's remuneration policy as compared to the previous financial year. | In progress |
| Publication of the Summary of the Governance Report of the Companies and in the Governance Report (structured table) on how the Company complies with the Code of Governance.<br><br>In order to enable the Company to provide a portion of information about its governance in a free form and to highlight the most important issues, the Company in the Summary of the Governance Report of the Companies should provide essential information about the management procedures effectual in the Company (for example, this may include information on the joint management scheme, internal control and risk management systems, shareholders' rights, management and supervisory bodies and their committees, administration or other key issues related to the management of the Company).<br><br>The Company should clearly, accurately and comprehensibly report in the Governance Report on the specific Corporate Governance Code recommendations it has deviated from, and in case of any deviation it should be clarified as it is set out in Part 2 of disclosure form of the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius. | In progress |

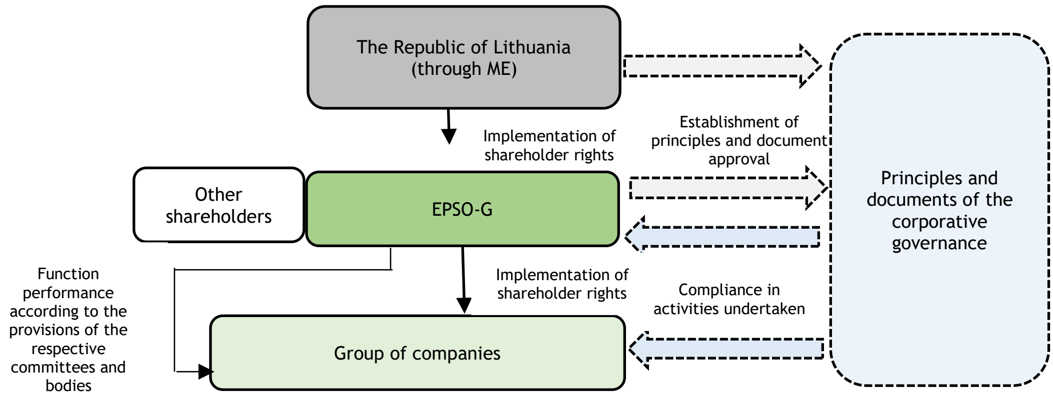
**LITGRID AB Notice of Compliance with the Code of Corporate Governance for Companies Listed on NASDAQ OMX**

The limited company LITGRID AB (hereinafter – **the Company**), following the Article 22(3) of the Law on Securities of the Republic of Lithuania and Item 24.5 of the Listing Rules of AB Nasdaq Vilnius, discloses its compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius, and 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 the reasons of non-compliance, as well as other provided explanatory information provided for in this form.

**1. Free-form summary of the corporate governance statement:**

Amber Grid AB belongs to EPSO-G UAB group of companies (hereinafter – the Group). The Articles of Association of the Company, the corporate governance guidelines of EPSO-G UAB group of companies approved on 24 April 2018 by the sole shareholder of the parent company EPSO-G UAB – the Ministry of Energy (ME) and the policy of the corporate governance of EPSO-G UAB group of companies determine corporate governance structure, governance model. All the above documents are made publicly available on the Company's website and EPSO-G UAB website. All documents mentioned 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 documents of the corporative governance 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 EPSO-G UAB);
- Committees operating at the Group level:
  - Remuneration and Appointment Committee (majority of the independent members);
  - Audit Committee (majority of the independent members);
- Chief Executive Officer.

A corporate governance reform was carried out in 2018:

- The Board of Supervisors operating at the Group level was dissolved;
- Obligation imposed on the Board to be in charge of the supervisory functions;
- Executive members resigned from the Board of the Company – instead the number of independent members and members nominated by the parent company was increased.

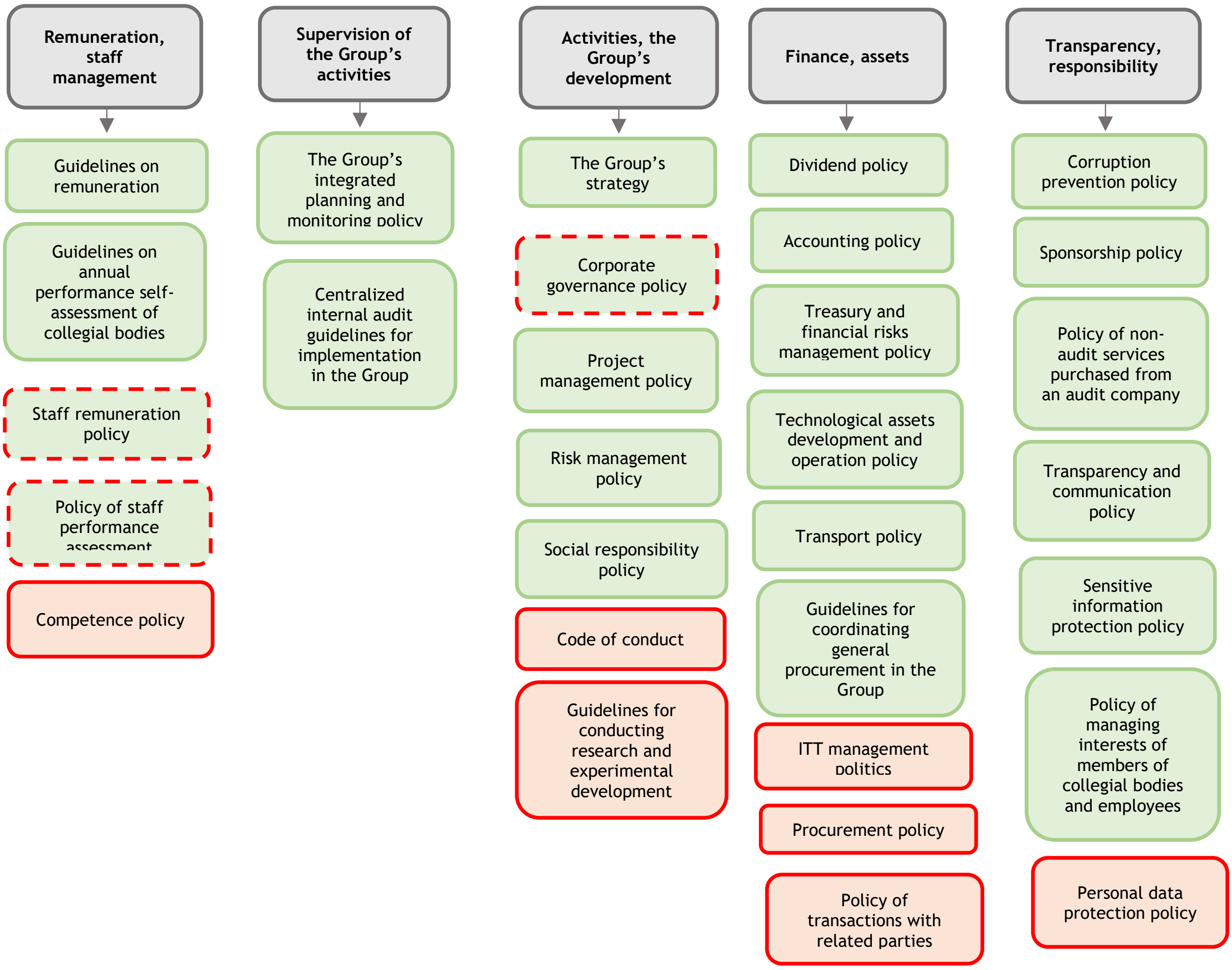
After the completed corporate governance reform, the Company employs he corporative governance model mostly used in the Northern European countries (Finland, Sweden, Norway, Denmark), when one collegial body is formed, accountable to the General Meeting of Shareholders (single-stage governance model). The organisational and management structure has become simpler, more efficient and further complies with the highest standards of governance. With the executive members absent from the Board, a high transparency level of decision taking is ensured, while the number of interest conflicts is reduced. As the Board performs the supervisory function, such model creates better precondition for executing the control due to the greater engagement of the Board and available information.

The Group has a centralised internal audit. In order to ensure the independence of the internal audit, it is established that the Head of the internal audit is being appointed and dismissed by the Board of EPSO-G UAB, 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; the internal audit approves the action plan for implementing the recommendations.

On the basis of the policy of risk management of EPSO-G UAB 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 were made and a new Group policy was adopted in 2018.
- A new Group policy was approved in 2018.

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 I: The general meeting of shareholders, unbiased treatment of shareholders and shareholders' rights.** The corporate governance system should ensure unbiased treatment of all shareholders. The corporate management governance should protect the shareholders' rights. | | |
| 1.1. All shareholders should be afforded equal opportunities for familiarisation with and participation in the adoption of decisions important for the company. | **YES** | Pursuant to the Republic of Lithuania Law on Companies and the chapter IX of the Articles of Association, publicly available information about convening a general meeting of shareholders, draft decisions and decisions taken, in Lithuanian and English, is published on the Company's website and NASDAQ OMX Vilnius. |
| 1.2. It is recommended that the company's capital consists only of those shares that grant equal right in terms of voting, ownership, dividend etc. to their holders. | **YES** | The Articles 13-15 of the Articles of the 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 are afforded the opportunity of early (i. e. prior to purchase of shares) familiarisation with the rights attached to newly issued or existing shares. | **YES** | Refer to the comment 1.2.<br><br>In additions, shareholders' rights and responsibilities have been set by Chapter IV of the Company's Articles of Association. |

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| 1.4. Due to the extremely important exclusive contracts, such as all or nearly all the company's assets transfer, that would basically mean transfer of a company consent of the general meeting of shareholders should be obtained. | **YES** | The Article 38 of the Articles of the Association of the Company defines cases in which the Board takes a decision on the transfer of the Company's assets by a decision of the General Meeting of Shareholders. |
| 1.5. Procedures for the organisation and participation of general meetings of shareholders should provide equal opportunities for the shareholders to take part in the meeting and should not infringe the shareholders' rights and interests. The selected place, date and time of the meeting should not prevent the shareholders from active participation in the meeting.<br>In the notice on convening the General Meeting of Shareholders, company should indicate the closing date when the proposed draft decisions could be submitted at the latest. | **YES** | Every time on convening the General Meeting of Shareholders, the shareholders' rights are listed on the Company's website. |
| 1.6. In order to ensure the foreign shareholders' right to get conversant with the information, it is recommended that the documents prepared for the General Meeting of Shareholders, where possible, are published in advance on a publicly accessible website of the company in Lithuanian and English and/or other languages. The signed minutes of the meeting and/or decisions should also be published on a publicly accessible website of the company in Lithuanian and English and/or other languages. A document may be published on the company's website in a reduced scope if full publication could damage the company or trade secrets of the company would be disclosed. | **YES** | Refer to the comment 1.1. |
| 1.7. The shareholders should be provided the opportunity to vote at the General Meeting by attending or not attending the meeting in person. There should be no obstacles for the shareholders to vote in advance by completing the general ballot. | **YES** | In standard notice on convening the General Meeting of Shareholders, the possibility for shareholders to vote in writing by filling out the attached ballot form is always stated. |
| 1.8. In order to increase the shareholders' opportunities for participation in the General Meetings, the companies should seek to more widely apply modern technologies and to enable the shareholders to attend and vote at the general meetings by means of electronic communications. In such cases security of the information transmission and the possibility of identification of the participants and voters must be ensured. | **NO** | In standard notice on convening the General Meeting of Shareholders, it is always stated that the participation and voting by electronic means will not take place.<br>So far there is no need to vote by electronic means.<br>Upon requests by the shareholders, the introduction of such a voting option would be considered. |

(All amounts are in EUR thousands unless otherwise stated)

| | | |
|---|---|---|
| 1.9. In the notice on convening the General Meeting of Shareholders draft decisions, it is recommended to disclose new candidates for collegial body, proposed remuneration, proposed audit firm, if those issues are included in to the agenda of the General Meeting of Shareholders, where a proposal is made for the election of a member of a collegiate body, it is recommended to disclose information regarding his education, work experience and managerial positions held (or offered to occupy). | **YES** | Standard notice on convening the General Meeting of Shareholders always encompasses draft decisions with a compulsory information in accordance with the Law on Companies of the Republic of Lithuania, including candidates of new collegial bodies, their offered remuneration, a proposed audit company and its offered remuneration.<br><br>Information on a proposed candidate of the collegial body is not published publicly, however the standard notice on convening the General Meeting of Shareholders at all times specifies that, in addition, the shareholders may get acquainted with documents related with the agenda of the meeting, decision projects, a general voting paper at the premises of LITGRID AB, at the following address: A.Juozapavičiaus str. 13, Vilnius, Room 141, during business hours of the Company (7:30-11.30 a.m., 12:15-4:30 p.m., on Fridays 7.30-11.30 a.m. and 12:15-3:15 p.m.). |
| 1.10. Members of a collegiate body, heads of administration[2] and other competent persons linked to the company that are able to provide information related to the agenda of the General Meeting of shareholders, should attend the General Meeting of Shareholders. The proposed candidates to the collegiate body should also attend the General Meeting of Shareholders if election of new members is included to 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. |

[2] Within the meaning of this Code, heads of administration are the employees of the company having senior management positions.

**PRINCIPLE II: The Supervisory Board**

**2.1. Duties and responsibilities of a Supervisory Board**

The Supervisory Board of the company should ensure interests of company and its shareholders, accountability of the body to shareholders, and objective and unbiased supervision over activities of the company and its management bodies, also should constantly make recommendations to the company's management bodies.
The Supervisory Board should ensure integrity and transparency if the financial accounting and control system of the company.

| | | |
|---|---|---|
| 2.1.1. Members of the Supervisory Board should act for the benefit and in the interests of the company and shareholders in good faith, carefully and responsibly, taking account of the employees' interests and public welfare. | **Irrelevant** | The Supervisory Board is not formed in the Company. |
| 2.1.2. Where decisions by the Supervisory Board may have different effects on different shareholders, the Supervisory Board must treat all the shareholders without bias. It should ensure that the shareholders are duly informed about the company's affairs, strategies, risk management and resolution of conflicts of interest. | **Irrelevant** | - |
| 2.1.3. The Supervisory Board should be independent in adopting decisions that are significant for the company's activities and strategies. Work and decisions by the Supervisory Boards should not be influenced by the persons that elected it. | **Irrelevant** | - |
| 2.1.4. Members of the Supervisory Board should clearly express their objections in cases when, in their opinion, decision by the collegiate body may be harmful to the company. Independent members of a Supervisory Board should: a) maintain independence of their analyses, decision adoption and actions under any circumstances; b) do not seek and do not accept unjustified preferences that might compromise their independence. | **Irrelevant** | - |
| 2.1.5. The Supervisory Board should monitor that the company's tax planning strategies should be created and implemented in accordance with the law, to avoid insidious practices unrelated with long-term interests of the company and its shareholders, which could lead to reputation, legal and other risks. | **Irrelevant** | - |
| 2.1.6. The company should ensure that the Supervisory Board is provided with sufficient resources (including financial) necessary for the performance of their duties including the right to obtain all the requisite information and the right to approach external law, accounting or other professionals for advice on the matters falling within the scope of competence of the Supervisory Board and its committees. | **Irrelevant** | - |

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| **2.2. The Formation of the Supervisory Board**<br>The procedure for the formation of the Supervisory Board should ensure resolution of conflicts of interest and the corporate management effective and in good faith. | | |
| 2.2.1. The members of the Supervisory Board elected by General Meeting of Shareholders should collectively ensure the range of qualifications, professional experience and expertise, ensure the diversity of qualifications, professional experience and competences, also seek a gender balance. In order to maintain a proper balance of qualifications of Supervisory Board members, the body should ensure that its members as a whole should possess comprehensive knowledge, views and experience for the proper performance of their tasks. | **Irrelevant** | - |
| 2.2.2. Members of the Supervisory Board should be appointed for a defined term, with the opportunity for individual re-election to ensure the growth in professional experience. | **Irrelevant** | - |
| 2.2.3. The Chairman of the Supervisory Board must be a person whose current or previous position is not an obstacle to be impartial in carrying out activities. Former head of the company or the member of the board should not be immediately appointed as a chairman of the Supervisory Board. Where the company decides not to follow these recommendations, information about measures taken to ensure unbiased supervision should be provided. | **Irrelevant** | - |
| 2.2.4. Each member of a Supervisory Board should devote sufficient time and efforts to the performance of his duties in a Supervisory Board. Each member of a Supervisory Board should undertake to limit his other professional obligations in particular the duties of a director of another company so that they do not hinder the performance of his duties as a member of the Supervisory Board. If a member has attended less than one half of the meetings of the Supervisory Board during the company's financial year, the shareholders should be notified thereof. | **Irrelevant** | |
| 2.2.5. Where a proposal is made for the election of a member of a Supervisory Board, it should state which members of the Supervisory Board are considered independent. The Supervisory Board may decide that a certain member cannot be considered independent due to particular personal or the company-related circumstances, even though he meets all the independence criteria. | **Irrelevant** | - |
| 2.2.6. Members of a Supervisory Board may be remunerated for their work and attendance of meetings of the body out of the company's funds. The size of the remuneration should be approved by the General Meeting of Shareholders. | **Irrelevant** | - |
| 2.2.7. Supervisory Board members have annual assessment of their performance. It should include the structure of the Supervisory Board, organization of work and evaluation of the ability to operate as a group, also each members' of Supervisory Board skills and efficiency assessment and whether the Supervisory Board has achieved its operational objectives. The Supervisory Board should announce information on its internal structure and operating procedures at least once a year. | **Irrelevant** | - |

| | | |
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| **PRINCIPLE III: The Board**<br>**3.1. *Roles and responsibilities of the Board***<br>The Board should ensure company's strategy implementation, also good company's governance, taking into account interests of shareholders, employees and other interest groups. | | |
| 3.1.1. The Board should ensure the implementation of the company's strategy, as approved by the Supervisory Board, if it is established. In cases where the Supervisory Board is not formed, the Board is also responsible for approving the company's strategy. | **YES** | The Article 7.19 of the Articles of the Association of the Company defines that the Board approves Company's Strategy. Also, the Board regularly reviews reports on its performance as a supervisory function. |
| 3.1.2. The Board, as a collegial management body of the company, performs the functions assigned to it by the Law and the Articles of Association of the company, and in those cases when the Supervisory Board is not formed in the company, inter alia performs supervisory tasks defined by law. The Board, in fulfilling the responsibilities allocated to it, should take into account the needs of the company, shareholders, employees and other interest groups, respectively to achieve sustainable business development. | **YES** | The Article 7.3 of Articles of Association of EPSO-G UAB provides that the Board performs supervision functions. |
| 3.1.3. The Board should make sure that there will be compliance with the law and the company's internal policies, applies to the company or group of companies to which the company belongs. It should also set up appropriate risk management and control measures to ensure regular and direct management accountability. | **YES** | The Article 7.19 of the Articles of the Association of the Company defines that the Board considers Group documents (e.g. guidelines, policies, procedures, etc.) and decides on the applied scope in the Company.<br>Also, on different cases, the Board appoints COE to provide regular reports on the indicators followed by the Board (e.g. Company's strategy, activity plan, budget etc.). |
| 3.1.4. The Board should also ensure that the company incorporates measures included in the OECD's Best Practices[3] for Internal Control, Ethics and Compliance, to comply with applicable laws, regulations 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:<br>- internal audit is accountable to the Board which is formed from external members (2 members are independent);<br>- the Audit Committee is composed of the majority of independent members, who are also accountable to the Internal Audit;<br>- the Company has a Code of Conduct, Corruption Prevention policy, Sponsorship and Charity Policy, Policy of Interests Management, Risk Management, Transparency and Communication Policy of EPSO-G UAB etc. |

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

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| 3.1.5. When appointing the head of the company, the Board should take into account the suitable candidate qualifications, experience and expertise balance. | **YES** | The Article 54 of the Articles of the Association of the Company defines that Company's CEO is appointed by the Board taking into account the recommendations of the Remuneration and Appointment Committees.<br><br>The Article 7.19 of the Articles of the Association of the Company defines that the Board assessing the suitability of the candidate for the CEO post, assesses his degree of compliance with these Articles of Association and legal requirements and for this purpose may require the candidate to provide supporting documentation and/or contact the competent authorities for the necessary information on the candidate. |

| **3.2. Formation of the Board** | | |
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| 3.2.1. The Supervisory Board or the General Meeting of Shareholders, if the Supervisory Board is not being formed, elected members of Supervisory Board should collectively ensure the diversity of qualifications, professional experience and expertise, also seek a gender balance. In order to maintain a proper balance of qualifications of Board members, the body should ensure that its members as a whole should possess comprehensive knowledge, views and experience for the proper performance of their tasks. | **YES** | The Article 28 of the Articles of Association of the Company provides that upon the election of the members of the Supervisory Board it shall be ensured that the Board is composed of at least 2 (two) independent members, whose independence shall be determined in the Governance Code and in criteria embedded in the policy of managing interests of members of collegial bodies, managers and employees of the Group (hereinafter – the policy of managing interests) and the requirements of other applicable legislation; it shall be ensured that no less than 3 (three) members of the Board shall be unrelated by employment relationship with the Company and, if possible, that the Company's employees shall not be appointed to the Board; it is also intended that the members of the Board shall have competencies, taking into account the responsibilities and functions of the Board.<br>The selection of Company's Board Members is carried out by the Remuneration and Appointment Committee in accordance with approved competence of the Board matrix.<br>The Board members have a yearly assessment of their performance. In addition, Remuneration and Appointment Committees evaluates the performance of the Board on an annual basis with recommendations on performance improvement. |

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| 3.2.2. Names, education information, qualifications, professional experience, information on current position, other important professional obligations and potential conflicts of interests of candidates to members of Supervisory Board should be disclosed without prejudice to the requirements of the law governing the processing of personal data in the meeting of Supervisory Board, where the board or its individual members will be elected. If the Supervisory Board is not formed, the information given in this point should be submitted to the General Meeting of Shareholders. The board should collect the disclosed information on members and include them in its annual report. | **YES/NO** | The 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 Board should be informed of their responsibilities, the company's structure and activities. | **YES** | During the first meeting Board members are introduced to the Company's structure and operations, get familiar with the Company's corporate documents. |
| 3.2.4. Members of Supervisory Board should be appointed for a defined term, with the opportunity for individual re-election in order to ensure the growth in professional experience and sufficient re-approval of their status.<br>. | **YES** | The Article 7.19 of the Articles of the Association of the Company defines that The Board is a collegial management body of the Company consisting of 5 members. The Board members are elected by the General Meeting of Shareholders for which the Board is accountable, taking into account the recommendations of the Remuneration and Appointment Committee for a four-year term of office. The uninterrupted term of office of a member of the Board shall not be longer than 2 full terms of office, i.e. no more than 8 consecutive years. |
| 3.2.5. The Chairman of the Board must be a person whose current or previous position is not an obstacle to be impartial in carrying out activities. When the Supervisory Board is not formed, former head of the company should not be immediately appointed as a chairman of the board. Where the company decides not to follow these recommendations, information about measures taken to ensure unbiased supervision should be provided. | **YES** | The Article 29 of the Articles of the Association of the Company provides the criteria for which a person cannot be elected as a member of the Board at all.<br><br>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. |

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| 3.2.6. Each Board member should devote sufficient time and efforts to the performance of his/her duties. If a board member has attended less than one half of the meetings of the board during the company's financial year, the shareholders should be notified thereof, if the Supervisory Board is not formed in the company – then the General Meeting of Shareholders. | **YES** | The Company's protocols record the attendance of the Board members and voting in decision-making process.<br><br>As described in the Article 52 of the Articles of the Association of the Company, each Board member performs his/her performance appraisals, the results of which are submitted to the shareholders and Remuneration and Appointment Committee. The participation of the Board in the meetings is set out in the annual report. |
| 3.2.7. If in cases stipulated by Law upon electing the Board, when the Board of Supervisors is not established, a part of its members shall be independent[4]; it should be stated which members of the Board are considered independent. The Board may decide that a certain member cannot be considered independent due to particular personal or company-related circumstances, even though he meets all the independence criteria. | **YES** | The Company's website and annual report contain information about the members of the Board of the Company, specifying independent members. |
| 3.2.8. Members of the Board may be remunerated for their work and attendance of meetings. The size of the remuneration should be approved by the General Meeting of Shareholders. | **YES** | The Article 34 of the Articles of the Association of the Company defines that the General Meeting of Shareholders may, by its decision, determine that members of the Board shall be remunerated. |

[4] Within the meaning of this Code, the independence criteria of the Board members are understood in a way they are set out in Article 33 (7) of the Law on Companies of the Republic of Lithuania for unrelated persons.

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| 3.2.9. Members of the Board should act in good faith, diligently and responsibly for the benefit of the company and its shareholders and represent their interests, taking into account other stakeholders as well. They should not seek personal interest in decision-making, should be a subject to non-compete agreements, and should not violate the company's interest in using business information and opportunities that are relevant to the company's business. | **YES** | Taking into account the objective to monitor the absence of conflicts of interest of the members of the Board of the Company, each year the members of the Board renew their declarations of interests.<br><br>In addition, Article 33 of the Articles of Association of the Company stipulates that members of the Board may perform other work or take other positions that are compatible with their activities on the Board, including, but not limited to, the exercise of managerial positions in other legal entities, employment in the state or statutory office, duties in the Company and other legal entities (in accordance with restrictions established in Article 29 of the Articles of Association), as well as legal entities the part of which is the Company or the parent company, only after informing the Board of the Company in advance.<br><br>The Company has EPSO-G UAB policy on managing interests of collegiate bodies, management and employees.<br><br>The Board members have signed commitments to protect confidential information.<br><br>Non-competition agreements were not concluded with the Board members, as the Company is involved in monopolistic activities, so there is no need for this. |

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| 3.2.10. Every year the Board should make an evaluation of its operations. It should include an assessment of the Board's structure, organization of work and ability to act as a group, as well as an assessment of the competence and work efficiency of each Board member, and an assessment of whether the Board has achieved its operational objectives. The Board should make information on its internal structure and operational procedures available to the public at least once a year, without prejudice to the requirements of the law governing the processing of personal data. | **YES** | The Board makes an evaluation of its operations every year and on the basis of it prepares a performance improvement plan.<br><br>In addition, the Remuneration and Appointment Committee and the Audit Committee acting at the level of EPSO-G UAB group of companies evaluate annually the decisions made by the Board and make recommendations for performance improvement.<br><br>The results of the Board's performance evaluation are included in the Company's annual report. |

| **PRINCIPLE IV: Working procedures of company's Supervisory Board and the Board**<br>The company has established the working procedure of the Supervisory Board, if it is formed, and the Board. It should ensure effective work of these bodies and decision-making, and promote active cooperation of the company's bodies. | | |
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| 4.1. The Board and the Supervisory Board, if it is formed, should cooperate closely to benefit both the company and its shareholders. Good corporate governance requires an open discussion between the Board and the Supervisory Board. The Board should inform the Supervisory Board on a regular basis and, if necessary, without delay, of any significant issues related to planning, business development, risk management and control, compliance with obligations within the company. The Board should inform the Supervisory Board of any actual deviations from the previously formulated plans and objectives for the development of the business, stating the reasons. | **Irrelevant** | The Supervisory Board is not formed in the Company. |
| 4.2. It is recommended that meetings of Collegiate Bodies of the company are convened at relevant intervals under an approved schedule. A company decides itself on the periodicity of the meetings, however, it is recommended that the periodicity should ensure continues resolution of key issues of corporate management. Meetings of the Collegiate Bodies should be convened at least quarterly. | **YES** | The Article 45 of the Articles of the Association of the Company stipulates that the Board adopts its decisions at the Board's meetings that are usually convened as often as it is needed so that the Board could perform its functions properly and adopt decisions attributed to its competence, however not less than 12 within a calendar year.<br><br>The Board draws up a schedule of the Board's meetings and business plans at the beginning of the calendar year (preliminary questions for the relevant board meeting). |

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| 4.3. Members of a collegiate body should be notified of a meeting in advance so that they have enough time to prepare for the consideration of issues at the meeting and the discussions are fruitful and followed by adoption of proper decisions. A notice of the meeting to the members of the collegiate body should be accompanied by any requisite materials related to the agenda. The agenda should not be amended or supplemented during the meeting except for cases when all the members of the body are present at the meeting or where issues material to the company must be urgently resolved. | **YES** | Article 39 of the Rules of Procedures of the Board stipulates that no later than 4 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 40 of the said 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 work of collegiate bodies of the company and ensure an effective decision-adoption process, chairman of the collegiate supervisory and management bodies should agree on dates of meetings and agendas and cooperate closely in resolving other issues related to the company's management. Meetings of the supervisory council should be open to members of the board, in particular where issues related to recalling or liability of the latter or setting of remuneration for the latter are resolved. | **Irrelevant** | The Supervisory Board is not formed in the Company. |

**PRINCIPLE V: Appointment, Remuneration and Audit Committees**

**5.1. The purpose and the establishment of the Committees**

Committees established within the company should increase the work efficiency of the Supervisory Board, and if the Supervisory Board is not formed, the efficiency of the Board, which performs supervisory functions, ensuring that decisions are based on due consideration and help organize the work so that decisions would not be affected by substantial conflicts of interest.

Committees should act independently and with integrity and make recommendations related to the decision of the collegial body, but the final decision is made by the Collegial Body itself.

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| 5.1.1. Depending on the specific circumstances of the company, the chosen corporate governance structure, the company's Supervisory Board and, in cases where it is not formed, the Board, which carries out supervisory functions, sets up committees. It is recommended that the collegial body should establish appointment, remuneration and audit committees. [5] | **YES** | The Company has the Remuneration and Appointment Committee formed by the Board of EPSO-G UAB, which operates in accordance with the operational regulations approved by the body that forms it, and the Audit Committee formed by the sole shareholder EPSO-G UAB operating at the Group level and in compliance with the approved operational regulations of the body that forms it.<br><br>Given that the issues of remuneration and appointment are closely related, experts with the same qualifications are required to deal with these issues, and it has been decided to set up one Remuneration and Appointment Committee. |
| *5.1.2.* Companies may decide to form less than three committees. In this case, companies should explain why they have chosen an alternative approach and how the chosen approach meets the objectives set for the three separate committees. | **YES** | |

[5] Legislation may provide for the obligation to establish an appropriate committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania stipulates that public interest entities (including but not limited to public limited liability companies the securities of which are traded on the regulated market of the Republic of Lithuania and / or any other Member State) must set up an audit committee (legislation provides exceptions where the functions of the audit committee may be performed by a collegial body exercising supervisory functions).

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| 5.1.3. Functions assigned to committees formed in companies under provisions laid down by law may be performed by the collegial body itself.<br>In such a case the provisions of this Code related to the said committees (in particular, to their role, activities and transparency) should apply to the collegiate body as whole, where applicable. | **Irrelevant** | Refer to the comment **5.1.1.** |
| 5.1.4. Committees formed by the collegiate body should normally consist of at least three members. Depending on the requirements of the legislation, the committees can be composed of only two members. The members of each committee should be chosen primarily on the basis of their competence, giving priority to independent members of the collegial body. The Chairman of the Board should not be Chairman of the 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.<br><br>The above Articles of Association establish that the Remuneration, Appointment and Audit Committees shall consist of not less than 3 members.<br><br>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 .<br><br>Not all members of the Remuneration and Appointment Committee and the Audit Committee are appointed from the EPSO-G Board. One member to each of the Committees is appointed on the basis of competence and performing the external election of the independent Committee member. |

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| 5.1.5. Authorisations of any committee should be established by the collegiate body. Committees should perform their duties within the scope of their authorisations and inform the collegiate body about its activities and results on a regular basis. Authorisations of each committee, with the roles, rights and responsibilities defined, should be published at least once in a year (as part of the information that the company publishes on its management structure and practices every year). The annual report of the company should also include notices of published by the committees stating information about their composition, number of meetings and attendance by members during the past year as well as about main lines of activities and performance. | **YES** | The authorization for the Committees are formed in the Articles of Association of EPSO-G UAB and under the decision of the body forming the Committee - the regulations of the Remuneration and Appointment Committee are approved by the decision of the Board of EPSO-G UAB, while the operational regulations of the Audit Committee are approved by the decision of the sole shareholder EPSO-G UAB, as it is consented by the Requirements for members of the Audit Committee approved by the Bank of Lithuania (Article 5).<br><br>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. In order to ensure independence and objectivity of committees, members of the collegiate body that are not members of the committees should normally have the right to attend the meetings of the committee only subject to invitation by the committees, The committee may invite or demand that certain employees or experts attend the meetings. Chairman of each committee should be enabled to maintain direct relations with the shareholders. Cases when this should be done should be stated in the committee's regulations. | **YES** | The Regulations of the Committees provide for the right of the members of the Committees to invite, at their discretion, the members of the bodies, employees, representatives, candidates for certain positions of the companies EPSO-G UAB group of companies, or other persons, and to obtain from them the necessary explanations within their competence as well as to 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** | | |
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| 5.2.1. The main functions of the Appointment Committee should be as follows:<br>1) select candidates to vacant positions of members of management bodies and recommend them to the collegiate body for consideration. The committee should assess the balance of skills, knowledge and experience in a management body, prepare a description of functions and abilities required for a specific position, and assess the time necessary for the discharge of obligations;<br>2) on a regular basis, evaluate the structure, size, composition and activities of supervisory and management bodies, make recommendations for changes to the collegiate body;<br>3) devote sufficient attention to the continuity planning. | **YES** | The Remuneration and Appointment Committee at EPSO-G UAB serves as the advisory body to the Supervisory Board and the Board, it's main functions are:<br>- helps to select the candidates for collegiate bodies for the group companies;<br>- provides recommendations for the group of companies for the appointment of the members of collegiate bodies, contract management and setting their remuneration policy;<br>- make recommendations on the policies of the group of companies that govern the remuneration policy and employee performance assessment;<br>- provides recommendations on the planning system of shifts of critical positions. |
| 5.2.2. When deciding on matters relating to members of the collegial body that are related to the company and the Heads of the Administration, the CEO should be consulted and given the right to submit proposals to the Appointment Committee. | **YES** | It is defined in the Rules for the Operation that that the right of initiative to convene the Remuneration and Appointment Committees 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 .<br><br>The provision is not practically relevant at the moment, as there are no Company employees in the Board. |

| **5.3. Remuneration Committee** | | |
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| The main functions of the Remuneration Committee should be as follows:<br>1) make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments as well as the conditions that would allow the company to recover the amounts or suspend payments, indicating the circumstances that would make it appropriate to do so;<br>2) make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the assessment of the performance of these persons concerned;<br>3) review, on a periodic basis, the remuneration policy and its implementation. | **YES** | Refer to the comment 5.2.1. |

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| **5.4. Audit Committee.**<br><br>5.4.1. The main functions of the Audit Committee are defined in the legislation, governing audit committee's operations.<br>5.4.2. All members of the committee should be provided with complete information on particulars of accounting, financial and other operations of the company. The company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. | **YES** | The Audit Committee of EPSO-G UAB serves as the Advisory Body to the Board of EPSO-G UAB and the Company's Board and its main functions are:<br><br>- supervises the audit and financial reporting of the group of companies;<br>- is responsible for the ensuring the principles of independence and non-bias for the Group audit companies and auditors;<br>- is responsible for the internal control, risk management and internal audit systems, work process efficiency control;<br>- is responsible for the group of companies auditor and (or) non audit service provision control;<br>- ensures the functioning of complaints system and complaints handling;<br>- evaluates transactions with related parties. |

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| 5.4.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without members of the management bodies present. | **YES** | In the Rules for the Operation of the Audit Committee it is provided that the members of the Committee, at their discretion, may invite to their meetings: the members of the bodies, employees, representatives, candidates for certain positions of the companies EPSO-G UAB group of companies, or other persons, and to obtain from them the necessary explanations within their competence as well as to require for that purpose that necessary actions would be carried out needed for the performance of the functions of the Committees. |
| 5.4.4. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. | **YES** | Refer to the comment 5.4.3.<br><br>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 is following applicable provisions regarding the possibility for employees to report alleged irregularities in the company, by way of complaints or through anonymous submissions, and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. | **YES** | The Audit Committee ensures the functioning of the complaints system and complaints handling. |
| 5.4.6. The audit committee should report on its activities to the Supervisory Board at least once in every six months, at the time the yearly and half-yearly statements are approved. | **YES** | In the Rules for the Operation of the Audit Committee it is provided that Audit Committee submits quarterly activity report to the Board.<br><br>In addition, the Committee submits consolidated report for the General Meeting of Shareholders and the Board of EPSO-G UAB. |

**PRINCIPLE VI: Avoiding and disclosing conflicts of interest**

The corporate governance system should encourage members of supervisory and management bodies of the company bodies to avoid conflicts of interests and ensure a transparent and effective mechanism of disclosing conflicts of interests of members of the bodies.

The corporate governance system should recognise the statutory rights of stakeholders and promote active collaboration between them and the company in creating the company's welfare, jobs and financial stability. For the purposes of this principle, stakeholders include investors, employees, creditors, suppliers, customers, local community and other persons having interests in a specific company.

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| A member of a management or supervisory body of the company should avoid a situation where his personal interests conflict or may conflict with the company's interests. If such situation arises, the member should notify, within a reasonable time limit, other members of the same body or the body of the company that has elected him or the shareholders of the situation of conflict of interests, specifying the nature and, where possible, value of the interests. | **YES** | The duty has been set by Articles 57-58 of the Articles of Association of the Company, operation regulations of management bodies and EPSO-G UAB management of interests of collegial management bodies, management and employees. |

| **PRINCIPLE VII: Corporate remuneration policy**<br>The remuneration policy for reviewing and publishing in the company should prevent potential conflicts of interest and abuse in setting remuneration for collegiate body members and heads of administration, and should ensure publicity and transparency of the corporate remuneration policy and long-term business strategy. | | |
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| 7.1. The company should approve and announce the remuneration policy on the company's website, which should be regularly reviewed, and be in line with long-term business strategy. | ***YES*** | The Company applies the guidelines for the establishment of remuneration for operations in EPSO-G UAB and corporate bodies of EPSO-G UAB group of companies approved by the sole shareholder EPSO-G UAB, which are publicly available.<br><br>The Company applies the Remuneration Policy of EPSO-G UAB group of companies and the policy of assessing the performance of the employees of EPSO-G UAB group of companies in full. Remuneration policy is publicly available. |
| 7.2. Remuneration policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments; as well as the conditions which cover cases when the company can recover expenditures or suspend payments. | **YES** | All possible forms of remuneration of the collegial bodies and employees are laid down in the Guidelines for the Establishment of Remuneration for the Activities of EPSO-G UAB and the corporate bodies of EPSO-G UAB group of companies and the Remuneration Policy of EPSO-G UAB group of companies. Both documents are made public. |
| 7.3. In order to avoid potential conflicts of interest, it should be included in the remuneration policy that members of collegial bodies which have supervisory functions should not receive remuneration that is dependent on the performance of the company. | **YES** | The Company has Guidelines for Establishment of Remuneration for the activities at EPSO-G UAB and the corporate bodies of EPSO-G UAB group of companies, which regulate the fixed remuneration for members of collegial bodies. The members of the Board are not remunerated depending on the results of the Company. |

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| 7.4. Remuneration policy should provide sufficient and detailed information on the policy regarding termination payments. Severance pay should not exceed a set amount or a set number of annual pay amounts and generally should not be higher than the sum of the fixed remuneration component for two years or an equivalent. Severance pay should not be paid if employment contract is terminated on the grounds of poor performance. | **NO** | The Remuneration Policy of EPSO-G UAB group of companies stipulates that the group 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 company shall be informed of the disbursement of such benefits and the grounds for their payment at its forthcoming meeting. |
| 7.5. If the company applies the incentive system based on financial instruments, sufficiently detailed information on retaining shares upon granting of rights should be provided in the Remuneration Policy. In cases where remuneration is share-based, the right to shares should not be granted during at least three years after allocation thereof. Upon allocation of the rights members of collegial bodies and heads of administration should retain a certain number of shares until the end of the term of office depending on the need to cover any expenses related to the share acquisition. | **Irrelevant** | Such schemes are not applied in the Company. |

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| 7.6. The company should publish on the company's website the information regarding remuneration policy's implementation which should be focused on the collegiate body members and management remuneration policy in next year and where applicable in subsequent financial years. Commercially valuable information should not be included in this type of information. It should also contain an overview of the implementation of the remuneration policy in previous financial years. | **YES** | The Annual Report contains information on the Company's remuneration policy and its implementation, as well as average salaries of different groups of employees.<br><br>In compliance with the Article 25(5) of the Law of Energy of the Republic of Lithuania, the Company discloses salaries and other remuneration of the members of the governing bodies.<br><br>The information is provided regarding the remuneration of employees on a quarterly basis provided on the Company's website. |
| 7.7. It is recommended that the remuneration policy or any substantial change in the remuneration policy should be included on the agenda of the General Meeting. Schemes under which members and employees of a collegial body are remunerated by 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 established by the General Meeting of Shareholders of the Company. Remuneration is subject to the Establishment Guidelines for Remuneration for the activities in EPSO-G UAB and corporate bodies of EPSO-G UAB group of companies, which are approved by the sole shareholder EPSO-G UAB. There are no such schemes applied in the Company. |

| **PRINCIPLE VIII: Role of stakeholders in corporate governance**<br>The corporate governance system should recognise the statutory rights of stakeholders and promote active collaboration between them and the company in creating the company's welfare, jobs and financial stability. For the purposes of this principle, stakeholders include investors, employees, creditors, suppliers, customers, local community and other persons having interests in a specific company. | | |
|---|---|---|
| 8.1. The corporate governance system should ensure respect for the statutory rights of stakeholders. | **YES** | The Company has Transparency, Sustainability and Communication policy of EPSO-G UAB group of companies in full scope. The goals are to increase the awareness and understanding of stakeholders about the operations of EPSO-G UAB and its subsidiaries, to ensure employee engagement, create and maintain sustainable relationship with stakeholders based on the mutual respect. |
| 8.2. The corporate governance system should enable stakeholders to participate in the governance according to procedures established by the law. Examples of stakeholders' involvement: participation of employees in adopting decisions significant for the company, consulting with the employees on matters of the company's management and other important matters, employees' participation in the share capital, involvement of creditors in the company's management in case of insolvency of the company etc. | **YES** | The Company with representatives of the Company's employees holds consultations, negotiations etc. on the optimisation processes implemented in the Company. Under the Collective Agreement concluded with the employee representatives, the Company informs the trade union representatives of projected changes, financial position of the Company etc.<br><br>Stakeholders can take part in the corporate governance to the extent permitted by the laws. |
| 8.3. Where stakeholders take part in the corporate governance process, they should be enabled to access requisite information. | **YES** | Refer to the comments 8.1. and 8.2. |

| | | |
|---|---|---|
| 8.4. The corporate governance system should enable stakeholders to report confidentially about the illegal or unethical practices to the collegiate body in charge of supervisory functions. | **NO** | Trustline contacts found on the Company's website invite interested parties to report breaches of occupational health and safety, environmental regulations, ethics, work practices, and corruption prevention policies. Interested parties are informed about the possibility to contact directly the CEO of the Company or the Chairman of the Board. |

(All amounts are in EUR thousands unless otherwise stated)

| **PRINCIPLE IX: Disclosure of information**<br>The corporate governance system must ensure that information on all material issues relevant to the company, including financial position, operations and management, is disclosed timely and accurately | | |
|---|---|---|
| 9.1. Without prejudice to the company's confidential information and commercial secrecy procedures, as well as the requirements of the law governing the processing of personal data, the company's publicly disclosed information should include, but are not limited to: | **YES** | The transparency and communication policy is established at EPSO-G UAB. This information is disclosed in the annual Company report and on the Company's website. |
| 9.1.1. operations and financial results of the company; | **YES** | |
| 9.1.2. objectives of the company and non-financial information; | **YES** | |
| 9.1.3. persons owning a block of shares of the company or controlling directly and / or indirectly and/or together with related parties, and the structure of the group of companies and their relationship, indicating the final beneficiary; | **YES** | |
| 9.1.4. members of supervisory and management bodies of the company which are considered to be independent, the head of the company, their shares and voting rights in the company as well as participation in the management of other companies, their expertise and remuneration; | **YES** | |
| 9.1.5. the reports by existing committees stating information about their composition, number of meetings and attendance by members during the past year as well as about main lines of activities and performance results; | **YES** | |
| 9.1.6. predictable key risks; company's risk management policies; | **YES** | |
| 9.1.7. the company's transactions with related parties; | **YES** | |
| 9.1.8. main issues related to employees and other stakeholders (e.g. human resources policy, employee participation in company's management, the promotion of company's shares or stock options, relations with creditors, suppliers, local community etc.); | **YES** | |
| 9.1.9. management structure and strategies of the company; | **YES** | |
| 9.1.10. social responsibility policy, corruption prevention initiatives and actions, important ongoing or planned investment projects.<br>This list is a minimum list and companies are encouraged not to confine themselves to the disclosure of this information.<br>The principle of this Code do not exempt company from the obligation to disclose information, provided by law. | **YES** | |

| | | |
|---|---|---|
| 9.2. In disclosing the information referred to in 9.1.1 of Item 9.1, it is recommended that the controlling company discloses information on the consolidated results of the entire group of companies. | **YES** | EPSO-G UAB as a parent company discloses consolidated information in consolidated annual report. |
| 9.3. In disclosing the information referred to in 9.1.4 of Item 9.1, it is recommended to provide information on professional experience and qualifications of members of the company's supervisory and management bodies and the head of the company as well as potential conflicts of interests that could influence their decisions. It is also recommended to disclose remuneration and other income received by the said persons as detailed under Principle VII. | **YES** | The information is disclosed in the Annual Report and on the Company's website. |
| 9.4. The information should be disclosed in such a way that no shareholder or investor is discriminated against with respect to the method and scope of information received. The information should be disclosed to all at the same time. | **YES** | The Company publishes information through the information system of the Vilnius Securities Exchange in Lithuanian and English simultaneously. The Company publishes information prior to, during and after each trading session at Vilnius Securities Exchange and presents it simultaneously to all the markets in which the Company's securities are traded. The Company does not disclose information that may influence the price of its securities in any comments, interviews etc. before such information is published in the Vilnius Securities Exchange IS. |

| **PRINCIPLE X: SELECTION OF THE COMPANY'S AUDITOR**<br>The mechanism for the selection of an auditor for the company should ensure independence of the audit opinion. | | |
|---|---|---|
| 10.1. In order to obtain an objective opinion with regard to company's financial situation and financial performance and the annual report of the company, it should be audited by an independent auditor. | **YES** | The duty has been set out in Item 5 Part 1 of the Article 20 of the Republic of Lithuania Law on Companies. |
| 10.2. It is recommended that the supervisory council proposes an auditor to the General Meeting of Shareholders, and if no supervisory council is formed, then the proposal should be made by the board. | **YES** | The Audit Committee is actively involved in the selection process of an auditor at the Group level. The Audit Committee provides a recommendation to the Board on the auditor's nomination. The General Meeting of Shareholders, convened by the Board, which proposes draft decisions, shall take the final decision. |
| 10.3. If the audit firm receives payment from the company for services other than audit services, the company should disclose this publicly. This information should also be disclosed to the supervisory council, and if no supervisory council is formed – to the board for the purposes of selecting the auditor that it intends to propose to the general meeting of shareholders. | **YES** | The audit firm provides non-audit services only in compliance with the "Policy on procurement of non-audit services from the audit firm or other firm that is a part of the network of the audit firm" that was approved by EPSO-G UAB Audit Committee.<br><br>The provision of non-audit services is supervised by the Audit Committee at the Group level, which, as mentioned in Section 10.2, actively participates in auditor selection procedure. Thus, the Audit Committee, when submitting a recommendation to the Board, has all the necessary information on auditors. |

Litgrid

STATEMENTS OF FINANCIAL POSITION FOR 2018
(All amounts are in EUR thousands unless otherwise stated)

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 4 | 6 593 | 3 650 | 6 529 | 3 647 |
| Property, plant and equipment | 5 | 309 741 | 378 403 | 306 857 | 376 028 |
| Investments in subsidiaries | 6 | - | - | 1 174 | 174 |
| Deferred income tax assets | 23 | 4 505 | 33 | 4 469 | - |
| Loans granted | 7 | - | - | 2 203 | 1 203 |
| Available-for-sale financial assets | 8 | 2 693 | 2 693 | 2 693 | 2 693 |
| Other non-current financial asset | 12 | 10 439 | - | 10 439 | - |
| **Total non-current assets** | | **333 971** | **384 779** | **334 554** | **383 745** |
| **Current assets** | | | | | |
| Inventories | 9 | 1 107 | 1 019 | 107 | 99 |
| Prepayments | | 527 | 483 | 468 | 412 |
| Trade receivables | 10 | 20 861 | 22 210 | 17 012 | 17 022 |
| Other amounts receivable | 11 | 1 243 | 21 275 | 47 | 20 645 |
| Prepaid income tax | | 478 | 12 | 460 | - |
| Other financial assets | 12 | 7 443 | 8 736 | 7 443 | 8 736 |
| Cash and cash equivalents | 13 | 627 | 696 | 397 | 434 |
| **Total current assets** | | **32 286** | **54 431** | **25 934** | **47 348** |
| **TOTAL ASSETS** | | **366 257** | **439 210** | **360 488** | **431 093** |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Authorised share capital | 14 | 146 256 | 146 256 | 146 256 | 146 256 |
| Share premium | 14 | 8 579 | 8 579 | 8 579 | 8 579 |
| Revaluation reserve | 15 | 222 | 5 380 | - | 4 999 |
| Reserve for changes in fair value of financial assets | 16 | 655 | 655 | 655 | 655 |
| Legal reserve | 16 | 14 626 | 14 790 | 14 626 | 14 626 |
| Other reserves | 16 | 63 309 | 62 767 | 63 309 | 62 767 |
| Retained earnings (deficit) | | (38 622) | 8 171 | (37 588) | 8 257 |
| **Total equity** | | **195 025** | **246 598** | **195 837** | **246 139** |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Grants | 18 | - | 22 | - | 22 |
| Non-current borrowings | 19 | 94 128 | 108 353 | 94 128 | 108 353 |
| Finance lease liabilities | 20 | 599 | 820 | - | - |
| Deferred income tax liability | 23 | - | 6 105 | - | 6 105 |
| Congestion management revenue | 21 | 10 832 | 6 564 | 10 832 | 6 564 |
| Other non-current amounts payable and liabilities | 22 | 1 931 | 764 | 1 878 | 694 |
| **Total non-current liabilities** | | **107 490** | **122 628** | **106 838** | **121 738** |
| **Current liabilities** | | | | | |
| Current portion of non-current borrowings | 19 | 14 225 | 8 082 | 14 225 | 8 082 |
| Current borrowings | 19 | 12 615 | 34 656 | 12 517 | 33 311 |
| Current portion of finance lease liabilities | 20 | 221 | 443 | - | - |
| Trade payables | 24 | 22 173 | 15 095 | 17 466 | 11 581 |
| Share of congestion management revenue of the current year | 21 | 4 922 | - | 4 922 | - |
| Advance amounts received | 25 | 929 | 328 | 829 | 328 |
| Income tax liability | | - | 1 468 | - | 1 468 |
| Other current amounts payable and liabilities | 26 | 8 657 | 9 912 | 7 411 | 8 446 |
| **Total current liabilities** | | **63 742** | **69 984** | **57 813** | **63 216** |
| **Total liabilities** | | **171 232** | **192 612** | **164 651** | **184 954** |
| **TOTAL EQUITY AND LIABILITIES** | | **366 257** | **439 210** | **360 488** | **431 093** |

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

Litgrid

STATEMENTS OF COMPREHENSIVE INCOME FOR 2018
(All amounts are in EUR thousands unless otherwise stated)

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| **Revenue** | | | | | |
| Revenue from electricity transmission and related services | 27 | 169 758 | 143 292 | 169 758 | 143 292 |
| Other income | 28 | 20 883 | 16 896 | 2 191 | 1 065 |
| **Total revenue** | | **190 641** | **160 188** | **171 949** | **144 357** |
| **Expenses** | | | | | |
| Expenses of electricity transmission and related services | 29 | (118 993) | (80 081) | (118 993) | (80 081) |
| Revaluation of property, plant and equipment | 5 | (50 981) | ( 71) | (50 981) | - |
| Depreciation and amortisation | 4,5 | (25 898) | (26 360) | (25 387) | (26 055) |
| Wages and salaries and related expenses | | (15 042) | (13 993) | (8 545) | (7 295) |
| Repair and maintenance expenses | | (2 851) | (4 305) | (5 064) | (6 437) |
| Telecommunications and IT maintenance expenses | | (1 666) | (1 563) | (1 508) | (1 419) |
| Property, plant and equipment write-off expenses | | ( 977) | (1 212) | ( 977) | (1 209) |
| Impairment of property, plant and equipment | | 515 | 79 | 499 | 103 |
| Impairment of investments | | - | - | 1 000 | (4 312) |
| Other expenses | | (19 785) | (19 734) | (5 847) | (6 296) |
| **Total expenses** | | **( 235 678)** | **(147 240)** | **(215 803)** | **(133 001)** |
| **Operating profit/(loss)** | | **(45 037)** | **12 948** | **(43 854)** | **11 356** |
| **Financing activities** | | | | | |
| Finance income | | 140 | 221 | 173 | 226 |
| Finance costs | | (1 303) | (1 375) | (1 251) | (1 337) |
| **Total finance costs** | | **(1 163)** | **(1 154)** | **(1 078)** | **(1 111)** |
| **Profit/(loss) before income tax** | | **(46 200)** | **11 794** | **(44 932)** | **10 245** |
| **Income tax** | | | | | |
| Current year income tax expenses | 23 | (2 945) | (4 351) | (2 939) | (4 632) |
| Deferred income tax (expenses)/income | 23 | 9 784 | 2 142 | 9 781 | 2 111 |
| **Total income tax** | | **6 839** | **(2 209)** | **6 842** | **(2 521)** |
| **Net profit/(loss)** | | **(39 361)** | **9 585** | **(38 090)** | **7 724** |
| **Other comprehensive income that will not be reclassified to profit or loss** | | | | | |
| Revaluation of property, plant and equipment | | (5 289) | 428 | (5 289) | - |
| Change in fair value of financial assets | | 793 | ( 64) | 793 | - |
| Effect of deferred income tax | | **(4 496)** | **364** | **(4 496)** | **-** |
| **Total other comprehensive income** | | **(43 857)** | **9 949** | **(42 586)** | **7 724** |
| **Basic and diluted earnings/(deficit) per share (in EUR)** | **32** | **(0,078)** | **0,019** | **(0,075)** | **0,015** |

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

STATEMENTS OF CHANGES IN EQUITY FOR 2018
(All amounts are in EUR thousands unless otherwise stated)

| Group | | Share capital | Share premium | Revaluation reserve | Reserve of changes in fair value of financial assets | Legal reserve | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | | **146 256** | **8 579** | **5 608** | **655** | **14 726** | **62 747** | **16 234** | **254 805** |
| Comprehensive income/(expenses) for the year | | - | - | 364 | - | - | - | 9 585 | 9 949 |
| Depreciation of revaluation reserve and amounts written off | 15 | - | - | ( 592) | - | - | - | 592 | - |
| Transfer to reserves | 16 | - | - | - | - | 64 | 20 | ( 84) | - |
| Dividends | 17 | - | - | - | - | - | - | (18 156) | (18 156) |
| **Balance 31 December 2017** | | **146 256** | **8 579** | **5 380** | **655** | **14 790** | **62 767** | **8 171** | **246 598** |
| **Balance at 1 January 2018** | | **146 256** | **8 579** | **5 380** | **655** | **14 790** | **62 767** | **8 171** | **246 598** |
| Comprehensive income/(expenses) for the year | | - | - | (4 496) | - | - | - | (39 361) | (43 857) |
| Depreciation of revaluation reserve and amounts written off | 15 | - | - | ( 618) | - | - | - | 618 | - |
| Transfer to reserves | | - | - | - | - | | 542 | ( 542) | - |
| Transfer to retained earnings | 16 | - | - | ( 44) | - | ( 164) | - | 208 | - |
| Dividends | 17 | - | - | - | - | - | - | (7 716) | (7 716) |
| **Balance at 31 December 2018** | | **146 256** | **8 579** | **222** | **655** | **14 626** | **63 309** | **(38 622)** | **195 025** |

| Company | | Share capital | Share premium | Revaluation reserve | Reserve of changes in fair value of financial assets | Legal reserve | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | | **146 256** | **8 579** | **5 533** | **655** | **14 626** | **62 747** | 18 175 | 256 571 |
| Comprehensive income/(expenses) for the year | | - | - | - | - | - | - | 7 724 | 7 724 |
| Depreciation of revaluation reserve and amounts written off | 15 | - | - | **( 534)** | - | - | - | 534 | - |
| Transfer to reserves | 16 | - | - | - | - | - | **20** | ( 20) | - |
| Dividends | 17 | - | - | - | - | - | - | (18 156) | (18 156) |
| **Balance 31 December 2017** | | **146 256** | **8 579** | **4 999** | **655** | **14 626** | **62 767** | **8 257** | **246 139** |
| **Balance at 1 January 2018** | | **146 256** | **8 579** | **4 999** | **655** | **14 626** | **62 767** | **8 257** | 246 139 |
| Comprehensive income/(expenses) for the year | | - | - | (4 496) | - | - | - | (38 090) | (42 586) |
| Depreciation of revaluation reserve and amounts written off | 15 | - | - | ( 503) | - | - | - | 503 | - |
| Transfer to reserves | 16 | - | - | - | - | - | 542 | ( 542) | - |
| Dividends | 17 | - | - | - | - | - | - | (7 716) | (7 716) |
| **Balance at 31 December 2018** | | **146 256** | **8 579** | **-** | **655** | **14 626** | **63 309** | **(37 588)** | **195 837** |

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

Litgrid

STATEMENTS OF CASH FLOWS FOR 2018
(All amounts are in EUR thousands unless otherwise stated)

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| **Cash flows from operating activities** | | | | | |
| Profit/(loss) for the year | | (39 361) | 9 585 | (38 090) | 7 724 |
| **Adjustments for non-cash items and other adjustments:** | | | | | |
| Depreciation and amortisation expenses | 4,5 | 25 898 | 26 360 | 25 387 | 26 055 |
| Impairment of financial assets | | - | - | (1 000) | 4 312 |
| Revaluation of property, plant and equipment | 5 | 50 981 | 71 | 50 981 | - |
| (Reversal of)/impairment of assets | | (2 941) | ( 816) | (2 925) | ( 840) |
| Written-off bad debts | | 2 426 | 737 | 2 426 | 737 |
| Income tax expenses | 23 | (6 829) | 2 209 | (6 842) | 2 521 |
| (Gain)/loss on disposal/write-off of property, plant and equipment | | 977 | 1 212 | 977 | 1 209 |
| Elimination of results of financing and investing activities: | | | | | |
| Interest income | | - | - | ( 36) | ( 5) |
| Interest expenses | | 1 281 | 1 365 | 1 228 | 1 327 |
| Dividend income | | ( 130) | ( 134) | ( 130) | ( 134) |
| Other finance (income)/costs | | 12 | ( 77) | 16 | ( 77) |
| **Changes in working capital:** | | | | | |
| (Increase) decrease in trade receivables and other amounts receivable | | 1 816 | 1 838 | 1 043 | 2 996 |
| (Increase) decrease in inventories, prepayments and other current assets | | 33 | 2 845 | 85 | ( 101) |
| Increase (decrease) in amounts payable, grants, deferred income and advance amounts received | | 5 373 | 1 393 | 4 818 | 2 552 |
| Changes in other financial assets | | (9 146) | 1 276 | (9 146) | 1 276 |
| Income tax (paid) | | (4 518) | (4 448) | (4 486) | (4 424) |
| **Net cash generated from (used in) operating activities** | | **25 872** | **43 416** | **24 306** | **45 128** |
| **Cash flows from investing activities** | | | | | |
| (Purchase) of property, plant and equipment and intangible assets | | (22 997) | (26 214) | (22 156) | (26 066) |
| Grants received | 18 | 24 283 | 8 133 | 24 283 | 8 133 |
| Loans granted | 7 | - | - | (1 000) | (1 600) |
| Congestion management revenue | 21* | 12 208 | 8 691 | 12 208 | 8 691 |
| Interest received | | - | - | 17 | - |
| Dividends received | | 130 | 134 | 130 | 134 |
| **Net cash generated from (used in) investing activities** | | **13 624** | **(9 256)** | **13 482** | **(10 708)** |
| **Cash flows from financing activities** | | | | | |
| Repayments of borrowings | | (8 082) | (8 082) | (8 082) | (8 082) |
| Overdraft | | (34 558) | (6 330) | (33 311) | (6 860) |
| Related party borrowings | | 12 517 | - | 12 517 | - |
| Finance lease payments | | ( 443) | ( 160) | - | - |
| Interest paid | | (1 312) | (1 528) | (1 259) | (1 490) |
| Dividends paid | | (7 690) | (18 212) | (7 690) | (18 212) |
| Other cash flows from financing activities | | 3 | 50 | - | 50 |
| **Net cash generated from (used in) financing activities** | | **(39 565)** | **(34 262)** | **(37 825)** | **(34 594)** |
| **Increase (decrease) in cash and cash equivalents** | | **( 69)** | **( 102)** | **( 37)** | **( 174)** |
| Cash and cash equivalents at the beginning of the period | 13 | 696 | 798 | 434 | 608 |
| **Cash and cash equivalents at the end of the period** | **13** | **627** | **696** | **397** | **434** |

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

(All amounts are in EUR thousands unless otherwise stated)

## 1. General information

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

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

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

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

As at 31 December 2018, the Company's authorised share capital amounted to EUR 146,256,100.20 and it was divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. All shares are fully paid.

As at 31 December 2018 and 2017, the Company's shareholder structure was as follows:

| Company's shareholders | Number of shares held (items) | Number of shares held (%) |
|---|---|---|
| EPSO-G UAB | 491 736 153 | 97,5 |
| Other shareholders | 12 595 227 | 2,5 |
| **Total:** | **504 331 380** | **100** |

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

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

As at 31 December 2018 and 2017, the Group consisted of Litgrid and its subsidiaries, associates and joint ventures listed below:

| Company | Address of the company's registered office | Shareholding as at 31 December 2018 | Shareholding as at 31 December 2017 | Profile of activities |
|---|---|---|---|---|
| Tetas UAB | Senamiesčio str. 102B, Panevėžys, Lithuania | 100% | 100% | Transformer substation, distribution station and electricity line design, reconstruction, repair and maintenance services |
| Litgrid Power Link Service UAB | A. Juozapavičiaus str. 13, Vilnius, Lithuania | 100% | 100% | Management and operation of electricity interconnection facilities. Under the decision of the sole shareholder, from 1 August 2018 the company's activity has been suspended, as a result, from this date on Litgrid has been managing the operation of these interconnection facilities autonomously. |
| Duomenų Logistikos Centras UAB | Žvejų str. 14, Vilnius, Lithuania | 20% | 20% | Provision of IT services |
| LitPol Link Sp.z.o.o | Warszawska 165, 05-520, Konstancin-Jeziorna, Poland | 50% | 50% | Implementation and co-ordination of joint assignments in relation to operation of current interconnection Lithuania–Poland, planned development of the network and other fields of co-operation |

On 27 January 2017, the Company's Board gave its consent to the arrangement of sale of 20.36% shares held under the title of ownership by Litgrid UAB in Duomenų Logistikos Centras UAB, together with the shares held in Duomenų Logistikos Centras UAB by Lietuvos Energija UAB. On 7 August 2017, the shareholders of Duomenų Logistikos Centras UAB – the Company and Lietuvos Energija UAB – signed an agreement on sale/purchase of shares with Telia Lietuva UAB. On 13 June 2018, the Company's Board gave its consent to terminate the agreement on sale/purchase of 20.36% shares signed between Duomenų logistikos centras UAB and Telia Lietuva UAB and to resume the sale process of Duomenų logistikos centras UAB. As a result of active steps of the Company to sell the shares of the associate, the investment to the said company was classified within current assets as 'Other financial assets'.

Investments in subsidiaries and associates are described in Note 6.

As at 31 December 2018, the Group had 638 employees (31 December 2017: 633), and the Company had 267 employees (31 December 2017: 229).

## 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 2018 are set out below:

### 2.1 Basis of preparation

The Company's and the Group's financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

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

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

The Company's management approved these financial statements on 21 March 2019. 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 2018 are as follows:***

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The application of the standard for the first time did not have any impact on the Company's and the Group's financial statements, since historically the impairment loss of amounts receivable has been insignificant, and its cash and cash equivalents and other current financial assets are held with credit institutions with high credit rating. The standard had no impact on the classification of financial assets as well: loans and amounts receivable will continue to be classified as measured at amortised cost, financial assets at fair value through profit or loss will continue to be measured using the same method. As the Company and the Group does not have hedging transactions, the application of the standard in this respect had an impact on the financial statements of the Company and the Group. The Company and the Group has only financial liabilities categorized as 'Other financial liabilities', therefore there is no impact on the accounting and assessment of the financial liabilities of the Company and the Group.

**IFRS15, *Revenue from Contracts with Customers***
**Amendments to IFRS15, *Revenue from Contracts with Customers***

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

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

The Company and the Group does not have any long-term contracts with multiple-element modifications, nor has it take-or-pay arrangements, sale incentives, material contracting costs or material prepayments. The main sale contracts are signed for the term of one year and coincide with the reporting period. All subsequent value adjustments for previous periods are not made, and contract modifications are rare.

In addition, the standard did not affect the recognition of revenue from the services of the connection of electricity producers ("the Producers") to the electricity transmission network, relocation (reconstruction) of electricity equipment, and the expansion (reconstruction) of electricity equipment capacities, as the connection of the Producer is a separate execution of the liability. The major objective of the connection of the Producer – to transmit the generated electricity to consumers free of charge, as according to the provisions of the legislation regulating relations of energy entities, the consumers pay for the transmission of energy, commonly according to agreements concluded with a transmission system operator. The transmission service for the Producer is provided in a very limited extent exclusively in such cases when it is not involved in the electricity generation – when electricity is supplied for technological needs. Following the relocation of electricity equipment due to construction-expansion works carried out by the client, the scopes of electricity transmission services remain unchanged. In the estimation of the Company, the services of the connection of Producers, the relocation of electricity equipment, and the expansion of electricity equipment are substantially separated from other services rendered by the Company, as a result, after IFRS 15 came into effect, the recognition of the connection revenue remained the same.

PSO funds allocated for compensating 60% of the connection fee of the Producers generating electricity from the renewable energy resources are accounted for as revenue subsidy, as they are intended for compensating the connection service cost. In accordance with the provisions of the respective IFRS, the moment of recognition of the mentined revenue subsidy is not expressly regulated. The Company decides to recognise revenue subsidies at the moment when it obtains the right to PSO funds, as precisely at this moment the Company receives the confirmation about its liability fulfilment.

Congestion management revenue according to the inter-transmission operator compensation mechanism is not treated as income for provided services. It is a financing tool intended for covering losses incurred due to disconnection of the system connection and financing connection investments increasing the connection's permeability. Taking into account that the congestion management revenue are not related with the provision of services, IFRS 15 does not regulate them.

Other income related to transmission operations include: the ITC transit income (Inter-Transmission Operator Compensation Mechanism).

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

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Company and the Group did not have any impact on its financial statements since they do not conduct any share-based payment transactions.

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

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

***Annual improvements to IFRSs 2014–2016 Cycle***

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

***Transfers of Investment Property - Amendments to IAS 40***

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

***IFRIC 22 Foreign Currency Transactions and Advance Consideration***

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

Other standards, amendments and interpretations that came into force for the financial year beginning on 1 January 2017 are not relevant to the Company and the Group.

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

***IFRS 16, Leases*** (effective for annual periods beginning on or after 1 January 2019)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
At the date of the financial statements, the Company has concluded irrevocable transport and real estate lease agreements, the balance of which amounted to EUR 0.7 million as at 2018 December 31 and remaining lease term is up to 4 years. The Company's management assesses the impact of IFRS 16 on the financial statements of the Company. In addition, the Company has not taken a decision on the application of the provisions of the standard for state land lease transactions.

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

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The interpretation did not have any impact on the financial statements of the Company and the Group, as there were no identifiable uncertainties of income tax treatment.

***Prepayment Features with Negative Compensation – Amendments to IFRS 9***

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

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

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

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

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

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

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

***Amendments to the Conceptual Framework for Financial Reporting*** (effective for annual periods beginning on or after 1 January 2020; yet not approved by the European Union).
The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance, especially liability definition and clarifications in important areas such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company and the Group did not assess the impact of the standard amendments on its financial statements.

***Amendments to IFRS 3 – Definition of a Business*** (effective for annual periods beginning on or after 1 January 2020; yet not approved by the European Union).
The amendments clarify the definition of a business. A business has to be made up of resources and an essential process, with a significant impact on the ability to produce. The new guidelines set out a framework for assessing the availability of resources and the main process, including early stage start-ups. If production is not created, the condition of the existence of an organized workforce should be fulfilled in order a combination of activity and assets to be classified as a business. The definition of "output" is narrowed to mean goods and services provided to customers that generate investment income and other income, excluding profits in the form of lower costs and other economic benefits. It is also no longer required to assess whether market participants will be able to replace missing elements or integrate acquired activities and assets. The entity may conduct a concentration test. In the event that substantially all the fair value of the acquired joint asset would be concentrated in one

asset (or group of similar assets), the acquired assets would not constitute a business. The Company and the Group did not assess the impact of the standard amendments on its financial statements.

***Amendments to IAS 1 and IAS 8 – Definition of Material*** (effective for annual periods beginning on or after 1 January 2020; yet not approved by the European Union).
The amendments clarify the definition of material and how it should be applied by including in the definition guidance that were reflected so far in other IFRS. In addition, the interpretations provided in the definition have been clarified. Finally, the amendments ensure that the definition of material is consistently applied in all IFRSs. Information should be considered material if it could reasonably be expected that its omission, misstatement or overshadowing by unimportant / unessential information would have an impact on the decisions of key users of the general purpose financial statements based on those financial statements that present the financial information of the specific reporting entity. The Company and the Group did not assess the impact of the standard amendments on its financial statements.

## 2.2 Principles of consolidation

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 Litgrid AB and its subsidiaries. The financial statements of the subsidiaries have been prepared for the same reporting periods, using uniform accounting policies.

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

## 2.3 Business combinations between entities under common control

Business combinations between entities under common control

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

## 2.4 Assets held for sale and discontinued operations

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

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

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

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

## 2.6 Investments in associates and joint ventures

An associate is an entity over which the Group/Company has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence generally accompanies a shareholding of 20% to 50% of the voting rights. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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

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

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

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

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

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

Gain or loss on decrease in the Group's ownership interest in an associate is recognized as profit or loss.

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

## 2.7 Property, plant and equipment and intangible assets

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

All property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations performed by independent valuers, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

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

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

Intangible assets

Intangible assets are initially recognized at cost. Intangible assets are recognized only if they are expected to provide economic benefit to the Group and the Company in future periods and their cost can be measured reliably. After initial recognition, intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Goodwill at initial recognition is measured as a positive difference between the historical cost and acquired net asset value and after the initial recognitions it is carried at acquisition value less accumulated impairment, if any.

Depreciation and amortization

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

(All amounts are in EUR thousands unless otherwise stated)

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

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

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. Repair costs for the category of air an cable line assets are accounted for as component of item of assets by estimating the useful life of new asset. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognized as expenses in the profit or loss during the financial period in which they are incurred.

### 2.8 Impairment of property, plant and equipment and intangible assets

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

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

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

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

### 2.9 Financial assets

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 assets.

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

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 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:

Financial assets at amortized cost

Loans and receivables issued by 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.

Financial assets at fair value through profit or loss

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 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 change or restructuring) occur. Therefore, if there is a considerable amount of cost or effort to obtain reasonable and reliable information that is more forward-looking than past due payments, it should be based on the assessment of credit risk changes.
Expected credit losses are recognized based on individually or collectively assessed credit risk of issued loans and trade receivables, the valuation of which is based on all reasonable and confirmed information, including forward-looking information.

Estimated credit losses of trade receivables over the life of the asset are measured using an individual valuation. The 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 assets
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 dercognised 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.

### 2.10 Inventories

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

### 2.11 Non-current assets held for sale

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

### 2.12 Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

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

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense is recognized using the effective interest rate method as disclosed in paragraph 2.9 of the notes to the financial statements.

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

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the respective amounts of financial liabilities is recognized in the statement of comprehensive income.

Trade payables

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

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

### 2.13 Dividend distribution

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

## 2.14 Foreign currency

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

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

## 2.15 Grants

Asset-related grants

The Government and the European Union grants received in the form of property, plant and equipment or intended for the purchase of property, plant and equipment are considered as asset-related grants. Fees for connection of new consumers and producers to electricity transmission network (applied according to accounting policy until 1 July 2009), Public service obligation (hereinafter "PSO") service fees allocated to the Company for the development and implementation of strategic plans and Congestion revenues, designated for for financing of investments are recognized as asset-related grants.
Grants are recorded as a deduction of value of the respective asset and subsequently recognized as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

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

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

## 2.16 Provisions

Provisions are recognized when the Group/Company has a legal obligation or irrevocable commitment as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance costs.

## 2.17 Employee benefits

(a) Social security contributions

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

(b) Bonus plans

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

(c) Payments to retiring employees of retirement age

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries as stipulated in the Lithuanian laws. A liability for such payments is recognized in the balance sheet and it reflects the present value of these payments at the date of the financial statements. The aforementioned non-current liability for payments to employees at the date of the financial statements is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current liability for payments to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which payments to employees are expected to be made and with maturity similar to that of the related liability.

### 2.18 Congestion management revenue

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

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

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

a) when revenue is used for guaranteeing the actual availability of the allocated capacity – revenue is recognised in the period when related expenditure is incurred. In case of unplanned disconnection of the electricity interconnection and when the trade in the interconnection's capacities has already been completed at the electricity exchange (i.e. when they have already been allocated), the operators of the line ensure that the capacities traded are available to the market participants. In such a case, the operators incur costs that arise as a result of the price difference between the price of electricity traded by the operators and the price of regulation and (or) balancing electricity purchased/sold by the Company.

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

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

Unused value of congestion managment revenue Company registers as non-current and current liabilities (as be used during 12 months period) in the Statement of financial position.

### 2.19 Leases

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

<u>The Group and the Company as a lessor</u>

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

<u>The Group and the Company as a lessee</u>

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

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

### 2.20 Segment reporting

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

### 2.21 Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax and discounts. As indicated in the note No 2.1, on 1st January 2018, enforced IFRS 15 had no significant influence for data of the Company's and Group's financial statements, so additional disclosures were not provided.

The following specific recognition criteria must also be met before revenue is recognized:

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

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

Tariffs regulation

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

Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for capacity reserves are not regulated except the cases when the producer or supplier holds more than 25 per cent of the market. In latter case, the tariff setting is supervised by the NCC.

The Group purchases a capacity reserve service from electricity suppliers in accordance with capacity reserve agreements and subsequently renders this service to the distribution system operators and electricity consumers using a tariff established by the NCC. The Group recognizes gross revenue as it acts as a principal in the provision of these services.

Connection of new consumers and producers to electricity transmission network

From 2010 (applicable to assets received from customers on or after 1 July 2009) to the date of spin-off, Lietuvos Energija AB, later on the Company, recognizes fees received for connection of new consumers and producers to the electricity network as income immediately upon the connection of a new consumer or producer, provided the price for electricity payable in future by the newly connected consumer or producer for the services rendered /purchased by the Company/Group does not differ from that payable by other consumers or producers who had not paid such connection fees.

As it was mentioned in Note 2.1, the effectual IFRS 15 did not impact the acknowledgement of the revenue coming from the connection of new customers and producers to electricity transmission network, as the connection is a separate fulfilment of the liability, materially unrelated with other services provided by the Company for the new customers and producers. The Company transmits the electricity generated by a new consumer free of charge.
After the relocation of the electrical equipment resulting from the client's construction–development works being implemented, the scope of electricity transmission services remain unchanged.

Before 1 July 2009, fees received by Lietuvos Energija AB for connection of new consumers and producers to the network were initially recognized in non-current assets caption as reducing the carrying value of related assets. In the statement of comprehensive income from these fees are recognised over the estimated useful life of the related assets, reducing depreciation expenses.

Repair service income

Income under individual contracts/projects with customers, for instance for repair services, is recognized using the stage of completion method estimated based on project costs actually incurred in proportion to total estimated project costs. The probable change in profitability is recognized in the statement of comprehensive income when such change is established. The projects are reviewed regularly and the provisions are established when it is determined that the project will result in a loss.

Other income

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

Dividend income

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

Recognition of expense

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

Recognition of income and expenses from PSO services

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

The Company/Group recognizes PDO funds as grants related with revenue from PSO services the following:

- PSO service funds allocated by the NCC to the Company/Group for the connection of power generation facilities, using wind, biomass, solar energy or hydro energy in the process of power generation, to transmission networks, for optimization, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electric power from producers using the renewable energy resources. Part of connection services, financed by mentioned producers are recognised at the moment when connection works are finished, and part of services, financed from PSO funds are recognised at the moment the NCC decision is adopted.
- PSO service funds allocated by the NCC for balancing electricity produced from the renewable energy resources.

## 2.22 Borrowing costs

Borrowing costs that are directly attributable to the production, getting ready for use or sale of an asset that necessarily takes a substantial period of time to produce, get ready for its intended use or sale, are capitalized as part of the cost of that asset until the asset is ready for use or sale in full. Interest income on the temporary investment of borrowed funds until they will be used for the acquisition of the asset is deducted from the cost of the asset.

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

## 2.23 Income tax

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

Income tax

Income tax charges are calculated on current profit before tax, as adjusted for certain non-deductible expenses/non-taxable income. Income tax is calculated using the tax rate effective as at the date of issue of the financial statements. Income tax rate of 15% was used in 2017 and 2016.

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.

### 2.24 Earnings per share

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

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

### 2.25 Contingencies

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

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

### 2.26 Subsequent events

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

### 2.27 Offsetting

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

### 2.28 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company/Group.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Company/Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

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

In the financial statements as at 31 December 2018 and 2017, the Group and the Company did not have significant assets or liabilities measured or re-measured at fair value, except for the available-for-sale financial assets (Notes 2.9 and 8) and property, plant and equipment (Notes 2.7 and 5).

Assets and liabilities for which fair value is disclosed in the financial statements comprise cash and cash equivalents, trade receivables, trade and other payables and borrowings. The management assessed the fair value of the borrowings as at 31 December 2017 and 2016 (Note 36) and the fair value of other mentioned financial assets and liabilities is approximate their carrying amounts largely due to the short-term maturities of these instruments as at 31 December 2018 and 2017.

## 3. Significant accounting estimates and assumptions

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

Impairment of investments

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

As at 31 December 2018, the recoverable amount of investment into TETAS UAB was calculated and reversal of impairment losses of EUR 1,000 thousand was recognised, by taking into consideration the positive EBITDA margin achieved by TETAS UAB in 2018 and forecasts for its gainful activities in upcoming periods. Recoverable amount was determined by applying discounted cash flow method and forecasted financial results of upcoming periods, whereas the discount rate applied (WACC after tax) was 11%.

Valuation of property, plant and equipment

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

Congestion managment revenue

Based on the accounting policy described in Note 2.18, accounting for congestion revenue depends on the purpose for which revenue is used. The purposes are described in Regulation (EC) No 714/2009 of the European Parliament and of the Council. Based on the Company's judgement, as at 31 December 2018 unused congestion revenue funds will be used for investment projects agreed with NCC, including for financing of synchronization projects until the years 2025. Only EUR 0,6-1 million of congestion revenue will be used to compensate the costs, arised due disconnect of interconnections in future periods.

In 2018, the Company incurred costs of EUR 812 thousand to guarantee the availability of the allocated capacity, and recognised congestion revenue of the same amount in its statement of comprehensive income (also see Note 21).

Provisions for servitude compensations

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

(All amounts are in EUR thousands unless otherwise stated)

## 4. Intangible assets

| Group | Patents and licences | Computer software | Other intangible assets | Statutory servitudes** | Goodwill* | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | | |
| Cost | 114 | 3 128 | 2 | - | - | 3 244 |
| Accumulated amortisation | ( 19) | (1 732) | ( 2) | - | - | (1 753) |
| **Net book amount** | **95** | **1 396** | **-** | **-** | **-** | **1 491** |
| | | | | | | |
| **Net book amount at 31 December 2016** | 95 | 1 396 | - | - | - | 1 491 |
| Additions | 56 | 2 090 | - | - | - | 2 146 |
| Transfer from PP&E | 188 | 580 | - | - | - | 768 |
| Amortisation charge | ( 96) | ( 659) | - | - | - | ( 755) |
| **Net book amount at 31 December 2017** | **243** | **3 407** | **-** | **-** | **-** | **3 650** |
| | | | | | | |
| **At 31 December 2016** | | | | | | |
| Cost | 358 | 5 797 | 2 | - | - | 6 157 |
| Accumulated amortisation | ( 115) | (2 390) | ( 2) | - | - | (2 507) |
| **Net book amount** | **243** | **3 407** | **-** | **-** | **-** | **3 650** |
| | | | | | | |
| **Net book amount at 31 December 2017** | 243 | 3 407 | - | - | - | 3 650 |
| Additions | - | 1 729 | - | 2 300 | 61 | 4 090 |
| Transfer to PP&E | - | ( 93) | - | - | - | ( 93) |
| Transfer between categories | 111 | ( 111) | - | - | - | - |
| Amortisation charge | ( 124) | ( 930) | - | - | - | (1 054) |
| **Net book amount at 31 December 2018** | **230** | **4 002** | **-** | **2 300** | **61** | **6 593** |
| | | | | | | |
| **At 31 December 2018** | | | | | | |
| Cost | 469 | 7 319 | 2 | 2 300 | 61 | 10 151 |
| Accumulated amortisation | ( 239) | (3 317) | ( 2) | - | - | (3 558) |
| **Net book amount** | **230** | **4 002** | **-** | **2 300** | **61** | **6 593** |

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

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

** The Company and the Group in 'Statutory servitudes' accounted for the right to use the land lots of the third parties based on servitudes with equipped electrical networks and equipment. On 31 July 2018, methodology for calculating compensation entered into force; it establishes the conditions for the payment of compensation. On 31 December 2018, the Company and the Group recognised the intangible assets and provisions of EUR 2,300 thousand assessed on the basis of available information on servitudes used and expected compensation amount. The amount of compensation was accounted for at discounted value with an applied discount rate of 2,24%.

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

(All amounts are in EUR thousands unless otherwise stated)

| Company | Patents and licences | Computer software | Other intangible assets | Statutory easements | Total |
|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | |
| Cost | 114 | 3 091 | 2 | - | 3 207 |
| Accumulated amortisation | ( 19) | (1 700) | ( 2) | - | (1 721) |
| **Net book amount** | **95** | **1 391** | **-** | **-** | **1 486** |
| **Net book amount at 31 December 2016** | 95 | 1 391 | - | - | 1 486 |
| Additions | 56 | 2 090 | - | - | 2 146 |
| Transfer from PP&E | 188 | 580 | - | - | 768 |
| Amortisation charge | ( 96) | ( 657) | - | - | ( 753) |
| **Net book amount at 31 December 2017** | **243** | **3 404** | **-** | **-** | **3 647** |
| **At 31 December 2017** | | | | | |
| Cost | 358 | 5 760 | 2 | - | 6 120 |
| Accumulated amortisation | ( 115) | (2 356) | ( 2) | - | (2 473) |
| **Net book amount** | **243** | **3 404** | **-** | **-** | **3 647** |
| **Net book amount at 31 December 2017** | 243 | 3 404 | - | - | 3 647 |
| Additions | - | 1 726 | - | 2 300 | 4 026 |
| Transfer to PP&E | - | ( 93) | - | - | ( 93) |
| Transfer between categories | 111 | ( 111) | - | - | - |
| Amortisation charge | ( 124) | ( 927) | - | - | (1 051) |
| **Net book amount at 31 December 2018** | **230** | **3 999** | **-** | **2 300** | **6 529** |
| **At 31 December 2018** | | | | | |
| Cost | 469 | 7 282 | 2 | 2 300 | 10 053 |
| Accumulated amortisation | ( 239) | (3 283) | ( 2) | - | (3 524) |
| **Net book amount** | **230** | **3 999** | **-** | **2 300** | **6 529** |

(All amounts are in EUR thousands unless otherwise stated)

## 5. Property, plant and equipment

| Group | Land | Buildings | Structures and machinery | Motor vehicles | Other PP&E | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | | | |
| Cost | 534 | 12 634 | 407 733 | 835 | 15 132 | 11 110 | 447 978 |
| Accumulated depreciation | - | (1 318) | (41 663) | ( 729) | (5 108) | - | (48 818) |
| **Net book amount** | **534** | **11 316** | **366 070** | **106** | **10 024** | **11 110** | **399 160** |
| Net book amount at 31 December 2016 | 534 | 11 316 | 366 070 | 106 | 10 024 | 11 110 | 399 160 |
| Additions | - | - | - | 1 410 | 582 | 24 617 | 26 609 |
| Prepayments of PP&E | - | - | - | - | - | ( 450) | ( 450) |
| Revaluation | - | 100 | 24 | 198 | 35 | - | 357 |
| Write-offs | - | ( 36) | (1 223) | - | ( 7) | - | (1 266) |
| Reclassification to inventories | - | - | - | - | ( 43) | - | ( 43) |
| Reclassification to assets for sale | - | ( 14) | - | - | - | - | ( 14) |
| Reclassification to intangible assets | - | - | - | - | - | ( 768) | ( 768) |
| Transfers between categories | - | 174 | 6 999 | - | 1 073 | (8 246) | - |
| Set-off of grants with non-current assets | - | - | (1 281) | - | - | (18 296) | (19 577) |
| Depreciation charge | - | ( 595) | (22 547) | ( 117) | (2 346) | - | (25 605) |
| **Net book amount at 31 December 2017** | **534** | **10 945** | **348 042** | **1 597** | **9 318** | **7 967** | **378 403** |
| **At 31 December 2017** | | | | | | | |
| Cost | 534 | 12 841 | 411 654 | 2 423 | 16 731 | 7 967 | 452 150 |
| Accumulated depreciation | - | (1 896) | (63 612) | ( 826) | (7 413) | - | (73 747) |
| **Net book amount** | **534** | **10 945** | **348 042** | **1 597** | **9 318** | **7 967** | **378 403** |
| Net book amount at 31 December 2017 | 534 | 10 945 | 348 042 | 1 597 | 9 318 | 7 967 | 378 403 |
| Additions | - | 17 | 198 | 393 | 587 | 17 377 | 18 572 |
| Prepayments of PP&E | - | - | - | - | - | 2 017 | 2 017 |
| Revaluation | ( 14) | ( 394) | (55 702) | - | ( 160) | - | (56 270) |
| Write-offs | - | ( 3) | (1 036) | - | ( 6) | - | (1 045) |
| Reclassification to inventories | - | - | - | - | ( 131) | - | ( 131) |
| Reclassification to intangible assets | - | - | - | - | - | 93 | 93 |
| Transfers between categories | - | 260 | 11 513 | - | 949 | (12 722) | - |
| Set-off of grants with non-current assets | - | - | - | - | - | (7 054) | (7 054) |
| Depreciation charge | - | ( 574) | (22 004) | ( 259) | (2 007) | - | (24 844) |
| **Net book amount at 31 December 2018** | **520** | **10 251** | **281 011** | **1 731** | **8 550** | **7 678** | **309 741** |
| **At 31 December 2018** | | | | | | | |
| Cost | 520 | 10 592 | 281 311 | 2 816 | 9 601 | 7 678 | 312 518 |
| Accumulated depreciation | - | ( 341) | ( 300) | (1 085) | (1 051) | - | (2 777) |
| **Net book amount** | **520** | **10 251** | **281 011** | **1 731** | **8 550** | **7 678** | **309 741** |

(All amounts are in EUR thousands unless otherwise stated)

| Company | Land | Buildings | Structures and machinery | Other PP&E | Construction in progress | Total |
|---|---|---|---|---|---|---|
| At 31 December 2016 | | | | | | |
| Cost | 534 | 12 173 | 407 347 | 13 853 | 11 110 | 445 017 |
| Accumulated depreciation | - | (1 075) | (41 455) | (4 218) | - | (46 748) |
| **Net book amount** | **534** | **11 098** | **365 892** | **9 635** | **11 110** | **398 269** |
| | | | | | | |
| Net book amount at 31 December 2016 | 534 | 11 098 | 365 892 | 9 635 | 11 110 | 398 269 |
| Additions | - | - | - | 545 | 24 617 | 25 162 |
| Prepayments for PP&E | - | - | - | - | ( 450) | ( 450) |
| Revaluation | - | - | - | - | - | - |
| Write-offs | - | ( 36) | (1 223) | ( 4) | - | (1 263) |
| Transfer to inventories | - | - | - | ( 43) | - | ( 43) |
| Reclassification to intangible assets | - | - | - | - | ( 768) | ( 768) |
| Transfers between categories | - | 174 | 6 999 | 1 073 | (8 246) | - |
| Set-off of grants with non-current assets | - | - | (1 281) | - | (18 296) | (19 577) |
| Depreciation charge | - | ( 553) | (22 506) | (2 243) | - | (25 302) |
| **Net book amount at 31 December 2017** | **534** | **10 683** | **347 881** | **8 963** | **7 967** | **376 028** |
| | | | | | | |
| At 31 December 2017 | | | | | | |
| Cost | 534 | 12 305 | 411 244 | 15 421 | 7 967 | 447 471 |
| Accumulated depreciation | - | (1 622) | (63 363) | (6 458) | - | (71 443) |
| **Net book amount** | **534** | **10 683** | **347 881** | **8 963** | **7 967** | **376 028** |
| | | | | | | |
| Net book amount at 31 December 2017 | 534 | 10 683 | 347 881 | 8 963 | 7 967 | 376 028 |
| Additions | - | - | 16 | 352 | 17 187 | 17 555 |
| Prepayments for PP&E | - | - | - | - | 2 017 | 2 017 |
| Revaluation | ( 14) | ( 394) | (55 702) | ( 160) | - | (56 270) |
| Write-offs | - | ( 3) | (1 036) | ( 6) | - | (1 045) |
| Transfer to inventories | - | - | - | ( 131) | - | ( 131) |
| Reclassification from intangible assets | - | - | - | - | 93 | 93 |
| Transfers between categories | - | 260 | 11 513 | 949 | (12 722) | - |
| Set-off of grants with non-current assets | - | - | - | - | (7 054) | (7 054) |
| Depreciation charge | - | ( 507) | (21 953) | (1 876) | - | (24 336) |
| **Net book amount at 31 December 2018** | **520** | **10 039** | **280 719** | **8 091** | **7 488** | **306 857** |
| | | | | | | |
| At 31 December 2018 | | | | | | |
| Cost | 520 | 10 039 | 280 719 | 8 091 | 7 488 | 306 857 |
| Accumulated depreciation | - | - | - | - | - | - |
| **Net book amount** | **520** | **10 039** | **280 719** | **8 091** | **7 488** | **306 857** |

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

Interest expenses satisfying the criteria for capitalisation at the Company amounted to EUR 240 thousand for the period ended 31 December 2018 (EUR 543 thousand for the period ended 31 December 2017). This amount was reduced by the amount of EUR 218 thousand (EUR 386 thousand for the period ended 31 December 2017). The total amount of capitalised interest was EUR 22 thousand (EUR 157 thousand for the period ended 31 December 2017). The annual interest rate of capitalisation was 0.2% (0.2% for the period ended 31 December 2017).

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

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

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

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

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

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

The value of assets was calculated as follows:

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

The discounted terminal value was calculated as follows:

- Assuming that in the long run the congestion revenues as a result of increasing interconnection capacity and merging of markets should converge to 0, while investments should maintain the future asset condition (i.e., overlap with depreciation costs), and that the cash flow should only be generated by the investment return of the regulated assets and unregulated activity revenue, calculated normalized cash flow by multiplying the LRAIC-modelled regulated assets value for the end of 2025 by the rate of the return on investment and less the income tax and adding other (unregulated) after tax income;
- Calculated capitalized value by dividing normalized cash flow from discounted rate; normalized cash flow growth rate is 0;
- Capitalized value ir discounted to 2018.

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

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

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

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

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

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

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

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

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

The value of assets was calculated as follows:

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

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

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

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

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

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

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

As at 31 December 2018, the Group and the Company had contractual commitments to purchase property, plant and equipment in amount of EUR 98 213 thousand (31 December 2017: EUR 17,441 thousand) to be fulfilled in the upcoming periods.

Property, plant and equipment is stated at acquisition cost reduced by the amount of grants received/receivable for the purpose of acquiring the related assets. Grants include the EU structural funds, the funds of connecting new consumers (producers) to electricity transmission network (based on the accounting policy applicable until 1 July 2009), the PSO funds and congestion revenue funds.

Had the value of property, plant and equipment not been reduced by the amount of grants, the carrying amount would by higher by EUR 296,763 thousand as at 31 December 2018 (EUR 297,649 thousand as at 31 December 2017). Below is information about property, plant and equipment, the value of which was reduced by the amount of grants received/receivable:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Opening balance** | **297,649** | **285,745** | **297,649** | **285,745** |
| Additions | 7,054 | 19,577 | 7,054 | 19,577 |
| Depreciation | (7,929) | (7,673) | (7,929) | (7,673) |
| Write-offs | ( 11) | - | ( 11) | - |
| **Closing balance** | **296,763** | **297,649** | **296,763** | **297,649** |

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

*Investments in subsidiaries in the Company's financial statements*

As at 31 December 2018 and 2017, the Company's investments comprised as follows:

| Subsidiaries | Investment cost | Impairment | Carrying amount | Ownership interest, % |
|---|---|---|---|---|
| ***At 31 December 2018*** | | | | |
| TETAS UAB | 4,754 | (3,754) | 1,000 | 100 |
| Litgrid Power Link Service UAB | 174 | - | 174 | 100 |
| **Total** | **4,928** | **(3,754)** | **1,174** | |
| ***At 31 December 2017*** | | | | |
| TETAS UAB | 4,754 | (4,754) | - | 100 |
| Litgrid Power Link Service UAB | 174 | - | 174 | 100 |
| **Total** | **4,928** | **(4,754)** | **174** | |

As at 31 December 2018, the recoverable amount of investment into TETAS UAB was calculated and reversal of impairment losses of EUR 1,000 thousand was recognised, by taking into consideration the positive EBITDA margin achieved by TETAS UAB in 2018 and forecasts for its gainful activities in upcoming periods. The recoverable amount was determined using the discounted cash flow technique, based on forecast financial result for future periods and post-tax discount rate (WACC) of 11%.

Investments in associates and joint ventures in the Company's and the Group's financial statements

On 27 January 2017, the Company's Board gave its consent to the arrangement of sale of all 20.36% shares held under the title of ownership by Litgrid UAB in Duomenų Logistikos Centras UAB, together with the shares held in Duomenų Logistikos Centras UAB by Lietuvos Energija UAB. In the absence of a sale transaction, on 13 June 2018, the Board of the Company has decided to approve the termination of the agreement of sale and purchase of 20.36% shares of UAB Duomenų Logistikos Centras UAB, signed with Telia Lietuva, and to renew the sale process of Duomenų Logistika UAB. As a result of active steps of the Company to sell the shares of the associate, in these financial statements, the Company's investment in the associate was reclassified to financial assets held for sale, and was recorded within current assets under the caption 'Other financial assets' (Note 12).

(All amounts are in EUR thousands unless otherwise stated)

During the Extraordinary General Meeting of Shareholders of LitPol Link SP.z.o.o. on 28 September 2016, the decision was made to suspend the operations of LitPol Link SP.z.o.o. for the period until Polskie Sieci Elektroenergetyczne S.A. and LITGRID AB decides on the execution of a joint project, but no longer than 24 months. As at 31 December 2018 and 2017, the impairment for investment in LitPol Link Sp.z.o.o., which was equal to acquisition cost of EUR 295 thousand.

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

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

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

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

## 7. Loans granted

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

As described in Note 6, upon the registration of increase in share capital by EUR 397,477 on 29 December 2017, the total issue price of shares was settled in the form of monetary contribution by way of setoff against the loan.

On 25 June 2018, Litgrid AB and TETAS UAB have entered into another loan agreement. Under this loan agreement, Litgrid AB has granted EUR 1 million to TETAS UAB, which is also intended to balance cash flows. The annual interest rate - 2.2%, the loan repayment term is 25 June 2021.

The amount of loans granted to TETAS UAB as at 31 December 2018 was EUR 2,202,523 (31 December 2017: EUR 1,202,523).

## 8. Available-for-sale financial assets

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

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| NordPool Holding AS (2%) | 2,693 | 2,693 | 2,693 | 2,693 |
| **Carrying amount** | **2,693** | **2,693** | **2,693** | **2,693** |

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

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

(All amounts are in EUR thousands unless otherwise stated)

## 9. Inventories

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

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Materials and consumables | 1,447 | 1,323 | 413 | 354 |
| Less: impairment | ( 340) | ( 304) | ( 306) | ( 255) |
| **Carrying amount** | **1,107** | **1,019** | **107** | **99** |

Change in impairment for inventories in 2018 and 2017 are indicated below:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Carrying amount at 1 January** | 304 | 218 | 255 | 193 |
| Change in impairment | 36 | 86 | 51 | 62 |
| **Carrying amount at 31 December** | **340** | **304** | **306** | **255** |

In 2018 and 2017, the Group and the Company formed additional write-downs of current and fixed or slow moving stock in stock up to potential realizable value and accounted for operating expenses in the statement of comprehensive income.

The Group's inventories recognized as expenses within 2018 amounted to EUR 8,831 thousand (2017: EUR 8,513 thousand), the Company's within 2018 – EUR 164 thousand (2017: EUR 136 thousand).

## 10. Trade receivables

Trade receivables comprised as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Receivables from transmission of electricity | 18,513 | 20,538 | 18,513 | 20,538 |
| Receivables for contractual works and other services | 3,880 | 5,267 | - | - |
| Other trade receivables | 1,911 | 2,887 | 1,911 | 2,886 |
| Less: impairment allowance for trade receivables | (3,443) | (6,482) | (3,412) | (6,402) |
| **Carrying amount** | **20,861** | **22,210** | **17,012** | **17,022** |

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

In 2018, the Group and the Company accounted for the reversal of impairment allowance of EUR 564 thousand (2017: EUR 173 thousand) for the amounts settled, and write-off of EUR 2,426 thousand (2017: EUR 737 thousand) for individually assessed doubtful receivables related to debts.

In 2016, the Company calculated the price of electricity transmission service in accordance with the Resolution No O3-696 of NCCPE as of 30 December 2015, where new recalculated prices were announced. As described in Note 36, the Supreme Administrative Court of Lithuania, by its decision dated 20 September 2018 in the administrative case No eI-13-822/822 decided to acknowledge that the provision of Item 1 of Annex to NCCPE Resolution No O3-696 of 30 December 2015 contradicts the Article 69 (9) of the Law on Electricity (version of the law in force as of 30 December 2015) providing for the entry into force of newly announced prices and tariffs no earlier than 2 months after their publication. In accordance with this interpretation, on 31 December 2018, the Company recalculated the price of electricity transmission service of January and February 2016 and has accumulated EUR 2.9 million for credit accounts for electricity transmission by reducing income and trade receivables.

The ageing analysis of trade receivables that were not impaired:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Not overdue | 20,268 | 20,965 | 17,012 | 16,986 |
| Overdue up to 30 days | 344 | 1,112 | - | 36 |
| Overdue from 30 to 60 days | - | 77 | - | - |
| Overdue from 60 to 90 days | 6 | - | - | - |
| Overdue more than 90 days | 243 | 56 | - | - |
| **Carrying amount** | **20,861** | **22,210** | **17,012** | **17,022** |

(All amounts are in EUR thousands unless otherwise stated)

## 11. Other amounts receivable

Other amounts receivable were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Grants receivable | - | 20,168 | - | 20,168 |
| Other receivables | 1,266 | 1,116 | 70 | 486 |
| Less: impairment of other receivables | ( 23) | ( 9) | ( 23) | ( 9) |
| **Carrying amount** | **1,243** | **21,275** | **47** | **20,645** |

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

Movements in impairment allowance during the year:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Carrying amount at 1 January** | **9** | **1** | **9** | **1** |
| Change in impairment allowance | 14 | 8 | 14 | 8 |
| **Carrying amount at 31 December** | **23** | **9** | **23** | **9** |

The ageing analysis of other amounts receivable not impaired:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Not overdue | 1,243 | 21,270 | 47 | 20,640 |
| Overdue up to 30 days | - | 5 | - | 5 |
| Overdue from 30 to 60 days | - | - | - | - |
| Overdue from 60 to 90 days | - | - | - | - |
| Overdue more than 90 days | - | - | - | - |
| **Carrying amount** | **1,243** | **21,275** | **47** | **20,645** |

## 12. Other financial assets

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Funds deposited for guarantees and deposits | 1,769 | 1,877 | 1,769 | 1,877 |
| Fund received for congestion management (Note 2.18) | 4,922 | 6,107 | 4,922 | 6,107 |
| Financial assets held for sale | 752 | 752 | 752 | 752 |
| **Carrying amount** | **7,443** | **8,736** | **7,443** | **8,736** |

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

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

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

The fair value of other financial assets approximated their carrying amount as at 31 December 2018 and 2017.

(All amounts are in EUR thousands unless otherwise stated)

## 13. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Cash at bank | 627 | 696 | 397 | 434 |
| **Carrying amount** | **627** | **696** | **397** | **434** |

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

## 14. Share capital and share premium

As at 31 December 2018 and 2017, the share capital of the Company amounted to EUR 146,256,100.20 and it was divided into 504,331,380 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

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

Capital management

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

According to the requirements of the Lithuanian Law on Companies, the Company's equity must not be less than 1/2 of its authorised share capital. As at 31 December 2018 and 2017, the Company was in compliance with the above-mentioned requirement. No other external capital requirements have been imposed on the Company.

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

## 15. Revaluation reserve

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

| **Group** | Revaluation reserve | Deferred income tax | Net of deferred income tax |
|---|---|---|---|
| **Balance at 31 December 2016** | **6,598** | **( 990)** | **5,608** |
| Depreciation of revaluation reserve | ( 630) | 94 | ( 536) |
| Write-offs of property, plant and equipment | ( 65) | 9 | ( 56) |
| Revaluation of property, plant and equipment | 428 | ( 64) | 364 |
| **Balance at 31 December 2017** | **6,331** | **( 951)** | **5,380** |
| Depreciation of revaluation reserve | ( 724) | 109 | ( 615) |
| Write-offs of property, plant and equipment | ( 56) | 9 | ( 47) |
| Revaluation of property, plant and equipment | (5,289) | 793 | (4,496) |
| **Balance at 31 December 2018** | **262** | **( 40)** | **222** |

| **Company** | Revaluation reserve | Deferred income tax | Net of deferred income tax |
|---|---|---|---|
| **Balance at 31 December 2016** | **6,510** | **( 977)** | **5,533** |
| Depreciation of revaluation reserve | ( 569) | 85 | ( 484) |
| Write-offs of property, plant and equipment | ( 59) | 9 | ( 50) |
| **Balance at 31 December 2017** | **5,882** | **( 883)** | **4,999** |
| Depreciation of revaluation reserve | ( 537) | 81 | ( 456) |
| Write-offs of property, plant and equipment | ( 56) | 9 | ( 47) |
| Revaluation of property, plant and equipment | (5,289) | 793 | (4,496) |
| **Balance at 31 December 2018** | **-** | **-** | **-** |

(All amounts are in EUR thousands unless otherwise stated)

## 16. Legal reserve, reserve of changes in fair value of financial assets, and other reserves

Legal reserve

The legal reserve is established in accordance with the Lithuanian laws. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10% of the share capital. The legal reserve can be used only to cover future losses. The Company's accumulated legal reserve meets the legislative requirements of the Republic of Lithuania and consists of 10% of the share capital.

Reserve of changes in fair value of financial assets

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

Other reserves

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

During the Ordinary General Meeting of Shareholders of LITGRID AB held on 24 April 2018, the decision was made to approve the proposed profit appropriation and to transfer EUR 542 thousand from retained earnings to other reserves.

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

## 17. Dividends

During the Ordinary General Meeting of Shareholders of Litgrid AB held on 24 April 2018, the decision was made to pay out dividends in amount of EUR 7,716,270 thousand. Dividends per share amounted to EUR 0.0153.

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

## 18. Grants received in advance

The grants received in advance consist of grants intended for the acquisition of non-current assets. Movements in grants in 2018 and 2017 were as follows:

| | Group | Company |
|---|---|---|
| **Balance at 31 December 2016** | **38** | **38** |
| Grants received | 8,133 | 8,133 |
| Additionally recognised grants | 1,281 | 1,281 |
| Congestion income | 10,163 | 10,163 |
| Grants used for expenditure compensation | (19,577) | (19,577) |
| Grants used for expenditure compensation | ( 16) | ( 16) |
| **Balance at 31 December 2017** | **22** | **22** |
| Grants received | 24,283 | 24,283 |
| Congestion income | 2,939 | 2,939 |
| Transfer to property, plant and equipment | (7,054) | (7,054) |
| Transfer to property, plant and equipment in 2017 | (20,150) | (20,150) |
| Grants used for expenditure compensation | ( 40) | ( 40) |
| **Balance at 31 December 2018** | **-** | **-** |

(All amounts are in EUR thousands unless otherwise stated)

## 19. Borrowings

Borrowings of the Group/Company were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| **Non-current borrowings** | | | | |
| Borrowings from banks | 94,128 | 108,353 | 94,128 | 108,353 |
| **Current borrowings** | | | | |
| Current portion of non-current borrowings | 14,225 | 8,082 | 14,225 | 8,082 |
| Related party borrowings | 12,517 | - | 12,517 | - |
| Overdraft | 98 | 34,656 | - | 33,311 |
| **Total** | **120,968** | **151,091** | **120,870** | **149,746** |

Maturity of non-current borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Between 1 and 2 years | 14,225 | 14,225 | 14,225 | 14,225 |
| From 2 to 5 years | 42,676 | 42,676 | 42,676 | 42,676 |
| After 5 years | 37,227 | 51,452 | 37,227 | 51,452 |
| **Total** | **94,128** | **108,353** | **94,128** | **108,353** |

As at 31 December 2018 and 2017, no significant assets were pledged as collateral by the Group/Company.
As at 31 December 2017, the weighted average interest rate on the Group's and the Company's borrowings was 0.95% (31 December 2017: 0.87%).

As at 31 December 2018, the Group's unwithdrawn balance of loans and overdrafts amounted to EUR 11,785 thousand (31 December 2017: EUR 10,944 thousand), the Company's – EUR 10,483 thousand (31 December 2017: EUR 9,689 thousand).

On 27 September 2018, the Company with the shareholder EPSO-G UAB entered into a mutual loan agreement. This agreement sets a maximum loan limit of EPSO-G UAB - up to EUR 23 million and LITGRID AB loan limit - up to EUR 20 million. Loan balance as at 31 December 2018 – EUR 12,517 thousand.

Under the loan agreements signed with Nordic Investment Bank and European Investment Bank, the Company is committed to comply with the net debt to EBITDA ratio, which should not exceed 4.5 in 2018 and 2017. The outstanding balance of non-current borrowings from Nordic Investment Bank, which was subject to this requirement, amounted to EUR 35,271thousand as at 31 December 2018 (31 December 2017: EUR 43,353 thousand), and the outstanding balance of non-current borrowings from European Investment Bank amounted to EUR 58,857 thousand as at 31 December 2018 (2017: EUR 65,000 thousand), without taking into account the current portion of non-current borrowings. As at 31 December 2018 and 2017, the Company complied with this requirement.

In addition, under the above-mentioned loan agreements with both banks, the Company is committed to comply with interest coverage ratio, which should not exceed 3 in 2018 and 2017. The Company complied with this requirement.

Reconciliation of net debt balances and cash flows from financing activities of 2018 and 2017:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Cash and cash equivalents | 627 | 696 | 397 | 434 |
| Non-current borrowings | (94,128) | (108,353) | (94,128) | (108,353) |
| Finance lease liabilities | ( 599) | ( 820) | - | - |
| Current portion of non-current borrowings | (14,225) | (8,082) | (14,225) | (8,082) |
| Current borrowings | (12,615) | (34,656) | (12,517) | (33,311) |
| Current portion of finance lease liabilities | ( 221) | ( 443) | - | - |
| **Net debt** | **(121,161)** | **(151,658)** | **(120,473)** | **(149,312)** |

(All amounts are in EUR thousands unless otherwise stated)

| Group | Cash | Borrowings | Financial lease liabilities | Total |
|---|---|---|---|---|
| **Net debt as at 31 December 2016** | 798 | (165,503) | - | (164,705) |
| Additions | - | - | (1,423) | (1,423) |
| (Decrease) in cash and cash equivalents | ( 102) | - | 160 | 58 |
| Change in overdraft | - | 6 330 | - | 6,330 |
| Repayment of borrowing | - | 8 082 | - | 8,082 |
| **Net debt as at 31 December 2017** | **696** | **(151,091)** | **(1,263)** | **(151,658)** |
| Additions | | (12,517) | | (12,517) |
| (Decrease) in cash and cash equivalents | ( 69) | - | 443 | 374 |
| Change in overdraft | - | 34,558 | - | 34,558 |
| Repayment of borrowing | - | 8,082 | - | 8,082 |
| **Net debt as at 31 December 2018** | **627** | **(120,968)** | **( 820)** | **(121,161)** |

| Company | Cash | Borrowings | Total |
|---|---|---|---|
| **Net debt as at 31 December 2016** | 608 | (164,688) | (164,080) |
| Additions | - | - | - |
| (Decrease) in cash and cash equivalents | ( 174) | - | ( 174) |
| Change in overdraft | - | 6,860 | 6,860 |
| Repayment of borrowing | - | 8,082 | 8,082 |
| **Net debt as at 31 December 2017** | **434** | **(149,746)** | **(149,312)** |
| Additions | - | (12,517) | (12,517) |
| (Decrease) in cash and cash equivalents | ( 37) | - | ( 37) |
| Change in overdraft | - | 33,311 | 33,311 |
| Repayment of borrowing | - | 8,082 | 8,082 |
| **Net debt as at 31 December 2018** | **397** | **(120,870)** | **(120,473)** |

## 20. Finance lease liabilities

| Group | At 31 December 2018 | | At 31 December 2017 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value of minimum lease payments |
| *Finance lease payments:* | | | | |
| Within one year | 234 | 221 | 462 | 443 |
| After one year, but no later than within five years | 615 | 599 | 849 | 820 |
| **Minimum finance lease payment** | **849** | **820** | **1,311** | **1,263** |
| Less: future finance charges | ( 29) | - | ( 48) | - |
| **Present value of minimum finance lease payments** | **820** | **820** | **1,263** | **1,263** |

In 2017, the Group company TETAS UAB acquired motor vehicles under finance lease with the residual value of EUR 1,194 (as at 31 December 2017 – EUR 1,332).

## 21. Congestion management revenue

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Opening balance of congestion management revenue** | **6,564** | **7,966** | **6,564** | **7,966** |
| Congestion management revenue received during the period | 12,940 | 10,206 | 12,940 | 10,206 |
| Reclassified to property, plant and equipment | (2,939) | (10,163) | (2,939) | (10,163) |
| Congestion management revenue recognised as income during the period | ( 811) | (1,445) | ( 811) | (1,445) |
| **Closing balance of congestion management revenue** | **15,754** | **6,564** | **15,754** | **6,564** |

The principles of receipt and use of the congestion management revenue are set out in Note 2.18. As at 31 December 2018 the unused balance of the congestion management revenue amounted to EUR 15,754 thousand, the projected use is specified in Note 3 of this Explanatory Note.

(All amounts are in EUR thousands unless otherwise stated)

* The Company in its statement of cash flows accounted for the difference between the congestion management revenue received during the period and compensated disconnection costs as revenue from investing activities, with regard to their prospective use for investment financing: in 2018 – EUR 12,208 thousand (2017: EUR 8,691 thousand).

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

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Advances received from connection of new users | 609 | 609 | 609 | 609 |
| Provisions for pension benefits to employees | 216 | 150 | 169 | 85 |
| Provisions for guarantees | 6 | 5 | - | - |
| Provisions of servitude obligations (Note 4) | 1,100 | - | 1,100 | - |
| **Carrying amount** | **1,931** | **764** | **1,878** | **694** |

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

As set out in Note 4, on 31 December 2018, the Company and the Group recognised the intangible assets and provisions of EUR 2,300 thousand assessed on the basis of available information on servitudes used and expected compensation amount. Current share of provisions of servitude obligations is accounted for in current liabilities 'Other amounts payable and current liabilities' (Note 26).

## 23. Current income tax and deferred income tax

Income tax expense components:

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Current year income tax | 2,945 | 4,351 | 2,939 | 4,632 |
| Deferred income tax expenses (benefit) | (9,784) | (2,142) | (9,781) | (2,111) |
| **Current year income tax expenses (benefit)** | **(6,839)** | **2,209** | **(6,842)** | **2,521** |

On 13 July 2018, the Board of the Company adopted the decision to conclude agreements between the patronising company EPSO-G UAB and LITGRID AB regarding the transfer of tax losses for remuneration. Under these agreements, in 2018 the Company paid EPSO-G UAB 15 per cent of the amount of the transferred tax losses, i.e. EUR 680 thousand for the year 2014 and EUR 680 thousand for the year 2015.

On 26 July 2019, the Board of the Company adopted the decision to conclude agreements between the patronising company EPSO-G UAB and LITGRID AB regarding the transfer of tax losses for remuneration and between the subsidiary LITGRID Power Link Service UAB and LITGRID AB regarding the transfer of tax losses for free. Under agreement, the Company will pay to EPSO-G UAB 15 per cent of the amount of the transferred tax losses, i.e. EUR 380 thousand.

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

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

(All amounts are in EUR thousands unless otherwise stated)

**Group**

| Deferred income tax assets | PPE revaluation (impairment) | Impairment of assets | Accrued expenses/ income | Other | Total |
|---|---|---|---|---|---|
| **At 31 December 2016** | **18 124** | **1 364** | **1 559** | **52** | **21 099** |
| Recognised in profit or loss | (1 542) | ( 248) | ( 181) | 1 527 | ( 444) |
| Recognised in other comprehensive income | - | - | - | - | - |
| **At 31 December 2017** | **16 582** | **1 116** | **1 378** | **1 579** | **20 655** |
| Deffered income tax assets offset with deffered income tax liability | (24 674) | - | - | - | (24 674) |
| Recognised in profit or loss | 8 517 | ( 619) | 1 166 | 466 | 9 530 |
| Recognised in other comprehensive income | 793 | - | - | - | 793 |
| **At 31 December 2018** | **1 218** | **497** | **2 544** | **2 045** | **6 304** |

| Deferred income tax liabilities | PPE revaluation (increase in value) | Differences in depreciation rates | Tax relief on acquisitio n of PPE | Effect of interest capitalisation | Total |
|---|---|---|---|---|---|
| **At 31 December 2016** | **(27 014)** | **11** | **(1 982)** | **( 264)** | **(29 249)** |
| Recognised in profit or loss | 2 368 | 78 | 156 | ( 16) | 2 586 |
| Recognised in other comprehensive income | ( 64) | - | - | - | ( 64) |
| **At 31 December 2017** | **(24 710)** | **89** | **(1 826)** | **( 280)** | **(26 727)** |
| Deffered income tax assets offset with deffered income tax liability | 24 674 | - | - | - | 24 674 |
| Recognised in profit or loss | 36 | 69 | 146 | 3 | 254 |
| **At 31 December 2018** | **-** | **158** | **(1 680)** | **( 277)** | **(1 799)** |

| | |
|---|---|
| **Deferred income tax assets, net, at 31 December 2017** | **33** |
| **Deferred income tax assets, net, at 31 December 2018** | **4,505** |
| **Deferred income tax liability, net, at 31 December 2017** | **6,105** |
| **Deferred income tax liability, net, at 31 December 2018** | **-** |

**Company**

| Deferred income tax assets | PPE revaluation (impairment) | Impairment of assets | Accrued expenses/ income | Other | Total |
|---|---|---|---|---|---|
| **At 31 December 2016** | **18 124** | **1 360** | **1 526** | **-** | **21 010** |
| Recognised in profit or loss | (1 533) | ( 251) | ( 195) | 1 524 | ( 455) |
| Recognised in other comprehensive income | - | - | - | - | - |
| **At 31 December 2017** | **16 591** | **1 109** | **1 331** | **1 524** | **20 555** |
| Deffered income tax assets offset with deffered income tax liability | (24 641) | | | | (24 641) |
| Recognised in profit or loss | 8 517 | ( 624) | 1 178 | 492 | 9 563 |
| Recognised in other comprehensive income | 793 | - | - | - | **793** |
| **At 31 December 2018** | **1 260** | **485** | **2 509** | **2 016** | **6 270** |

| Deferred income tax liabilities | PPE revaluation (increase in value) | Differences in depreciation rates | Tax relief on acquisition of PP&E | Effect of interest capitalisation | Total |
|---|---|---|---|---|---|
| **At 31 December 2016** | **(27 000)** | **22** | **(1 984)** | **( 264)** | **(29 226)** |
| Recognised in profit or loss | 2 359 | 67 | 156 | ( 16) | 2 566 |
| Recognised in other comprehensive income | - | - | - | - | - |
| **At 31 December 2017** | **(24 641)** | **89** | **(1 828)** | **( 280)** | **(26 660)** |
| Deffered income tax assets offset with deffered income tax liability | 24 641 | - | - | - | 24 641 |
| Recognised in profit or loss | - | 69 | 146 | 3 | 218 |
| **At 31 December 2018** | **-** | **158** | **(1 682)** | **( 277)** | **(1 801)** |

| | |
|---|---|
| **Deferred income tax liability, net, at 31 December 2017** | **6,105** |
| **Deferred income tax liability, net, at 31 December 2018** | **4,469** |

(All amounts are in EUR thousands unless otherwise stated)

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

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| ***Deferred income tax assets:*** | | | | |
| Deferred income tax assets to be realised after 12 months | 6 172 | 19 233 | 6 174 | 19 151 |
| Deferred income tax assets to be realised within 12 months | 132 | 1 422 | 96 | 1 404 |
| **Total** | **6 304** | **20 655** | **6 270** | **20 555** |
| ***Deferred income tax liabilities:*** | | | | |
| Deferred income tax liabilities to be settled after 12 months | (1 661) | (24 321) | (1 663) | (24 264) |
| Deferred income tax liabilities to be settled within 12 months | (138) | (2 406) | (138) | (2 396) |
| **Total** | **(1 799)** | **(26 727)** | **(1 801)** | **(26 660)** |

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

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| **Profit (loss) before income tax** | **(46 200)** | **11 794** | **(44 932)** | **10 245** |
| Income tax calculated at a rate of 15% | (6 930) | 1 769 | (6 740) | 1 537 |
| Preceding year income tax expenses (benefit) | (1 381) | ( 44) | (1 381) | ( 44) |
| Impact of take-over of tax losses | (1 747) | ( 280) | (1 747) | - |
| Unrecognised deferred income tax on tax losses | (12) | ( 43) | - | - |
| Tax effect of non-taxable income and non-deductible expenses | 3 231 | 807 | 3 026 | 1 028 |
| **Income tax expenses/(benefit) recognised in profit or loss** | **(6 839)** | **2 209** | **(6 842)** | **2 521** |

## 24. Trade payables

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Amounts payable for electricity | 11 584 | 6 705 | 11 587 | 6 705 |
| Amounts payable for contractual works, services | 5 877 | 5 359 | 1 613 | 1 849 |
| Amounts payable for property, plant and equipment and inventories | 4 709 | 3 031 | 4 709 | 3 027 |
| **Carrying amount** | **22 173** | **15 095** | **17 909** | **11 581** |

The fair value of trade payables approximated their carrying amount.

## 25. Advance amounts received

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Advance amounts received from new users* | 712 | 328 | 712 | 328 |
| Other advance amounts received | 217 | - | 117 | - |
| **Carrying amount** | **929** | **328** | **829** | **328** |

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

(All amounts are in EUR thousands unless otherwise stated)

## 26. Other amounts payable

| | Group | | Company | |
|---|---|---|---|---|
| | At 31 Dec 2018 | At 31 Dec 2017 | At 31 Dec 2018 | At 31 Dec 2017 |
| Difference between PSO funds received and paid | - | 116 | - | 116 |
| Employment-related liabilities | 437 | 697 | 205 | 166 |
| Accrued expenses of vacation reserve | 1 338 | 1 184 | 806 | 634 |
| VAT payable | 779 | 1 782 | 461 | 1 400 |
| Immovable property tax payable | 536 | 510 | 534 | 508 |
| Dividends payable | 496 | 470 | 496 | 470 |
| Accrued other expenses | 1 399 | 1 275 | 1 298 | 1 091 |
| Guarantee to secure fulfilment of obligations* | 1 119 | 1 477 | 1 119 | 1 477 |
| Provisions for servitude obligations ( Note **Error! Reference source not found.**)** | 1 200 | - | 1 200 | - |
| Other amounts payable and current liabilities | 1 353 | 2 401 | 1 292 | 2 584 |
| **Carrying amount** | **8 657** | **9 912** | **7 411** | **8 446** |

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

As set out in Note 4, on 31 December 2018 the Company and the Group recognized the intangible assets and provisions of EUR 2,300 thousand assessed on the basis of available information on servitudes used and expected compensation amount. Non-current share of provisions of servitude obligations is accounted for in non-current liabilities 'Other non-current amounts payable and liabilities' (Note 22).

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

## 27. Revenue from electricity transmission and related services

Electricity revenue comprised as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Electricity transmission services | 66 508 | 68 269 | 66 508 | 68 269 |
| Trade in balancing/regulating electricity | 26 441 | 17 779 | 26 441 | 17 779 |
| Capacity reserve services | 59 058 | 42 530 | 59 058 | 42 530 |
| Other sales of electricity and related services | 5 199 | 4 063 | 5 199 | 4 063 |
| Services under PSO scheme | 7 414 | 8 487 | 7 414 | 8 487 |
| Income from connection of new users | 4 278 | 719 | 4 278 | 719 |
| Congestion revenue | 812 | 1 445 | 812 | 1 445 |
| Income from the administration of guarantees of origin | 48 | - | 48 | - |
| **Total** | **169 758** | **143 292** | **169 758** | **143 292** |

Revenue from electricity transmission decreased by 2.6% to EUR 66.53 million compared to 2017. Revenue from electricity transmission accounted for 35% of the Group's total revenue. Decrease in revenue was compensated by an increased volume of electricity transmission, as the actual electricity transmission price was 7.2% lower than in 2017.

Revenue from sale of electricity balancing/regulating increased by 49% to EUR 26,4 million. Such increase was mostly caused by a higher volume of sales of electricity balancing/regulating due to an increased demand for cross-systemic balancing electricity and demand for assuring distributor permeability of power links with Sweden and Poland (i.e. the volume of electricity traded on power exchange).

Revenue from system services increased by 39% to EUR 59.1 million largely due to 35% higher system service tariff established by the National Control Commission for Prices and Energy as from 1 January 2018, the volume of the system services that grew by 4 per cent, and the declared power exceeded by the network users (stated in agreements), where the double system services price is paid.

(All amounts are in EUR thousands unless otherwise stated)

## 28. Other income

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Repair and other services | 18 569 | 15 906 | - | - |
| Income from lease of assets | 562 | 709 | 544 | 703 |
| Design works | 369 | 280 | - | - |
| Other income | 1 383 | 1 | 1 647 | 362 |
| **Total** | **20 883** | **16 896** | **2 191** | **1 065** |

In 2018, the Group‘s other income mostly (EUR 1,256 thousand) comprised interest on late payment and default charges for a delayed performance of works by contractors (the Company‘s – EUR 1,559 thousand).

## 29. Expenses of electricity transmission and related services

Electricity expenses comprised as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Expenses of compensation for technological losses of electricity | 22 639 | 15 674 | 22 639 | 15 674 |
| Expenses of system services | 59 781 | 40 391 | 59 781 | 40 391 |
| PSO expenses (balancing of production from renewable energy sources) | 7 300 | 8 409 | 7 300 | 8 409 |
| Expenses of electricity balancing and regulating | 26 006 | 12 714 | 26 006 | 12 714 |
| Expenses of participation in ENTSO-e ITC mechanism | 2 455 | 1 448 | 2 455 | 1 448 |
| Expenses of guaranteeing the use of allocated capacities of interconnections | 812 | 1 445 | 812 | 1 445 |
| **Total** | **118 993** | **80 081** | **118 993** | **80 081** |

Compared to 2017, expenses of electricity and related services increased by 48% in 2018. Expenses of electricity balancing and regulating increased by 105% to EUR 26 million. Expenses of system services increased by 48% to EUR 59,8 million. Expenses of compensation for technological losses in the transmission network on purchase of electricity increased by 44% to EUR 22.6 million.

## 30. Segment reporting

In 2018, the Group reviewed the grouping of the operating segments and the operating segments specified below, singled out as separate in the previous financial statements, and aggregated to the segment of electricity transmission and related services activities:

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

The Group’s decision regarding the aggregation of the operating segments was determined by the provisions of the amended legislation ruling the regulated activities. In substance only the activities of electricity transmission is subject to regulation by hedging in profit margin, the scope of non-current assets attributable to the regulated activities, mandatory activity costs, the level of wage costs etc. All other activities related with the electricity transmission: trade in balancing-regulating electricity, rendering of system services and public service obligations (PSO) according to the provisions of legislation cannot be profitable – only actually incurred mandatory costs are subject to compensation. Accordingly, the management monitoring, decision-taking is performed only with regard to the electricity transmission activities.

Operating segments are types of business the performance results of which are observed, when the decisions regarding investments, liabilities, the scope of operating costs and expedience are adopted.

(All amounts are in EUR thousands unless otherwise stated)

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

In the estimation of the Company, after the aggregation of the segments, the Group has two operating segments:

- Electricity transmission and related services activities;
- Repair and maintenance activities.

The Company's segments coincide with the electricity transmission and the segment of the related services activities. Segments of the Group and the Company are not aggregated.

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

Services related with the electricity transmission:

- Trade in balancing-regulating electricity is treated as a service ensuring the balancing of electricity generation/import and demand/export.
- Rendering of system (capacity reserve) services. In order to maintain reliable system operations, Litgrid purchases the services for the capacity reserve assurance at power generation facilities, reactive capacity and voltage management, and emergency and disruption prevention and response from energy generating companies, and provides customers with system (capacity reserve) services. The capacity reserve is needed when electricity production suddenly and unexpectedly falls or its consumption increase.
- PSP rendered by the Company and the Group are comprised of the services specified in Note 2.21 of tis Explanatory Note.

Repair and maintenance services are carried out by the Company's subsidiaries TETAS UAB and Litgrid Power Link Service UAB (Under the decision of the sole shareholder, the Company's activities were terminated from 1 August 2018). The core line of business of Tetas UAB is provision of medium-voltage transformer substation and distribution station reconstruction, repair and maintenance services. The purpose of Litgrid Power Link Service UAB is a centre of competence of high qualification and specific engineering fields, and operation and management of HVDC (High Voltage Direct Current) links that from 1 August 2018 was integrated into the structure of the Company.

The Group's information on segments for the period ended 31 December 2018 is presented in the table below:

| **2018** | Electricity transmission and related services activities | Repair and maintenance activities | Total |
|---|---|---|---|
| Revenue | 171 9491 | 21 902 | 193 851 |
| Inter-segment revenue | - | (3 210) | (3 210) |
| **Revenue after elimination of intercompany revenue within the Group** | **171 949** | **18 692** | **190 641** |
| **Operating profit/(loss)** | (44 854) | ( 183) | **(45 037)** |
| **Finance income/(cost), net*** | **x** | **x** | **(1 163)** |
| **Profit/(loss) before income tax** | **x** | **x** | **(46 200)** |
| **Income tax*** | **x** | **x** | **6 839** |
| **Profit/(loss) for the year** | **x** | **x** | **(39 361)** |
| Depreciation and amortisation expenses | 25 387 | 511 | 25 898 |
| Write-offs of property, plant and equipment | 974 | 3 | 977 |
| Impairment of property, plant and equipment | 50 981 | 3 | 50 984 |

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

(All amounts are in EUR thousands unless otherwise stated)

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

| **2017** | Electricity transmission and related services activities | Repair and maintenance activities | Total |
|---|---|---|---|
| Revenue | 144 357 | 20 172 | 164 529 |
| Inter-segment revenue | - | (4 341) | (4 341) |
| **Revenue after elimination of intercompany revenue within the Group** | **144 357** | **15 831** | **160 188** |
| **Operating profit/(loss)** | 15 668 | (2 720) | **12 948** |
| **Finance income/(cost), net*** | **x** | **x** | **(1 154)** |
| **Profit/(loss) before income tax** | **x** | **x** | **11 794** |
| **Income tax*** | **x** | **x** | **(2 209)** |
| **Net profit/(loss)** | **x** | **x** | **9 585** |
| Depreciation and amortisation expenses | 26 054 | 306 | 26 360 |
| Write-offs of property, plant and equipment | 1 209 | 3 | 1 212 |
| Impairment of property, plant and equipment | - | 71 | 71 |

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

The Group operates in Lithuania and its revenue generated from customers in Lithuania accounts for 93% of total revenue.

In 2018 and 2017, the Group's and the Company's revenue by geographical location of customers:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Lithuania | 177 798 | 152 829 | 159 106 | 136 998 |
| Sweden | 3 018 | 3 132 | 3 018 | 3 132 |
| Norway | 894 | 1 510 | 894 | 1 510 |
| Estonia | 6 027 | 1 571 | 6 027 | 1 571 |
| Latvia | 510 | 441 | 510 | 441 |
| Poland | 692 | 559 | 692 | 559 |
| Other | 1 702 | 146 | 1 702 | 146 |
| **Total** | **190 641** | **160 188** | **171 949** | **144 357** |

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

The Group's/Company's revenue in 2018 from the largest clients, for which sales in the Group's segments exceeded 10%:

| **Name of the company** | **Transmission activity** | **Trade in balancing/ regulating electricity** | **Provision of system services** | **Total** |
|---|---|---|---|---|
| Energijos Skirstymo Operatorius AB | 59 280 | 1 139 | 54 869 | 115 288 |
| Energijos tiekimas UAB | 6 | 7 065 | - | 7 071 |
| Lietuvos Energijos Gamyba AB | 203 | 2 441 | 173 | 2 817 |

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

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

(All amounts are in EUR thousands unless otherwise stated)

## 31. Related-party transactions

The Company's/Group's related parties in 2018 and 2017 were as follows:
- EPSO-G (the parent company of the Company). 100% of EPSO-G share capital is owned by the Ministry of Energy of the Republic of Lithuania;
- Subsidiaries of the Company;
- Associates and joint ventures of the Company;
- Amber Grid AB (common shareholders);
- Baltpool UAB (common shareholders);
- Management;
- All state-controlled companies or those under significant influence.

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

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

| **Related parties** | Loans granted | Loans received | Receivables and accrued income | Amounts payable and accrued charges | Sales | Purchases | Finance income | Costs of financial operations |
|---|---|---|---|---|---|---|---|---|
| The Group's parent company (EPSO-G UAB) | - | 12 517 | - | 415 | - | 155 | - | 18 |
| EPSO-G UAB group companies | - | - | 849 | - | 7 680 | 116 | - | - |
| Group's associates | - | - | 27 | 35 | 295 | 185 | 62 | - |
| Lietuvos energija, UAB group companies | - | - | 18 778 | 7 400 | 148 019 | 66 231 | - | 22 |
| Other state-controlled companies | - | - | 178 | 31 | 1 434 | 240 | - | - |
| | **-** | **12 517** | **19 832** | **7 881** | **157 428** | **66 927** | **62** | **40** |

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

| **Related parties** | Loans granted | Loans received | Receivables and accrued income | Amounts payable and accrued charges | Sales | Purchases | Finance income | Costs of financial operations |
|---|---|---|---|---|---|---|---|---|
| The Group's parent company (EPSO-G UAB) | - | 12 517 | - | 413 | - | 143 | - | 18 |
| EPSO-G UAB group companies | - | - | 849 | - | 7 680* | 116 | - | - |
| Company's subsidiaries | 2 203 | - | 23 | 411 | 355 | 2 832** | 36 | - |
| Company's associates | - | - | 27 | 35 | 295 | 185 | 62 | - |
| Lietuvos energija, UAB companies | - | - | 14 673 | 6 997 | 130 429 | 64 712 | - | - |
| Other state-controlled companies | - | - | 146 | 30 | 1 430 | 226 | - | - |
| | **2 203** | **12 517** | **15 718** | **7 886** | **140 189** | **68 214** | **98** | **18** |

* The sales of the Group and the Company for EPSO-G group of companies were comprised of the rendering of public service obligations (hereinafter – PSO). PSOs were provided for PSO funds administrator – Baltpool UAB:

EUR 3,804 thousand for the connection of power generation equipment that uses wind, biomass, solar energy, or hydropower to the transmission grid;

EUR 3,876 thousand for the balancing of electricity generated by using renewable energy sources.

** The purchases of the Company from the subsidiaries TETAS UAB and LITGRID Power Link Service UAB were comprised of the purchase of transmission grid development, reconstruction, repair and operation services.

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

| Related parties | Loans granted | Loans received | Receivables and accrued income | Amounts payable and accrued charges | Sales | Purchases | Finance income | Costs of financial operations |
|---|---|---|---|---|---|---|---|---|
| The Group's parent company (EPSO-G UAB) | - | - | - | - | - | 89 | - | - |
| EPSO-G UAB group companies | - | - | 646 | - | 5 274 | 158 | 51 | - |
| Group's associates | - | - | 33 | 53 | 580 | 240 | - | - |
| Lietuvos energija, UAB companies | - | - | 16 969 | 6 458 | 126 322 | 54 686 | - | 12 |
| Other state-controlled companies | - | - | 385 | 30 | 1 441 | 321 | - | - |
| | **-** | **-** | **18 033** | **6 541** | **133 617** | **55 494** | **51** | **12** |

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

| Related parties | Loans granted | Loans received | Receivables and accrued income | Amounts payable and accrued charges | Sales | Purchases | Finance income | Costs of financial operations |
|---|---|---|---|---|---|---|---|---|
| The Group's parent company (EPSO-G UAB) | - | - | - | - | - | 81 | - | - |
| EPSO-G UAB group companies | - | - | 646 | - | 5 274 | 158 | 51 | - |
| Company's subsidiaries | 1 203 | - | 14 | 746 | 137 | 4 408 | 5 | - |
| Company's associates | - | - | 33 | 53 | 580 | 240 | - | - |
| Lietuvos energija, UAB companies | - | - | 11 977 | 6 022 | 110 709 | 53 292 | - | - |
| Other state-controlled companies | - | - | 130 | 28 | 1 178 | 306 | - | - |
| | **1 203** | **-** | **12 800** | **6 849** | **117 878** | **58 485** | **56** | **-** |

***Payments to the key management personnel***

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Employment-related payments | 820 | 826 | 602 | 537 |
| Whereof: termination benefits | 35 | 31 | 32 | - |
| Number of the key management personnel (average annual) | 12 | 13 | 7 | 7 |

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

## 32. Basic and diluted earnings per share

In 2018 and 2017, the Group's basic and diluted earnings per share were as follows:

| | 2018 | 2017 |
|---|---|---|
| Net profit (loss) attributable to the Company's shareholders (EUR thousands) | (39 361) | 9 585 |
| Weighted average number of shares (units) | 504 331 380 | 504 331 380 |
| Basic and diluted earnings (deficit) per share (in EUR) | **(0,078)** | **0,019** |

## 33. Additional information on cash flows

The change in the Company's payables for non-current assets amounting to EUR 1,610 thousand (2017: EUR 635 thousand) and capitalised interest amounting to EUR 22 thousand (2017: EUR 157 thousand) were taken into account when calculating cash flows from investing activities in 2018.

(All amounts are in EUR thousands unless otherwise stated)

## 34. Financial risk factors

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

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

| | Group | | Company | |
|---|---|---|---|---|
| **Financial assets** | **At 31 Dec 2018** | **At 31 Dec 2017** | **At 31 Dec 2018** | **At 31 Dec 2017** |
| Trade receivables | 20 861 | 22 210 | 17 012 | 17 022 |
| Other receivables | 1 243 | 21 274 | 47 | 20 645 |
| Other financial assets | 17 882 | 8 736 | 20 085 | 9 939 |
| Cash and cash equivalents | 627 | 696 | 397 | 434 |
| **Loans and receivables** | **40 613** | **52 916** | **37 541** | **48 040** |
| **Other financial assets** | | | | |
| Available-for-sale financial assets | 2 693 | 2 693 | 2 693 | 2 693 |
| **Total** | **43 306** | **55 609** | **40 234** | **50 733** |

| | Group | | Company | |
|---|---|---|---|---|
| **Financial liabilities** | **At 31 Dec 2018** | **At 31 Dec 2017** | **At 31 Dec 2018** | **At 31 Dec 2017** |
| Borrowings | 120 968 | 151 091 | 120 870 | 149 746 |
| Trade payables | 22 173 | 15 095 | 17 909 | 11 581 |
| Other amounts payable and liabilities | 3 233 | 3 045 | 2 600 | 2 311 |
| **Total** | **146 374** | **169 231** | **141 379** | **163 638** |

### Credit risk

As at 31 December 2018 and 2017, exposure to credit risk was related to the following items:

| | Group | | Company | |
|---|---|---|---|---|
| | **At 31 Dec 2018** | **At 31 Dec 2017** | **At 31 Dec 2018** | **At 31 Dec 2017** |
| Financial assets (other than available-for-sale financial assets) | 40 613 | 52 916 | 37 541 | 48 040 |

The Group and the Company have a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, which accounted for approximately 92% (31 December 2017: 54%) of the Group's and 99% (31 December 2017: 68%) of the Company's total trade and other amounts receivable as at 31 December 2018. Amounts receivable from the largest customer – distribution network operator Energijos Skirstymo Operatorius AB – accounted for 70% (31 December 2017: 42%) of the Group's and 71% (31 December 2017: 53%) of the Company's total amounts receivable as at 31 December 2018.

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

The Group and the Company invest their free liquid funds only in low risk money market and debt instruments, i.e. time deposits, bonds of trustworthy financial institutions, government securities. When making investments the priority objective is to ensure the security of funds and in pursue of this objective to maximise return on investments. Investments are made only in debt financial instruments of financial institutions or governments with not lower than A- rating according to Fitch Rating agency (or equivalent rating of other rating agencies). In the table below, the ratings of the parent banks where the Group and the Company hold their cash and cash equivalents (Note 13) are provided:

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

(All amounts are in EUR thousands unless otherwise stated)

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

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

**Liquidity risk**

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

The Group's cash flows from operating activities were positive in 2018, therefore its exposure to liquidity risk is insignificant. The Group's liquidity ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) as at 31 December 2018 were 0.73 and 0.71, respectively (31 December 2017: 0.78 and 0.76, respectively). The Company's liquidity and quick ratios as at 31 December 2018 were 0.69 and 0.69, respectively (31 December 2017: 0.75 and 0.75, respectively).

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

| **Group** | **Up to 3 months** | **From 4 months up to one year** | **Within the second year** | **Within the third to the fifth year** | **After 5 years** |
|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | |
| Trade and other amounts payable | 24 965 | - | - | - | - |
| Borrowings | 1 471 | 26 407* | 15 116 | 44 465 | 38 404 |
| **At 31 December 2017** | | | | | |
| Trade and other amounts payable | 18 243 | - | - | - | - |
| Borrowings | 2 740 | 41 144 | 15 262 | 44 906 | 53 079 |

| **Company** | **Up to 3 months** | **From 4 months up to one year** | **Within the second year** | **Within the third to the fifth year** | **After 5 years** |
|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | |
| Trade and other amounts payable | 20 066 | - | - | - | - |
| Borrowings | 1 373 | 26 407* | 15 116 | 44 465 | 38 404 |
| **At 31 December 2017** | | | | | |
| Trade and other amounts payable | 13 892 | - | - | - | - |
| Borrowings | 1 395 | 41 144 | 15 262 | 44 906 | 53 079 |

* Part of the specified repayable borrowing – EUR 12,517 thousand - was comprised of the liability in accordance with EPSO-G loan agreement (overdraft). In the Company's estimation, the right to extend the agreement set out therein will be exercised, therefore the specified negative cash flow of the borrowing repayment is not probable. To ensure and maintain the liquidity, the Company shall use the borrowing limit fixed in the above loan agreement.

**Market risk**

a) Interest rate risk

The Group's and the Company's revenue, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Group has non-current and current borrowings and overdrafts with interest rates linked with EURIBOR. A +/- 0.1% shift in interest rate would result in EUR 138 thousand effect of interest of the Group's borrowings on profit before tax as at 31 December 2018 (31 December 2017: EUR 177 thousand).

b) Foreign exchange risk

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

## 35. Fair value of financial assets and financial liabilities

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

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

- The carrying amount of current trade and other amounts receivable, time deposits, other financial assets, cash and cash equivalents, current borrowings, current trade and other amounts payable approximates their fair value (level 3).
- The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (level 3). The fair value of The Group's and the Company's non-current borrowings with fixed interest rates was approximately lower by 583 thousand euros than their carrying amounts as at 31 December 208 (2017: EUR 683 thousand).
- The fair value of held to maturity investments is determined based on the estimated fair value of bonds in which the Company invested (level 3).

## 36. Contingent liabilities

Litigations

On 26 January 2016, a claim was received from Tetas UAB with the request to recognise the Company's set-offs of EUR 249,707.73 default interest in total charged against amounts payable to contractor Tetas UAB for delay in the implementation of the reconstruction works of 110/35/10 kV Mariai transformer substation as null and void and to award from the Company this amount owed, interest on late payment, procedural interest, litigation expenses amounting to EUR 12,734.10.

On 30 October 2017, the court of first instance dismissed the claim and recognised LITGRI AB's set-off as legitimate and grounded. On 30 November 2017, Tetas UAB filed an appeal. On 8 November 2018, the Court of Appeal of Lithuania decided to leave the decision of the court of the first instance dated 30 October 2017 unchanged, i.e. to declare the set-off of LITGRID AB legal and reasonable. The company has restored the provision of EUR 210 thousand made in earlier periods.

On 6 March 2017, A.Žilinskis ir Ko UAB filed a claim against the Company with request to recognise the set-off of a homogeneous counter-claim as null and void and to award payment for construction works and interest on late payment. The claim amount was equal to EUR 1,021,804.16. The court of first instance satisfied the claim in full. The court awarded to A. Žilinskis ir Ko UAB as follows: amount of EUR 953,175.53 for the construction works, amount of EUR 68,628.63 for interest on late payment, 8% annual interest on amount awarded in relation to the civil case payable from the date of its initiation (9 March 2017) to the date the court decision has been executed in full, as well as litigation expenses of EUR 13,262.61. Litgrid AB filed an appeal. On 4 December 2018, the decision was adopted by the Court of Appeal of Lithuanian, under which the decision of Vilnius Regional Court was changed: the court awarded LITGRID AB to pay the claimant A. Žilinskis ir ko UAB the debt amounting to EUR 236,599.63 and amount of EUR 1,010.57 Eur for interest on late payment. The court dismissed the other part of the claim.

The Company, in the execution of the judgement, transferred EUR 240,904.20 to A. Žilinskis ir Ko UAB and restored the provision amounting to EUR 900,286.36 made in earlier periods.

On 26 May 2017, A.Žilinskis ir Ko UAB filed a claim against the Company to award payment for additional construction works. The amount of the claim – EUR 157,833.7. The claimant argued that it had completed the additional construction works, unpaid yet by the Company. The court of first instance satisfied the claim in full. In favour of the A. Žilinskis ir ko UAB, it awarded EUR 157,833.77 Eur for the completed additional construction works, 8 (eight) per cent annual interest on amount awarded (EUR 157,833.77 EUR) payable from the date of the case initiation (31 May 2017) to the date the court decision is executed in full, stamp duty of EUR 2,053 as well as litigation expenses of EUR 6,833.11. LITGRID AB filed an appeal.

On 14 November 2018, the Court of Appeal of Lithuanian left the decision of the court of first instance unchanged. The Company, in the execution of the judgement, payed A. Žilinskis ir Ko UAB the awarded amount.

Other disputes

On 22 April 2016, LITGRID AB filed a claim to Kaunas Regional Court in relation to the payment for electricity transmission services provided by LITGRID AB. Under the agreement for electricity transmission services No 432-2010-032E/305F/SUT-59-10 dated 1 July 2010 (updated as from 1 January 2013), Achema AB failed to make payments of EUR 86,323.72 (incl. VAT) for the services provided during January-February 2016. On 24 March 2017, the Court satisfied the Company's claim in full: ordered Achema AB to pay EUR 87,590.92 of the debt, plus 6% procedural interest thereon for the period from the date of initiation of court proceedings to a complete execution of the court order, plus litigation costs of EUR 1,567.73 in favour of LITGRID AB. Achema AB filed an appeal.

The Court of Appeal of Lithuania under the ruling of 8 March 2018 decided to renew the case hearing substantially and addressed the Supreme Administrative Court of Lithuania (hereinafter – SACL) with the request to inspect whether the provision of Item 1 of Annex to NCCPE Resolution No O3-696 of 30 December (Procedures for application of prices for electricity transmission services approved under the decision No 12.1 of the Board of LITGRID AB dated 23 December 2015 (protocol No 69), that "under these procedures the prices of electricity transmission services applied by the electricity transmission system operator LITGRID AB, the procedure for their application and essential conditions established from 1 January 2016" do not contradict Article 69 (9) of the Law on Electricity of the Republic of Lithuania. Under the decision of SACL of 20 September 2018 in other administrative case No eI-13-822/822 (the Court of Appeal of Lithuania vs. NCCPE) it was decided to acknowledge that the provision of Item 1 of Annex to NCCPE Resolution No O3-696 of 30 December 2015 contradicts Article 69 (9) of the Law on Electricity (version of the law in force as of 30 December 2015) providing for the entry into force of newly announced prices and tariffs no earlier than 2 months after their publication.

*On 13 December 2018, Kaunas Regional Court adopted the decision under which the decision of Kaunas Regional Court dated 24 March 2017 was annulled, the claim of LITGRID AB was dismissed and litigation costs of 6,725.54 Eur in favour of Achema AB were awarded.*

On 13 May 2016, the claim of Achema AB was filed against the defendants LITGRID AB and TETAS UAB, under which it is requested to compensate for the loss of EUR 2,326,964.40 emerged after electricity supply disruption in the ammonia department of Achema AB. On 17 February 2017, a judgement was passed regarding the dismissal of the claim in relation to unearned revenue of EUR 1,759,864.34. In the case of 9 March 2017 the performance of an examination was assigned, the case was suspended. On 22 September 2017, a forensic examination report was received. The conclusions of the court's assigned forensic examination were unfavourable for the Company, however experts questioned during the court hearing approved that electricity supply disruption in the ammonia department of Achema AB occurred partly due to the fault of the Company itself. The case hearing is further proceeded at the court of first instance. The next court hearing which will deal with the substance of the case is scheduled for 12 March 2019.
*Projected outcome: The outcome at this stage of the case is not clear, therefore the provision in amount of EUR 567,100.06 was recognised.*

On 3 September 2017, the Company filed a complaint to Vilnius Regional Administrative Court against the administrative statements passed by the Public Procurement Office and Lithuanian Business Support Agency in relation to the procurement of 'Construction of 110kV electricity transmission line Kretinga-Benaičiai WP' carried out by the Company during 2014-2015. The object of the procurement is financed in part from the EU investments. While approaching to the end of performance of the procurement agreement, the Public Procurement Office carried out an assessment at the request of the Lithuanian Business Support Agency and concluded on 3 August 2017 that LITGRID's assessment of an exceptionally low price of the supplier which was awarded the contract was inappropriate, and that LITGRID failed to comply with the principles of rational use of resources, transparency and equality. Consequently, following the provision of the above-mentioned conclusions, on 24 August 2017 the Lithuanian Business Support Agency passed a decision, whereby it established that LITGRID infringed the procedures of public procurement and imposed a financial sanction of 25% from eligible project funds or EUR 486,927.25 (financing from the EU funds was reduced by EUR 243,463.62). The Company disagreed with the Public Procurement Office's conclusion and the Lithuanian Business Support Agency's decision and appealed against them to court with request to repeal them and suspend their validity (including the prohibition of deduction by Public Procurement Office the financial sanction estimated in the decision from the Company's submitted appeals according to the related project).The court accepted the appeal, but refused to apply any enforcement measures and did not suspend the validity of administrative statements filed in respect of the Company. The Lithuanian Business Support Agency and Public Procurement Office disagreed with the appeal and submitted their commentaries to the court. On 18 January 2018, Vilnius Regional Administrative Court ruled to dismiss the claim. The appeal has been filed, currently, the case is heard by the appellate court.

## 37. Services rendered by the audit firm

In 2018, the audit firm did not provide any other services to the Group / the Company.

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

There were no substantial events after the end of the reporting period.