Litgrid

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

CONFIRMATION OF RESPONSIBLE PERSONS

March 20, 2020 Vilnius

Following 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 Božena Vitaitė, 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 2019 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 2019 year includes a fair review of the development and performance of the business, consolidated group financial position and undertakings in relation to the description of the main risks and contingencies faced thereby.

Daivis Virbickas	Chief Executive Officer
Vytautas Tauras	Director of Finance Department
Božena Vitaitė	Head of Accounting Division

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

The financial statements were approved on 20 March 2020.

Daivis Virbickas	Vytautas Tauras	Božena Vitaitė
Chief Executive Officer	Director of Finance Department	Head of Accounting Division

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

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

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of property, plant and equipment	
Refer to Note 5 of the notes to the Financial Statements The Company accounts for property, plant and equipment ('PPE') at revalued amounts. During the year ended 31 December 2019, the Company performed a valuation of its PPE and did not identify material differences from its carrying value, which as at 31 December 2019 amounted to EUR 322,579 thousand.	We assessed design and implementation of key controls management has established over the PPE revaluation process, including the following areas: - validation of assumptions, - budgeting, - segregation of duties, - determination of key inputs in the valuation model, and

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

First time adoption of IFRS 16 for leases	
Refer to Note 2.1(a) and Notes 6 and 21 of the notes to the Financial Statements The Group and the Company adopted IFRS 16 Leases as at 1 January 2019. IFRS 16 introduced a new lease accounting model, where lessees are required to recognize a right-of-use asset and a lease liability arising from a lease on its balance sheet. The Group and the Company adopted IFRS 16 using the modified retrospective approach with no restatement of comparative information. As a result, as at 1 January 2019, the Company recognized right of use assets of EUR 5,312 thousand (the Group – EUR 5,867 thousand) and related lease liabilities. Significant judgement is required in order to determine the right of use assets and lease liability. The assumptions and estimates include assessment if a contract contains a lease, assessment of a lease term, lease payments as	Our audit approach consisted in assessing the appropriateness of the methodology and the compliance with applicable IFRS 16 guidance regarding the determination of the main assumptions. Our work also consisted of: - Understanding the Group's and Company's process in identifying lease contracts, or contracts which contained leases; - Assessing the completeness of the lease databases; - Corroborating by performing a sample the information used for determining assets and liabilities related to lease contracts with underlying contractual data; - Corroborating by performing a sample the data used for the calculation of the discount rates with market data (for

well as determination of appropriate discount rates. The Company and the Group exercised material judgement in including land rent tax payments in scope of IFRS 16. We consider adoption of IFRS 16 to be a key audit matter taking into consideration its impact on the financial position of the Company and the Group.	incremental borrowing rates were used); - Recalculating, on a sample basis, the right of use assets and lease liability and comparing with the calculations performed by the Group and the Company; - Specifically testing lease liabilities based on payments of land rent tax; - Involving our internal IFRS accounting and financial reporting specialists to support us in determining if land rent tax payments are in scope of IFRS 16; - We also assessed the appropriateness of the disclosures in Note 6 to the Financial Statements.

Other Information

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

Deloitte Lietuva UAB
Audit Company License No 001275

Saulius Bakas
Lithuanian Certified Auditor
License No 000604

Vilnius, Republic of Lithuania
20 March 2020

Statement of the Chairman of the Board

Dear all,

I am proud to introduce the 2019 annual report of the electricity transmission system operator LITGRID belonging to EPSO-G group of companies.

It reflects that the synchronization projects with the Continental Europe, essential for the national energy, are turning into concrete actions. We have earned more revenue, links with Sweden and Poland operate without interruptions, and at the end of the year, LITGRID team members moved to a new system management and data center ensuring a stable and secure operation of the country's energy system, as well as a higher level of physical and cyber security.

By pursuing purposeful and active operations foreseen in the political Roadmap of the Baltic leaders, in May 2019 we signed an interconnection agreement with ENTSO-E power transmission operators of the Baltic States, Poland and supporting countries on connecting to the Continental Europe. This means that today we have clear technical interconnection conditions, which will enable Lithuania, Latvia and Estonia to become part of the European power system by 2025. We have secured a maximum of the EU funding - 75 percent for the first phase projects of strengthening and upgrading the Lithuanian electricity transmission grids. We are actively working with Poland on the same level of intensity of investment financing for the second phase of work in preparation for the launch of the submarine cable Harmony Link. It is extremely positive that we have the awareness and support of all Lithuanian stakeholders for this project carrying great importance for the Lithuanian energy independence. We have a law that has granted us the status of a project of national importance to synchronization-related infrastructure projects. Furthermore, we have a plan of concrete actions and measures on the basis of which the synchronization projects will be implemented.

In 2019, an isolated operation test of a part of the Lithuanian power system and generators was performed. It tested the ability of international connections to operate in frequency management support mode in conjunction with generators. We tested how isolated parts of the system work synchronously with the rest of the Lithuanian power system, checked the technical capabilities of the generators to regulate the frequency and to remain stable under independent operation regime or in case of disturbances.

Two new most powerful transformers at Vilnius substation were launched. They ensure a reliable transmission of the necessary power to the residents and businesses of Vilnius region. An extremely powerful remote controlled shunt reactor was transferred from the transformer substation of Ignalina Nuclear Power Plant to Elektrėnai. It will no longer participate in the management of cross-system power flows with the Belarusian system.

The first of the Government-approved strategic projects of synchronization of Lithuania with the European electricity transmission grid was successfully completed - the Bitėnai switchyard. Construction of the new Bitėnai-Pagėgiai line will be completed soon and the modernization of Western Lithuania's energy transmission infrastructure - the Darbėnai-Bitėnai and Bitėnai-Kruonis PSHPs - will continue. This is particularly important in preparation for the construction of the new submarine link with Poland, Harmony Link.

We undoubtfully have something to be proud of. However, we must not also miss out that the energy sector is changing faster than ever today - be it renewable energy, the search for measures to mitigate climate change, technological progress, or socially responsible activities, without which sustainable business development today and in the future is difficult to imagine.

This dictates a very clear agenda for our activities. At the strategic level of EPSO-G group, we have already decided and commenced operations in 2020 – to develop and present to all stakeholders of EPSO-G group the operational strategy by 2030. We need to make strategic choices now to properly prepare for the next phase of operations following the implementation of country-critical strategic projects in 2025, thus making a meaningful contribution to the goals set out in the National Energy Independence Strategy.

The National Energy Independence Strategy sets the goal for Lithuania to become an energy harmonious and independent state by 2050. In order to implement and enable this scenario, it is important for us today to understand the possible scenarios for the development of the energy sector and what measures should be taken to reduce the energy sector's dependence on fossil fuels, increase market integration, digitization and assess the speedy development of energy production from renewable energy sources.

The Lithuanian transmission system operator must be prepared for these changes and energy progress. Therefore, in 2019, we initiated the study RAIDA 2050 to anticipate possible scenarios for the development of the country's electricity sector by assessing the system adequacy, transmission network, generating power and market trends, identifying technical, economic and legal measures for the future effective operation of the electricity system.

All of this has been achieved due to the responsibility and professionalism of the employees, in line with the values of professionalism, collaboration and progress that unite EPSO-G group. Therefore, I am confident that by the end of 2020, we will once again be proud of our performance – the successfully implemented strategic projects and the achieved results resulting from the ambitious goals we set for our employees.

Yours faithfully,
Rimvydas Štilinis, Chairman of the Board

Statement of the Chief Executive Officer

Dear shareholders, managers, colleagues, stakeholders,

I am pleased to introduce you LITGRID achievements of 2019.

It is symbolic that with the 30th anniversary of the restoration of Lithuania's independence, we have never been as close to our country's energy independence as in 2019. We have signed important contracts with the European Union institutions and counterpart electricity transmission operators from the Baltic States and Europe, secured funding for important projects, started and continued the implementation of strategic synchronization projects, and carried out network and system upgrades. We believe, that with significant support from the public, politics, business community and the involvement of all stakeholders, Lithuania will take pride in its energy independence by 2025.

I am grateful to the LITGRID team for focusing on achieving extraordinary results – not only have we accomplished our Synchronization Program goals for 2019, we have even implemented two actions from the 2020 plan. We also did a lot of other work, starting with important projects not only in preparation for Synchronization with Western European grids, but also performing network maintenance work, unprecedented isolated operation test in the Baltic states, reconstructions, market development, methodology development, the implementation of network codes, system management and improvement, connecting new users to the grid – working hard to serve our main customer, a resident of Lithuania, so that electricity will flow reliably just when it is needed.

I am also very proud of the Company's ambition to become the most advanced electricity transmission operator in Europe. We measure our path through team engagement and empowerment, where we have been supported by Lean practices for three years already, along with innovation in performance improvement. All the benefits Lean brings are reflected in the results achieved, which greatly contributes to strengthening the Company's result-oriented culture. I fully understand that on this path we will not go without a well-functioning, ambitious and efficient team. I am proud that LITGRID employee engagement has exceeded expectations and reached as much as 65 percent, while employee empowerment – 83 percent. The results of the engagement study of LITGRID 2019 show that the Company outperforms the average of the European energy companies in 12 categories out of 14.

I believe, that in 2020 the whole team will make every effort to be even closer to the key goals of the Company, the whole of Lithuania and the Baltic States.

Yours faithfully,
Daivis Virbickas, Chief Executive Officer

(All amounts are in EUR thousands unless otherwise stated)

I. GENERAL INFORMATION

This consolidated annual report has been prepared for the twelve months period ended 31 December 2019.

The Issuer and its contact details:

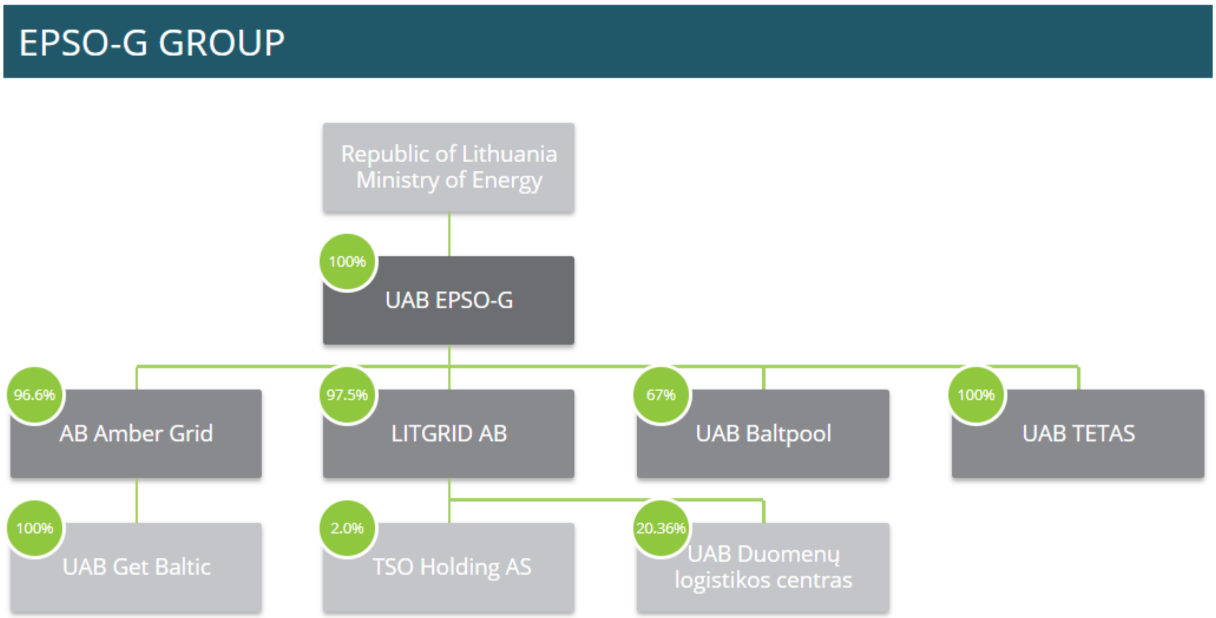
Name	LITGRID AB (hereinafter referred to as "LITGRID" or the "Company")
Legal form	Public limited liability company
Date and place of registration	16/11/2010, the Register of Legal Entities of the Republic of Lithuania
Company code	302564383
Registered office address	A. Juozapavičiaus St. 13, LT-09311, Vilnius
Address for correspondence	Viršuliškių Lane 99B, LT-05131, Vilnius
Telephone	+370 707 02171
E-mail	info@litgrid .eu; www.litgrid.eu

LITGRID 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 has implemented the strategic projects on electricity cross-border links, namely, NordBalt (Lithuania–Sweden) and LitPol Link (Lithuania–Poland), launched the projects to expand a new submarine link "Harmony Link" and LitPol Link interconnection.

LITGRID is responsible for maintaining the balance between electricity consumed and produced in the system and reliable transmission of electricity, 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 is a part of the EPSO-G Group:



(All amounts are in EUR thousands unless otherwise stated)

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.

LITGRID AB group companies and changes in the group as of 2019:

Name	Tetas UAB	Litgrid Power Link Service UAB
Legal form	Limited liability company	The company was liquidated on 10 December 2019
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	
Registered office address	Senamiesčio St. 102B, LT-35116, Panevėžys	
Telephone	+370 640 38334	
Change as of 2019	On 29 November 2019, EPSO-G UAB acquired 100% shares of Tetas UAB.	Liquidation procedure completed.
Country of operations	Lithuania	Lithuania
LITGRID shares	0 %	0 %

Name	LitPol Link Sp.z.o.o	Duomenų logistikos centras UAB	TSO Holding AS (previously Nord Pool Holding AS)
Country of establishment	Republic of Poland	Republic of Lithuania	Kingdom of Norway
Registered office address	Warszawska 165, 05-520, Konstancin-Jeziorna, Poland	Žvejų St. 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. The company liquidation process is in progress.	20.36% of shares and voting rights attached thereto	2% of shares and voting rights and a board member on rotation basis

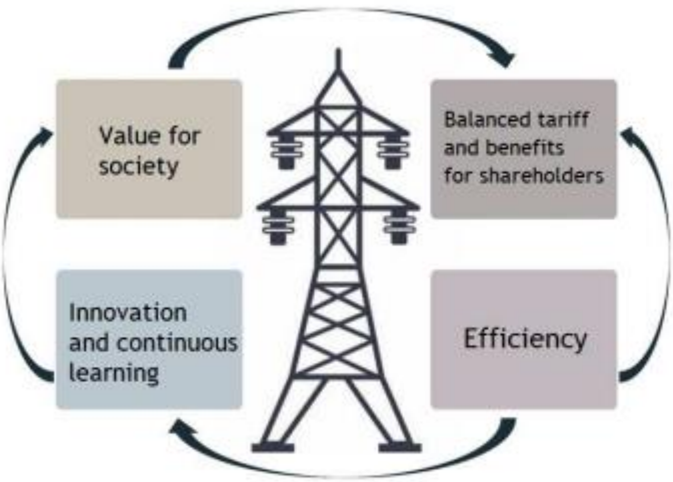
II. The Strategy of the Company

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 four priorities:



The following values are observed in the Company: professionalism, cooperation, progress.

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.

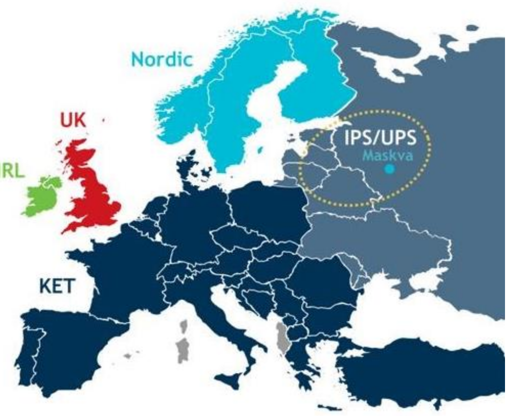
Progress – I take the initiative and learn from mistakes; I am looking for new ideas and implementing them; I am constantly strengthening my skills and sharing them.

III. Strategic activities and priorities

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 in 2025.

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



Synchronization of the Baltic States is a strategic energy security project, which will result in the Baltic States disconnecting from the Russian-controlled IPS / UPS system and joining the continental European power grid system. The updated National Energy Independence Strategy already stipulates that the Lithuanian energy system synchronization project must be implemented by 2025.

One of the main goals of LITGRID is to implement the Synchronization Program in a timely and cost-effective manner.

In September 2019, the Government of Lithuania approved the list of energy projects presented by the Ministry of Energy for the implementation of electric power system synchronization. The list comprises 65 actions and measures and 14 projects of strategic importance, including:
- LitPol Link connection extension;
- reconstruction of 330 kV transmission line Lithuanian Power Plant - Vilnius;

Optimization of the North-East Lithuania power transmission network and preparation for synchronous operations with the continental Europe energy system;
- Construction of the Harmony Link connection.

The full-approved list of projects is published in the public register of legislation: https://www.e-tar.lt/portal/lt/legalAct/9ddcd470d2f011e98c12b3138b15576c

In preparation for the synchronization with continental Europe grid, in 2019 LITGRID successfully completed the isolated operation test of part of the Lithuanian power system and generators. According to the planned scenario, Kaunas cogeneration power plant, part of Mažeikiai power plant, Kaunas HPP, Kruonis PSHP, unit 9 of Lithuania Power Plant and DC converters Nord Balt and LitPol Link were segregated into independent "islands". By disconnecting these zones from the BRELL system, we tested the ability of the generators in conjunction with the DC converters to control the frequency of the part of the isolated system. The rest part - the biggest - Lithuanian energy systems continued to function in the BRELL ring, and the isolated parts were successfully synchronized with it. During the test, we checked the ability of the connectors to work together in frequency control maintenance mode with the generators. We also tested how parts of the isolated system work with the rest of the Lithuanian energy system, already operating in synchrony, and tested the technical capabilities of the generators to regulate the frequency and ability to remain stable in self-sustaining mode or in the event of a malfunction.

At the end of September, we moved an extremely powerful shunt reactor from the transformer substation of Ignalina Nuclear Power Plant to Elektrėnai. It will no longer participate in the management of cross-system power flows with the Belarusian system. In the last quarter of the year, we finally dismantled the former 750 kV line LN 705 at Ignalina NPP - Postavy. It was the most powerful line connecting Lithuania with Belarus.

Last year, we actively worked on all the projects of the Synchronization Program - we continued the modernization of Western Lithuania's energy transmission infrastructure – the lines of Darbėnai-Bitėnai and Bitėnai-Kruonis PSHP. When reconstructing 330 kV power transmission line of Lithuanian Power Plant - Vilnius, we laid about 25 km of double circuit overhead lines in Vilnius and Trakai districts. This represents 40% of the total line. We are also preparing to start the expansion work at Alytus 400 kV transformer substation.
In the last quarter of 2019, we completed the first of 14 government-approved strategic projects for the synchronization of Lithuania with the European electricity networks - Bitėnai transformer substation was expanded to a switchyard.

One of the key criteria for the success of the Synchronization Program is the cooperation with neighbouring countries operators. Therefore, in close cooperation with our partners from the Baltic States, we carry out the following projects:
- We test voltage and inertia control measures in the Baltic States.
- We have developed and continuously implemented automatic generation control and frequency stability monitoring system in the Baltic States.

- We carry out system development studies.
- Together with the Polish operator PSE, we are developing submarine cable construction plans.

Last year, we completed all of the actions and measures foreseen for the 2019 Synchronization Project (14 in total), and implemented two additional actions and measures planned for the year 2020.

Actions and measures implemented:

Infrastructural:
- Expanded 330kV Bitėnai switchyard
- Dismantled 750 kV line between Lithuania and Belarus
- Conducted a studio for the Harmony Link line

Organisational:
- Prepared a draft emergency connection plan
- Identified the volumes for system services by 2020

Financial:
- 21 synchronization projects are on the EU list of projects of common interest
- EC approved the financial support for phase 1 of the synchronization (EUR 323 million for the Baltic States, EUR 125 million - for Lithuania)

Implementation of capacity provision mechanism in Lithuania

The implementation of the capacity mechanism is important for achieving the goals of the National Energy Independence Strategy related to the development of electricity production from renewable energy sources, increasing local electricity production and smooth implementation of the Lithuanian power system synchronization project with the continental European energy system.

In April 2019, LITGRID commissioned scientists from Kaunas University of Technology (KTU) to probe the adequacy of the Lithuanian electricity system in 2019-2024 and 2025 - 2030. During the study, the scientists, starting from 2025, have identified a shortage of local, reliably available generation to ensure the adequacy of the Lithuanian power system (by reaching LOLE (Lost of Load Expectation) of no more than 8 hours each year).

In 2019, the European Network of Transmission System Operators (ENTSO-E) performed a medium-term adequacy forecast (European system adequacy monitoring assessment) using a probabilistic method, which is currently available for public consultation, estimates that LOLE in 2025 may increase up to 29.5 hours per year.

Taking into account the conclusions of the KTU scientists' adequacy assessment, in order to ensure the adequacy of the Lithuanian power system and to solve the system challenges that may arise after 2025, LITGRID together with the Ministry of Energy of the Republic drafted a concept on the implementation of the mechanism for ensuring the capacity of the power system in electricity in Lithuania.

Based on a concept developed by LITGRID, in October 2019, the Ministry of Energy presented to stakeholders the proposed amendments to the Law on Electricity, which allow for the establishment and implementation of a capacity mechanism in Lithuania.

The capacity mechanism proposed by LITGRID and the Ministry of Energy is technologically neutral. This means that it will be open to companies offering solutions for electricity generation as well as storage and regulatory load. It is important to mention that it will be possible to use not only existing but also future electrical equipment installed by participants of the auction before the start of the capacity submission period.

It is proposed to establish a capacity mechanism on the market that will ensure system adequacy and maintain LOLE with the maximum of up to 8 hours per year. Representatives of Lithuania and other EU countries could participate in the capacity mechanism. It is important to mention that the electricity system of these countries must be connected to the Lithuanian electricity system by a connecting line (or lines). Participation in the capacity mechanisms shall be open to natural or legal persons, other organizations or their entities managing existing capacity facilities in those Member States.

Implementation of market development legislation

LITGRID is responsible for the implementation of the European Union regulations, European-level unifying requirements for system management, the operation and connection of the electricity market - the Network Codes - in Lithuania. In accordance with the provisions of the approved Network Codes, we are working with other transmission network operators to develop specific Network Codes implementation documents: methodologies, proposals, rules and plans. Among the most important implementation actions is that in 2019, in accordance with European Commission Regulation 2015/1222 establishing a guideline on capacity allocation and congestion management, the National Energy Regulatory Council (NERC) has approved:

- Common methodology for coordinated redispatching and countertrading prepared by LITGRID together with other transmission system operators in the Baltic capacity calculation region - Estonia, Latvia, Sweden, Poland and Finland;
- Redispatching and countertrading cost sharing methodology prepared together with other transmission system operators in the Baltic capacity calculation region - Estonia, Latvia, Sweden, Poland and Finland;
- a joint proposal prepared by LITGRID with Swedish and Polish transmission system operators and designated electricity market operators on the European cross-border intraday regional cost allocation for the 13th regional implementation project, including the inclusion of the Lithuanian-Polish electricity link LiPol Link and the Swedish-Polish electricity link SwePol Link into the single European cross-border intraday trading platform (XBID).

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. Last year, LITGRID implemented planned actions of 2018 aimed at ensuring the functioning of the competitive intraday market SIDC (XBID) electricity trade through all electricity interconnections between Lithuania and other European countries. 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. Major stages:

- 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.
- On 19 November 2019, 2nd wave of intraday market SIDC (XBID) decision started operating, with 7 additional countries joining the common market: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania and Slovenia. LITGRID ensured that intraday trading could also take place via LitPol Link power link between Lithuania and Poland.

Development of electricity balancing market

We are constantly striving for the efficient development of the Baltic electricity balancing market through the implementation of the guideline on electricity balancing (these guidelines are set by the European Commission). In 2019, we participated in the development of methodologies and proposals for operators in all European countries, when implementing the guideline on electricity balancing. Together with Latvian and Estonian operators, we analysed and developed a 15-minute imbalance concept. It is foreseen that Baltic States will gradually implement 15-minute imbalance period until end of 2025. All three

TSOs in the Baltic States must implement this concept in compliance with the European Commission regulation (EU) 2017/2195 of November 2017.

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.

Last year was important and significant for LITGRID in the implementation of the Network Codes, as the following important implementing documents of Network Codes had been adopted / approved:
- Redispatching and countertrading methodology);
- Common methodology for redispatching and countertrading cost sharing);
- Resolution of the National Commission for Energy Control and Prices No O3E-89 of 27 March 2019 "On the Common Technical Requirements established in accordance with the European Commission Regulation (EU) 2016/1388 of 17 August 2016 on the approval of a Network Code on Demand Connection";
- Resolution of the National Commission for Energy Control and Prices No O3E-138 of 7 May 2019 "On the Common Technical Requirements established in accordance with the European Commission Regulation (EU) 2016/1447 of 26 August 2016 on the approval on Establishing a Network Code on Requirements for Grid Connection of High Voltage Direct Current Systems and Direct Current-Connected Power Park Modules".

Membership in international organizations

While implementing our strategic goals, we pay great attention to establishing and maintaining constructive relations with foreign partners and international organizations. Through active participation in the European Network of Transmission System Operators for Electricity (ENTSO-E), we ensure awareness of future and ongoing projects in the community of transmission system operators.

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.

Active participation in this organization is an important part of our business, as not only do we raise and develop the necessary managerial, business and technological competencies of our employees by sharing experience with colleagues in the same field, but we also consolidate the awareness and importance of ongoing projects in the international energy community.

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 and developing internal competencies in all matters under the control of transmission system operators.

LITGRID is also a member of the International Council on Large Electric Systems (CIGRE). CIGRE provides international expert backing for the Company in terms of technological and scientific knowledge. CIGRE unites over 1,250 organizations from 90 countries around the world to share best practices in the electricity sector through an existing electronic platform. This organization has created an electronic database where experts share the latest technology trends reviews, research papers and articles, technical solutions, and share best practices and knowledge of ongoing international projects.

Representatives of LITGRID participate in the activities of Best Grid, the association of transmission system operators and other energy companies. Members of this association share good practices for planning and implementing network development projects, and place great emphasis on environmentally friendly solutions and project social responsibility.

The Company is also a member of the association Polish-Lithuanian Chamber of Commerce. The aim of this organization is to promote economic cooperation between Lithuania and Poland and to create a favourable climate for Polish and Lithuanian companies. Participation in this format creates opportunities to enhance inter-institutional and business communication. This is crucial for one of the most important synchronization projects with continental Europe – in building the submarine cable Harmony Link together with Poland. In May 13-15, during the Economic Forum in Katowice, Poland, LITGRID received a lot of interest from Polish media in the field of synchronization and energy cooperation.

The international practice and the opportunity to contribute to the decisions implemented at the level of the European Transmission System Operators enable LITGRID to involve experts of the Lithuanian electricity sector in the ongoing processes of the energy sector. The Company is a member of the National Lithuanian Electricity Association (NLEA), in the composition of which it actively works with the competent authorities in order to improve the regulatory environment of the sector; various social, political, technical, tax, legal and other issues directly and indirectly related to the activities of the members of the association are being discussed. Great attention is also paid to the promotion of the energy profession by organizing Energy Day events for specialists and the public, participation in the activities of the Lithuanian Energy Seniors Club is also important.

Innovation and continuous training

The ambitious goals set by the National Energy Independence Strategy to integrate renewable energy sources and the ongoing synchronization project of the Baltic power systems with the continental European grid encourage LITGRID to seek for new innovative solutions that would improve the reliability of the Lithuanian power system. Through research, studies, planning, and innovation, we make our operations more efficient and apply new methods, tools and good practices.

On 10 March 2019, we joined the Guidelines for Research and Experimental Development and Innovation Activities (hereinafter – guidelines on REDI activities) of EPSO-G group of companies. The purpose of the guidelines on REDI activities is to ensure continuity and efficiency, the competitiveness or facilitation of competition of the companies of UAB EPSO-G group of companies through research, innovation and new solutions, as well as to contribute to the implementation of the National Energy Independence Strategy and the creation of added value for society. The guidelines on REDI activities set out common concepts of research and experimental development, and innovations and innovation activities across the Group, common directions and priorities of REDI activities, classification principles and recommendations for transmission system operators regarding the allocation of funds for REDI activities not included in regulated activities.

In developing REDI activities, in 2019, we focused on efficient power network asset management, advanced power system monitoring and control, and digitization solutions. In order to effectively manage the implementation of innovations, we have created the LITGRID innovation system, which focuses on achieving the goals and objectives of the Climate Change and those laid out in the National Energy Independence Strategy (NEIS). The Company's innovation system is based on the idea that innovation is the key to a reliable power system to successfully transition from fossil-fuelled power plants to renewable energy sources, and the creation of a competitive national economy in the Baltic, Scandinavian and Central and Eastern European regions. The main purpose of the innovation system is to move smoothly from fossil-fuelled power plants to renewable energy sources while at the same time ensuring that the electricity system is developed, operated and managed in a smart and cost-effective way.

To create an environment favourable to creativity and innovation, we have laid down the following guiding principles as of 2019:

- systematically manage internal and external information on innovation;
- to cooperate;
- communicate effectively.

Last year, LITGRID staff developed an innovation mega-process that includes the processes of identifying an innovative idea, selecting an idea, considering, implementing and controlling an innovative project, and evaluating the results of an innovative project.

Through our innovation system and in collaboration with academic institutions and other consultancy companies, our staff conducted studies, research, analysis, various evaluations, and pilot projects to perfect and improve the efficiency of the transmission system:

1. *Experimental pilot project "Installation of Battery Energy Storage System in Lithuanian Power System"*

At the start of 2019, we initiated a two-year experimental pilot project *"Installation of Battery Energy Storage System in Lithuanian Power System"*, the purpose of which is to properly prepare for the project of synchronization of the Baltic States with the Continental European Network (CEN), to test the possibilities of battery storage systems in real conditions of operation of the Lithuanian electricity system, to identify areas of installation and use of high-capacity battery storage systems in Lithuania, identify requirements for batteries that would provide different types of services. During the project, 1 MW lithium-ion battery energy storage system (BESS) will be connected to the 10 kV switchyard of Vilnius transformer substation, which will contribute to the reliable operation of the Baltic electricity systems after the synchronization with CEN.

2. *Experimental pilot project "Drones for Fault Detection in Power Lines"*

At the end of 2019, we initiated the project *"Drones for Fault Detection in Power Lines"*. Its purpose is to efficiently eliminate faults in overhead lines. In case of a single-phase or multi-phase short circuit to the ground (e.g. a fallen tree) occurs in 110/330/400 kV overhead lines (OL), after a lightning discharge or a bird striking an overhead line, the line, depending on the size and duration of the damage, is switched off for a short period (in the case of successful auto-restart) or is completely switched off by protective relay devices until the fault location and fault are detected. An overhead line engineer should proceed to the point of potential malfunctioning, as prompted by protective relay devices, and promptly find a solution to fix it. LITGRID employees have estimate that the often-calculated distance to the exact location of the incident has an error of up to 5 km. We plan to use drones to deal with this type of incidents. They will help to pinpoint the exact location of the fault at least twice as fast. After testing and developing good practices, these solutions could be applied to other companies in EPSO-G group.

3. *Experimental pilot project "Intelligent NordBalt Cable Fault Location"*

At the end of 2019, LITGRID initiated the project *"Intelligent NordBalt Cable Fault Location"*. To ensure the reliability of the NorBalt link and to increase the availability of the cable, we will employ and test automated cable fault detection equipment that is currently not available in the link. The transient recorder HiRES Locator will help to locate a breakdown in real time. It locates the fault location of a cable up to 200 km by installing the equipment at only one end of the high-voltage direct current (HVDC) connector. The purpose of this experimental pilot project will be to test the operation of such equipment on the twice-longer (400 km) NordBalt connection cable.

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.

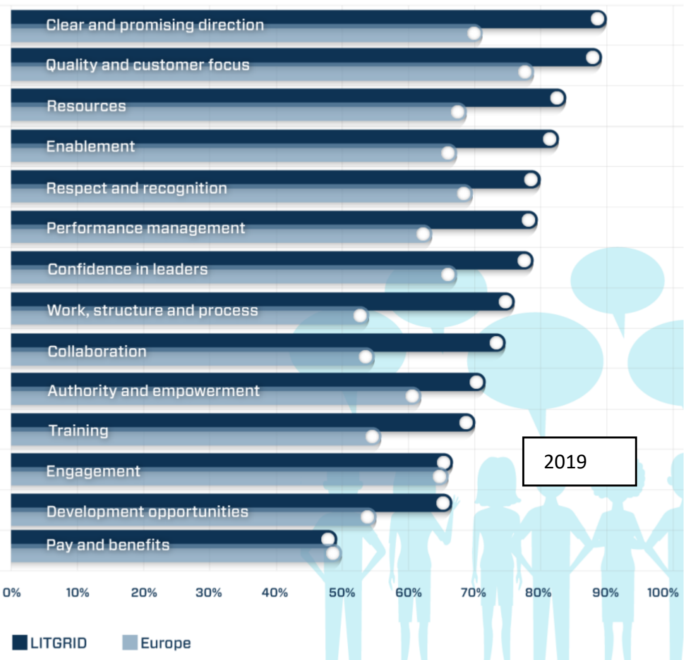
Lean's activities have been launched by involving all employees of the company with a strong focus on staff development, as the application of the methodology requires specific knowledge and expertise. Employees shall be able to modulate meetings, properly identify and register problems, solve them and understand the benefits of the actions to the company, activities and processes.
We have announced 2019 as the Year of Quality: 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. Performance improvements that do not require data collection, analysis, consideration of alternatives, testing steps are called Mini-Kaizens. A total of 719 Mini-Kaizens were implemented in 2019.

Larger performance improvements that teams decide on, collect historical data, analyse them, collect solution alternatives, and then implement custom ones called PDCA Kaizens. In 2019, the company implemented as many as 39 PDCA Kaizens.

Together with Lean practices, employee engagement and empowerment have increased significantly. At the end of 2019, a study on employee engagement conducted by management consulting company *Korn Ferry* showed that LITGRID outperforms the average of the European energy companies in 12 categories.

Therefore, we are not only pleased with the results we have achieved, but we also share best practices with other companies or organizations that are applying or are planning to apply Lean. In 2019, representatives of nine different Lithuanian organizations and companies visited the Company to adopt good practices. They watched LITGRID's Lean meetings, discussed with executives what challenges LITGRID employees face and how they address them.

Results of an engagement study of LITGRID 2019:



IV. 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 (110 and 330 kV) electric installations;
- System services;
- 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.

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 transmission system operator (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 transmission system operator (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. PSO funds are funds that are paid to the PSO providers.

LITGRID provides the following PSO services:

- 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:

(All amounts are in EUR thousands unless otherwise stated)

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

Customers of the transmission system operator

LITGRID 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.

Electricity transmission operating indicators and network reliability

Electricity transmission operating indicators in Lithuania are determined by the National Energy Regulatory Council (NERC). In accordance with the requirements approved by NERC for reliability and quality of service of electricity transmission, the indicators to determine the level of transmission reliability are used: ENS (energy not supplied) - the amount of electricity not transmitted due to interruptions, and AIT (average interruption time) - the average interruption duration in power transmission.

TSO's operating indicators	2019	2018	2017
Energy transmission volume, million kWh	10,277	10,491	9,992
Costs of compensating process losses in transmission network, %	2.98	2.94	2.91
ENS (Energy Not Supplied due to interruptions), MWh **	32.3	0.95	1.68
AIT (Average Interruption Time), min.**	1.13	0.04	0.06

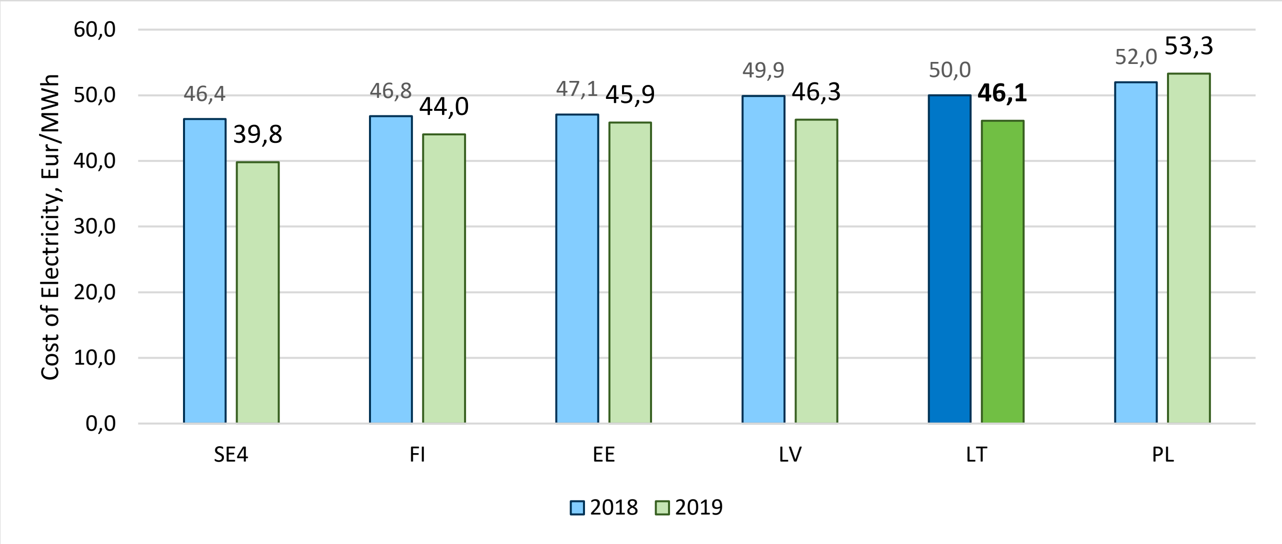
** Only due to the operator's fault or due to undetermined causes.

In 2019, ENS and AIT indicators attributable to the operator's responsibility exceeded the prior year results. The results of 2019 were particularly influenced by the July event (during the reconstruction of Kapsai 110/10 kV transformer substation, the contractors grazed the constructions of operating equipment, and all the substation equipment was shut down. The electricity supply to residents and business was restored after more than an hour.) This accident added nearly 24 MWh to ENS. The investigation was conducted by NERC experts, who recommended the implementation of the measures that transmission and distribution network operators plan to implement in 2020.

In 2019, LITGRID transmitted 0.3% less of electricity by high-voltage transmission networks to the needs of the country in comparison to 2018. The declining demand for energy transmission services was driven by significantly warmer weather conditions and lower electricity use by households and service providers.

Prices in the region

In 2019, the European electricity market was dominated by lower electricity prices. The price of wholesale electricity market system of the power exchange NordPool fell by 11%, the electricity price in the closest countries fell by 7% on the average and in the Baltic countries by 6% on the average. In Lithuania, the average electricity price for 2019 fell most in the Baltic States – by 8% and reached 46.1 EUR / MWh.



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% 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 2019, the availability of NordBalt was extremely high, reaching 99.95%.

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).

After an auction for electric capacity reserve that was organized at the end of 2019, it was concluded that the secondary reserve service in Lithuania will be provided by Kruonis HAE in 2020, as well as in 2019, (the secondary active power reserve shall be activated within 15 minutes and maintained for 12 hours). The amount of secondary active power reserve required in 2020 is set at 400 MW.

In 2019, LITGRID successfully organised an auction for the tertiary electric capacity reserve for 2020 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. The tertiary active power reserve must be activated within 12 hours. In 2020, the winner of the tertiary power reserve auction was Ignitis gamyba AB (Unit 7 and Unit 8). The amount of tertiary active power reserve required in 2020 is set at 475 MW.

Reconstruction of the electricity grid

LITGRID operates high-voltage (400-330-110 kV) transmission lines with the length of 6,950.7 km and 237 transformer substations and switchyards in Lithuania. In order to maintain a stable service life of overhead lines and ensure a stable operation of the equipment, in 2019, we replaced 172 pylons.

In 2019, we also completed the following projects:
- Reconstruction of 110 kV switchyards of these transformer substations: 110/10/6 Grigiškės TS, 110/35/10 Pagėgiai and Rietavas TS;
- Reconstruction of 110 kV overhead line Klaipėda-Endriejavas-Rietavas. Replacement of defective pylons and installation of a lightning protection cable and fiber optic cable;
- Replacement of an old cable to a lightning protection cable and fiber optic cable in 110 kV overhead lines in Kaunas HPP – Kruonis PSHP 1 (32.2 km) and Kruonis PSHP–Lithuania Power Plant (34.67 km);
- Replacement of worn out power transmission cables in 110 kV overhead line Kaunas–Jonava 2 (27.2 km);
- In order to provide a better quality environment for the residents of Jonava, when changing the wires we also replaced the old pylons (6 units) and a lightning protection cable (3.6 km) from 110/10 kV Rimkai TS to 330/110/10 kV Jonava TS;
- Replacement of worn out power transmission cables of 110 kV overhead lines Žąsliai-Elektrėnai (5.1 km) and Kruonis PSHP–Lithuania Power Plant (2.7 km) overhead line.

Research and development activities of LITGRID group

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

Studies

Study "2020-2050 Scenarios for the Development of the Lithuanian electricity system"

At the end of 2019, LITGRID initiated a study *"2020-2050 Scenarios for the Development of the Lithuanian electricity system"*. After the approval of the National Energy Independence Strategy (NEIS) by the Seimas of the Republic of Lithuania as of 21 June 2018, it is essential for the Lithuanian transmission system operator to determine what scenarios for the development of the energy system should be formed and what measures should be taken in the electricity sector to achieve the goals set by the NEIS, taking into account the global dependencies of the energy sector on the reduction of fossil fuels, market integration, digitalisation, efficiency gains, energy production from renewable sources resulting in the need for changes in the electricity sector. Mentoring of this study will help the Lithuanian transmission system operator to identify the necessary measures and prepare for the changes in the Lithuanian electricity sector.

V. Financial information

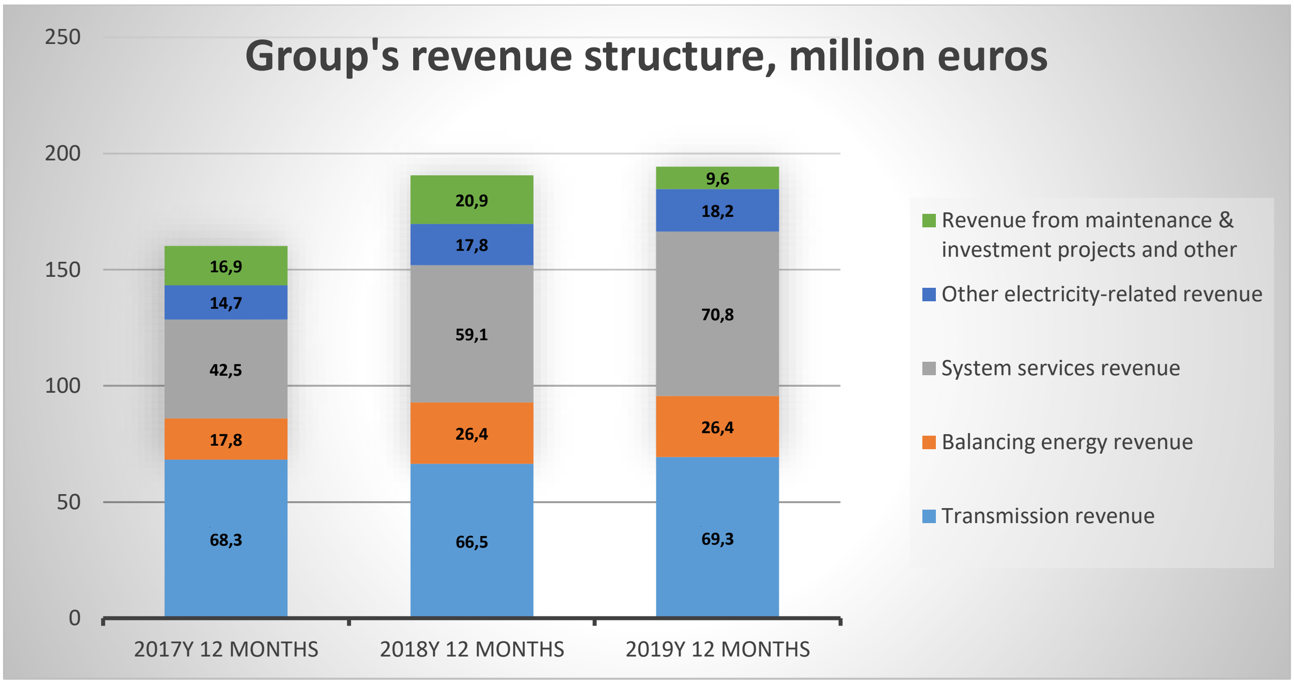
The main financial indicators of the Group and the Company

	January – December 2019		January – December 2018		January – December 2017	
	Group	**Company**	**Group**	**Group**	**Company**	**Group**
Financial indicators, EUR '000						
Revenue from electricity sales	184 675	184 675	169 758	169 758	143 292	143 292
Other operating income	9 599	616	20 883	2 191	16 896	1 065
EBITDA*	24 512	23 720	32 335	31 992	40 525	42 829
Profit (loss) before tax	4 994	4 524	(46 200)	(44 932)	11 794	10 245
Net profit (loss)	4 610	4 130	(39 361)	(38 090)	9 585	7 724
Cash flows from operations	24 782	24 071	25 872	24 306	43 416	45 128
Ratios						
EBITDA margin, %	12,6	12,8	17,0	18,6	25,3	29,7
Operating profit margin, %	1,6	1,7	-23,6	-25,5	8,1	7,9
Return on equity, annual %	2,4	2,1	-17,8	-17,2	3,8	3,1
Return on assets, annual %	1,2	1,1	-9,8	-9,6	2,1	1,7
Shareholder's equity / Assets, %	52,1	52,1	53,2	54,3	56,1	57,1
Financial liabilities / Equity, %	47,8	47,8	62,4	61,7	61,8	60,8
Liquidity ratio	0,46	0,46	0,51	0,45	0,71	0,67

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

Revenue

Revenue earned by the LITGRID Group in 2019 amounted EUR 194.3 million, a 1.9% increase compared to 2018.



Revenue from electricity transmission increased by 4% (up to EUR 69.3 million) compared to the same period in 2018. Revenue from electricity transmission accounted for 36% of the Group's total revenue. The increase in revenue has resulted from a 6% higher actual electricity transmission price, as the amount of electricity transmitted decreased by 2 % to 10,277 million kWh.

Revenue from sale of balancing/regulating electricity compared to the same period in 2018 practically remained stable and amounted to EUR 26.4 million.

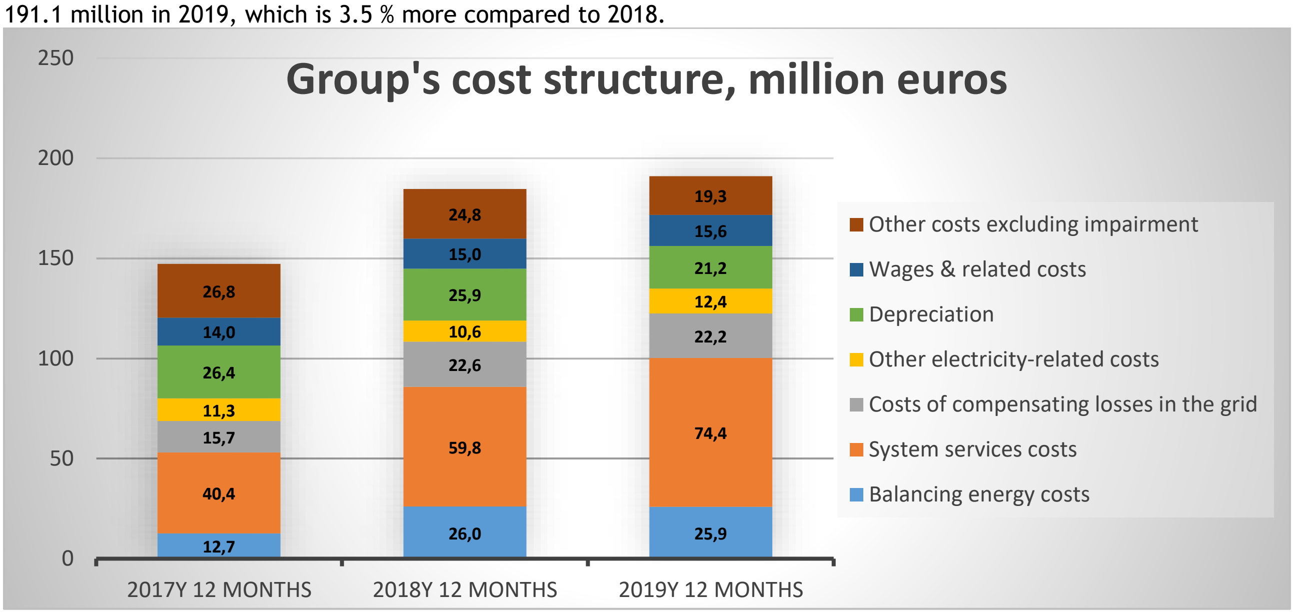
Revenue from system services increased by 20% to EUR 70.7 million. The main growth driver was the tariff for system services, which had been increased 16% by the National Commission on Energy Control and Prices from 1 January 2019.

Other revenue 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 5.7 million; PSO revenue – EUR 9.3 million; reactive energy income – EUR 1.5 million; connection of new producers/customers and replacement of devices – EUR 1.5 million; congestion management revenue – EUR 0.2 million.

Revenue from services provided by Tetas account for the largest part of income from repair works, investment projects etc.

Expenses

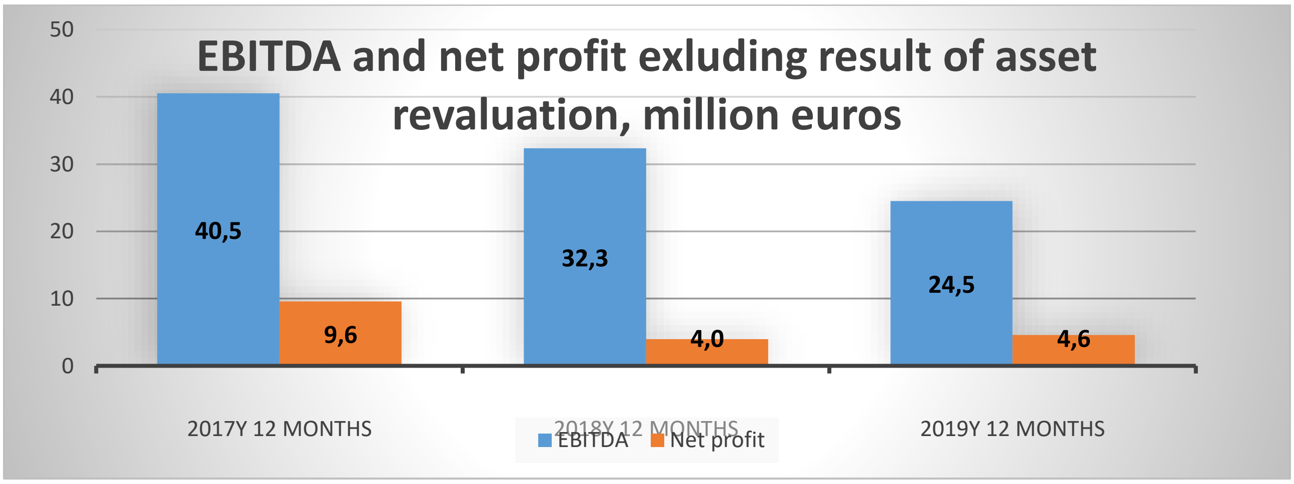
The Group's operating expenses, excluding the revaluation of the Company's tangible fixed assets as of 2018, totalled EUR 191.1 million in 2019, which is 3.5 % more compared to 2018.



Expenses of purchase of electricity and related services account for a major portion of the Group's operating expenses: EUR 134.9 million or 71% of total expenses. These expenses increased by 13% compared to 2018. Balancing (regulating) electricity expenses remained almost unchanged and reached to EUR 25.9 million. The system service expenses increased by 24% to EUR 74.4 million. Expenses of technological loss compensation in the transmission grid decreased by 2% to EUR 22.2 million. Transit (ITC) expenses were EUR 3 million, PSO provision costs equalled EUR 9.2 million, and costs of ensuring the allocated capacity of interconnections totalled EUR 0.2 million.

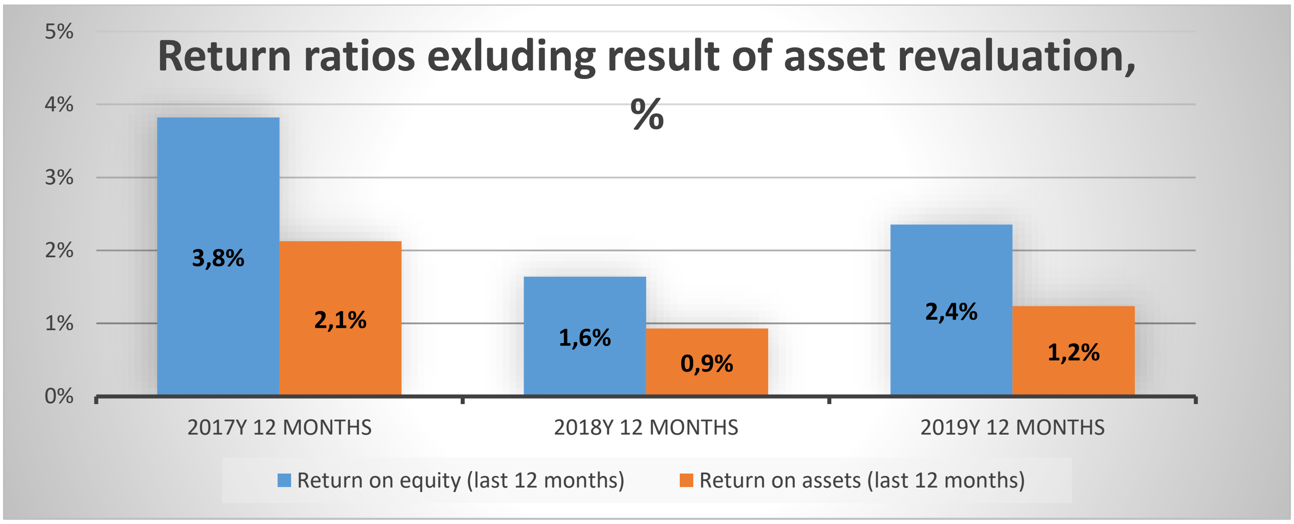
Depreciation and amortisation expenses, due to the revaluation of the Company's property, plant and equipment at the end of 2018, decreased by 18% compared to 2018 and amounted to EUR 21.2 million. Other expenses, excluding the revaluation of the Company's tangible fixed assets as of 2018, decreased by 12% compared to 2018 and amounted to EUR 34.9 million.

Profit and rates of return



The EBITDA for the year 2019 amounted to EUR 24.5 million. Compared to the same period of 2018, the EBITDA decreased by EUR 7.8 million, or 24%; the EBITDA margin decreased to 12.6% (in 2018 – 17%). The Group's net profit, excluding the revaluation of the Company's tangible fixed assets, for the year 2019 was EUR 4.6 million (in 2018 – EUR 4 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 change in the Group's EBITDA:

- In 2019, the Company returned to consumers EUR 3.9 million more of the profits of the previous periods (which exceeds the amount determined by the Commission) compared to the amount returned in 2018
- In 2019, the result of systemic service activities (excluding operational costs) was EUR 2.9 million lower compared to the year 2018.
- Revenue from the connection of new producers/transfer of electrical equipment was lower EUR 2.8 million.



In 2019, the annual ROE and ROA ratios, excluding the revaluation of the Company's tangible fixed assets, compared to 2018 increased from 1.6% and 0.9 % and to 2.4% and 1.2 % respectively.

Balance sheet and cash flows

As at 31 December 2019, the Group's assets amounted to EUR 377.6 million. The Group's non-current assets represented 93% of the Group's total assets. Shareholders' equity accounted for 52% of the total assets of the Group.

As at 31 December 2019, the Group's financial liabilities to credit institutions amounted to EUR 94.1 million (a decline of EUR 27.7 million during a year). Financial liabilities to equity ratio was 48%. Financial debts repayable within one year accounted for 15% of the total financial debts. Cash and cash equivalents totalled EUR 0.0 million and the unwithdrawn overdraft balance was EUR 23 million. Accumulated congestion revenue balance as of 31 December 2019 amounted to EUR 38.9 million, EUR 26.2 million of which were affixed to (used) the Group account.

The Group's net cash flows from operations in 2019 amounted to EUR 24.8 million, while payments for tangible and intangible fixed assets were EUR 42.6 million; EUR 14.8 million were received as grants and EUR 27.3 million as congestion revenue for the financing of fixed assets investments, EUR 3.8 million of the accrued income was used for financing.

The Group's net cash flows in 2019 (excluding cash flows from financial activities) totalled EUR 30.5 million.

Investments in non-current assets

In 2019, investments of LITGRID (works performed and assets acquired irrespective of terms of payment) amounted to EUR 45.9 million, of which 66% were earmarked for the implementation of strategic electric energy projects of high importance to the State, and 34% for the reconstruction and development of the electricity transmission grid.

(All amounts are in EUR thousands unless otherwise stated)

VI. Information on personnel

As at 31 December 2019, the LITGRID AB had 290 employees:

The wage fund of LITGRID AB for the reporting period amounted to EUR 9,386 thousand.

	2019 - 12 months		2018 - 12 months	
	Number of employees	Average monthly wage, in EUR	Number of employees	Average monthly wage, in EUR
Chief Executive Officer	1	12,980	1	12,291
Top-level managers	6	8,560	6	8,249
Medium-level managers	37	4,326	33	4,041
Experts-specialists	246	2,556	227	2,403
Total	**290**	**2,972**	**267**	**2,818**

NOTE. The table above reflects 12-month information of the year 2019 on wages calculated for employees in accordance with the provision of the Law on State Social Insurance of the Republic of Lithuania, entered into force on 1 January 2019, under which an employer's state social insurance contributions are transferred to an employee working under an employment contract, i.e. indexing wages before taxes 1.289 times. In order to ensure comparability of data, information as of 2018 on the calculated average salary and the variable part thereof are restated using the same method and coefficient.

Remuneration policy and performance evaluation

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

The goal of the remuneration policy is to contribute to the realisation of the mission and vision of the organisation that is being managed by modern and effective methods, to mobilise people for joint work and motivate them to implement the strategic priorities, to form and establish an attitude that employees are the Company’s main asset, and to foster the corporate values of professionalism, cooperation, responsibility, initiative, and respect.

Remuneration depends on the employee’s position, performance, achievement of individual annual goals, level of competencies, and adherence to the values of organisation. The pay package consists of financial and non-financial elements: basic pay, variable part of pay, fringe benefits, and psychological reward.

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

Remuneration policy for collegial body members and management

At the EPSO-G UAB Group, the remuneration principles applied in respect of management body members are established according to the Guidelines on the establishment of remuneration for the activity at the bodies of the group companies as approved by the decision of the sole shareholder EPSO-G UAB. Based on the decisions passed at the General Meeting of the Company’s Shareholders held on 29 July 2016, the maximum amount of the annual remuneration budget allocated for the payment of services as the Company’s Board members was established. The hourly and maximum monthly pay as well as the terms of the agreements with the Board members regarding their activity at the Board were approved.

(All amounts are in EUR thousands unless otherwise stated)

The extraordinary general meeting of shareholders of LITGRID AB held on 17 December 2019 adopted decisions regarding the Board's annual remuneration budget:
https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=915555&messageId=1153581

There were 30 board meetings held in 2019.

Remuneration of the members of the Board in 2019:

Remuneration of the members of the Board of LITGRID AB for 2019, EUR	
Rimvydas Štilinis	-
Nemunas Biknius	-
Domas Sidaravičius	8,820
Šarūnas Nedzinskas	9,487
Algirdas Juozaponis	-

No other bonuses, tantiems 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 regularly 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.

For closer cooperation and partnership, meetings between trade union representatives and Company management are held periodically to discuss issues of relevance for both sides.

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.

As of 2019, LITGRID website offers an updated form for providing information on breaches, unethical or unlawful conduct to a responsible LITGRID employee, while retaining anonymity: https://www.litgrid.eu/index.php/apie-litgrid/skaidrumas/pasitikejimo-linija/31015

Education

275 employees have a university education, 13 employees have post-secondary education, and two employee have 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.

VII. GOVERNANCE

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 St. 13, LT-09310 Vilnius, company code 302826889), a company wholly owned by the Ministry of Energy of the Republic of Lithuania, controls 97.5% of LITGRID's shares. EPSO-G UAB possesses a decisive vote in making decisions at the General Meeting of Shareholders.

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

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

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

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

Indicator	2017	2018	2019
Indicator	**0.700**	**0.702**	**0.64**
Opening price, EUR	**0.751**	**0.71**	**0.705**
Highest price, EUR	**0.676**	**0.625**	**0.575**
Lowest price, EUR	**0.702**	**0.63**	**0.58**
Closing price, EUR	**608,001**	**383,524**	**187,620**
Turnover, units	**0.43**	**0.26**	**0.12**
Turnover, EUR million	**354.04**	**317.73**	**292.51**

Turnover and prices of LITGRID's shares, in EUR, during the reporting period:

(All amounts are in EUR thousands unless otherwise stated)

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:

INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Baltic Benchmark GI	873.81	992.83	+13.62
LGD1L - LITGRID	0.63	0.58	-7.94

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.

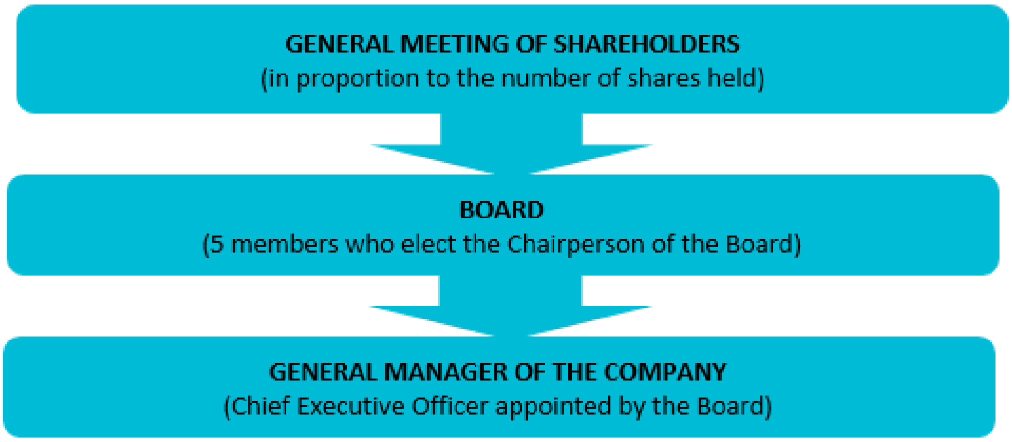
On 23 April 2019, the ordinary General Meeting of Shareholders of LITGRID was held, during which it was decided to pay out dividends amounting to EUR 0.0052 per share.

The Company's management bodies

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

Company's management bodies (Figure):



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 CEO, approval of the operational strategy, budget, investments, adoption of decisions on the conclusion of significant transactions and other important management issues. The CEO is a single-person management body of the Company. The CEO 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.

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 Employees 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

(All amounts are in EUR thousands unless otherwise stated)

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.

Areas of activities of the CEO

The CEO acts as a single-person management body of the Company. The CEO 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 CEO, the procedure of his/her election and removal are established by laws, other legal acts and the Articles of Association.

In 2019, the Board of LITGRID AB set the following goals for the Company and the CEO:

LITGRID AB Goals of CEO (Company) for 2019			
No	**Goal**	**Results to be achieved in 2019**	**Weight**
Balanced transmission tariff and shareholder benefits			
1	**Carry out the operational and financial plan**	Execution of the Company's operational plan: ≥90% (the goal achieved 100%); ≤80 % (the goal achieved 0%). Between 80% and 90% the goal achievement is asessed in proportion.	**20%**
		Execution of the Company's strategic projects at the set timeframe (within the limits of tolerance)	**10%**
		Budget for wage-related expenses not exceeded	**15%**
2	**Ensure a balanced transmission tariff**	Compensation of budgeted expenses of wage guarantee fund in the tariff (including expenses related with synchronisation): ≥70% (the goal achieved 100%); ≤60 % (the goal achieved 0%). Between 60% and 70% the goal achievement is asessed in proportion.	**15%**
Value to people			
3	**Prepare for the synchronization of the Lithuanian electricity system**	Signed agreement on synchronization of the Baltic States with the Continental European Network (CEN) and catalogue of measures received	**15%**
		To sign the agreement with the Polish transmission system operator PSE on Lithuanian synchronization with CEN	**10%**
Efficiency			
4	Achieve index value of the Company's employee engagement, %	≥64% (the goal achieved 100%); 63% (the goal achieved 50%); ≤62 % (the goal achieved 0%).	**5%**
Innovation and continuos training			
5	In the scope of the pilot project – the pilot battery of low power and high capacity for system service testing	Signed agreement on the implementation of the pilot project for 1MW battery for primary frequency control	**10%**
Total			**100%**

After evaluating the performance of the CEO and the achievement of the Company's objectives, the Board found that performance in 2019 was achieved by 99 percent.
Objectives achievement indicator is important in calculating a variable part of LITGRID employees' remuneration.

(All amounts are in EUR thousands unless otherwise stated)

The Board of LITGRID AB

As at 31 December 2019: LITGRID's Board members, the CEO and the Chief Financier:

Position	***Full name***	***Start date***	***End date***	**Number of the issuer's shares held**
Chairperson of the Board	Rimvydas Štilinis	29/07/2016		-
Board member	Nemunas Biknius	29/07/2016		-
Independent Board member	Domas Sidaravičius	29/07/2016		-
Independent Board member	Šarūnas Nedzinskas	07/09/2018		-
Board member	Algirdas Juozaponis	07/09/2018		-
Chief Executive Officer	Daivis Virbickas	10/09/2013		-
Chief Financier	Vytautas Tauras	01/03/2019		76 shares

On 24 February 2020, during the self-evaluation session, the Board of LITGRID AB identified areas for further improvement:
• taking steps to improve the monitoring of the implementation of the decisions and recommendations of the collegial bodies;
• paying more attention to risks and management of response measures;
• raising awareness of the specifics of the energy sector.

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 that 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 the 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 (when holding the position of the interim CEO of Amber Grid AB, does not hold the position of the Chairman), Member of the Board at the operator of the Lithuanian Energy Exchange Baltpool and Director of Strategy and Development at EPSO-G, the interim CEO of Amber Grid AB.
N. Biknius 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.

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 to November 2019, Mr. Sidaravičius has been Member of the Board and CEO of ERGO Invest SIA. Currently, he holds the position of CFO of Galio Group UAB.
D. Sidaravičius 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. 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 CEO. The Company's administrative management consists of the CEO, 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 and other policies, the content of which is disclosed on the Company's website.

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 that is currently being implemented. It should be noted that the supervisory functions are carried out by the Supervisory Board of EPSO-G UAB, meanwhile recommendations, proposals and conclusions on matters that 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 2019.
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.

VIII. 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 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 first quarter of 2019, with regard to structural changes in EPSO-G group of companies, LITGRID AB Risk Management Policy and LITGRID risk management methodology were renewed.

IX. 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 2019

On 1 January 2019, electricity transmission prices announced by the National Commission for Energy Control and Prices came into effect. The average regulated electricity transmission price increased by 6.3 percent up to 0.658 ct / kWh. This was due to objective reasons - servitude compensation, costs of moving autotransformers and increasing costs for purchasing electricity for own needs and costs for maintaining technological equipment.

On 23 January 2019, The European Commission has provided funding for the first phase of synchronization of the Baltic energy system with the Continental Europe grid. The total value of the projects is EUR 432.5 million. The EU funding will be EUR 323 million. The renewal and strengthening of the Lithuanian electricity system will require EUR 167 million. Of this amount, three quarters of the funding is provided by EU funds - EUR 125 million.

On 24 January 2019, under the decision of the Agency for the Cooperation of Energy Regulators (ACER), the methodology for calculating bandwidth allocation and congestion management was adopted to establish the rules for the calculation of intraday bandwidth. The purpose of this methodology is to harmonize the trading principles of calculation of cross-system bandwidth for day-ahead and intraday.

On 5 February 2019, Estonian and Latvian operators have decided to postpone the isolated operation test for an indefinite time and to set a new test date. The Baltic test in island mode is necessary for Lithuania, Latvia and Estonia to synchronize their networks with CEN.

On 19 March 2019, the executives of the Baltic transmission system operators and the head of the Innovation and Networks Executive Agency signed a financing agreement for synchronization projects with continental Europe.

On 20 March 2019, the executives of the electricity transmission system operator LITGRID and Žilinskis ir Co UAB signed a contract for the design and construction of the expansion of the strategic link with Poland - LitPol Link. It is forecasted that the interconnection of Lithuania and Poland will be expanded by installing 400/330 kV autotransformers, expanding Alytus 400 kV and 330 kV switchyards, some power lines, and rebuilding 400 kV switchyard for own needs. The contract amount is EUR 26.193 million, and the works are scheduled to be completed by the end of 2020.

On 9 April 2019, electricity transmission system operator LITGRID and energy company group Lietuvos Energija have renewed the sale of shares of Duomenų logistikos centras (DLC), which provides data transmission and data center services. LITGRID is expected to sell its 20.36% shares and Lietuvos Energija will transfer its 79.64% shares of DLC.

On 23 April 2019, the decisions of the annual general meeting of LITGRID shareholders were adopted approving the financial statements of the Company, the profit distribution project and the remuneration of the Board members.

On 20 May 2019, the extraordinary general meeting of LITGRID shareholders approved the material terms of the agreement on the interconnection to the continental European grid. The agreement defines the rights and duties of the Baltic and the continental Europe transmission system operators in implementing measures for the connection of the Baltic transmission system to the Continental Europe Synchronous Area.
On 19 May 2019, the electricity transmission system operator LITGRID announced that it successfully completed the isolated operation test of part of the Lithuanian power system and generators works according to a predefined plan: the system operated reliably. According to the planned scenario, Kaunas cogeneration power plant, part of Mažeikiai power plant, Kaunas HPP, Kruonis PSHP, unit 9 of Lithuania Power Plant and DC converters Nord Balt and LitPol Link were segregated into independent "islands". By disconnecting these zones from the BRELL system, we tested the ability of the generators in conjunction with the DC converters to control the frequency of the part of the isolated system. The rest part - the biggest - Lithuanian energy systems continued to function in the BRELL ring, and the isolated parts were successfully synchronized with it. The main tests were conducted at night from Saturday to Sunday, from 11:00 pm to 3:00 am; the test was completed at Sunday noon. In spite of the unusually high demand for electricity and the squally conditions in the western part of Lithuania, which could disrupt the electricity supply, the customers were supplied with electricity reliably and smoothly, so they did not feel the effects of the test. During the test, we checked the ability of the connectors to work together in frequency control maintenance mode with the generators. We also tested how parts of the isolated system work with the rest of the Lithuanian energy system, already operating in synchrony, and tested the technical capabilities of the generators to regulate the frequency and ability to remain stable in self-sustaining mode or in the event of a malfunction.

On 22-25 May 2019, a scheduled 3-day test of the isolated operation of electrical system was conducted in Kaliningrad region. The announcement of the Lithuanian electricity transmission system operator LITGRID, published in the Nord Pool system, indicated that trade capacities between Lithuania and Kaliningrad will be zero between 22 and 25 May.

On 29 May 2019, Regional Group Continental Europe of the ENTSO-E, the European Network of Transmission System Operators, announced about signing of the interconnection agreement and technical terms and conditions of interconnection by the power transmission operators of Poland, three Baltic States and supporting countries, upon implementation of which – Lithuania, Latvia and Estonia will become a part of the European power system. These are the most important documents in the process of Baltic synchronisation with continental Europe. The Interconnection agreement defines the rights and duties of the parties to ensure compliance of the Lithuanian, Latvian and Estonian power transmission system operators (TSOs) with the established requirements and assumed obligations. The Agreement will be implemented in accordance with the catalogues of connection conditions. It is a code of 409 technical and practical operational standards and indicators, upon implementation of which, Lithuania, Latvia and Estonia will connect and operate in the same frequency with continental European power system. At present, Lithuanian power system meets approximately 40 per cent (169) measures established in the connection catalogue.

On 13 June 2019, the Seimas of the Republic of Lithuania passed the Law on connection of the Lithuanian power system to the synchronous grid of Continental European drafted by the Ministry of Energy and related legal acts. The latter acts stipulate the principal conditions for organisation and implementation of the synchronization process. The law provides the following:

- The Law stipulates the status of a project of special state importance to be granted to the synchronisation project and related infrastructural projects. This will allow accelerating the completion of territory planning procedures in the projects related to the synchronisation, to stipulate easements and to conduct environmental impact assessment procedures efficiently;
- Competent institutions are instructed to issue permits for synchronisation-related projects, to coordinate the projects and carry out other procedures in a shorter than usual term;
- The adopted legislation established the conditions necessary for smooth disconnection of the Lithuanian energy system from the Soviet BRELL ring (IPS/UPS system).

On 20 June 2019, the political Roadmap implementing the synchronisation of the Baltic States' electricity networks with the Continental European Network was signed. The specific action plan and necessary main projects up to 2025, when the Baltic States will join the safe and reliable energy system of Europe, were established. At the European Council, President of the European Commission Jean Claude Juncker signed the political Roadmap together with Dalia Grybauskaitė, President of Lithuania, Jüri Ratas, Prime Minister of Estonia, Krišjānis Kariņš, Prime Minister of Latvia, and Mateuszas Morawieckis, Prime Minister of Poland. The BEMIP high-level group headed by the European Commission was delegated at the political Roadmap with the task to supervise practical implementation of the project and to ensure that the agreed timetable of works will be met when implementing the key projects of the agreement on interconnection of Continental European energy networks.

On 27 June 2019, D. Virbickas, the CEO of LITGRID, has been appointed to the Board of ENTSO-E, the organisation uniting 43 European transmission system operators, for a new term. The Board of ENTSO-E coordinates the activities of the organization between meetings of the General Assembly held several times a year. The Board is composed of eleven members and a chairperson, they are appointed for a period of two years.

On 1 July 2019, LITGRID submitted ten-year development plan to the National Energy Regulatory Council. It provides for harmonious integration and security of the grid, while at the same time creating value for society by ensuring efficient operation of the transmission network. It has become the starting point for the Company's long-term vision of becoming the leading transmission system operator in Europe. In the ten-year network development plan, LITGRID's planned investment will reach EUR 1,023 million. The plan is publicly available and can be found on the Company’s website: https://www.litgrid.eu/index.php/tinklo-pletra/lietuvos-elektros-perdavimo-tinklu-10-metu-pletros-planas-/3850

On 2 July 2019, LITGRID announced that Polish and Lithuanian TSOs, PSE and LITGRID, the only shareholders of the LitPol Link subsidiary, decided to liquidate the company on 19 June 2019. This decision was made because the goal of the companies of both countries was achieved - the first Polish-Lithuanian interconnection was built. It has been in operation since 2016. PSE and LITGRID, basing on the positive previous experiences, will cooperate directly on the construction of the second interconnection - the submarine cable Harmony Link.

On 30 August 2019, at Vilnius transformer substation (TS), LITGRID launched and put into operation a new 300 MVA (megavolt amps) power autotransformer. It is the most powerful mechanism operating in Lithuanian transmission network substations. Weighing nearly 300 tonnes, this sophisticated engineering unit is designed to provide reliable power transfer to residents and businesses in the Vilnius region.

On 3 September 2019, LITGRID announced, that active power, power balance and frequency management system service will require 400 MW secondary active power reserve (frequency recovery reserve) and 475 MW tertiary active power reserve (replacement reserve) in 2020 (of which: 260 MW for the recovery of the secondary emergency reserve and 330 kV for voltage management; 215 MW for the recovery of the secondary emergency reserve).

On 3 September 2019, LITGRID commenced the planning of territories of four projects essential for synchronization according to the development plans for each project approved by the Government in August 2019. In order to determine the optimal routes for the construction of new transmission lines and the development of electricity network infrastructure, LITGRID undertook to commence territorial planning works on four projects: Construction of 330 kV power transmission line Kruonis PSHP-Bitėnai, Construction of 330 kV power transmission line Darbėnai-Bitėnai, Construction of 330 kV Mūša Switchboard" and Construction of Harmony Link and 330 kV Darbėnai switchboard. The first phase of preparations for synchronization with the Continental European networks will mostly focus on strengthening and upgrading the country's transmission network and will be completed by 2025.

On 4 September 2019, the Government of the Republic of Lithuania approved the synchronization action plan and plan for measures. It was provided for by the Law on Synchronization adopted by the Seimas in June. The plan identifies projects to be completed and completion schedules by preparing the Lithuanian network infrastructure for synchronous operation with the Continental Europe by 2025. A total of 14 projects have been approved with the status of strategic projects.

On 14 October 2019, LITGRID announced that by strengthening the Lithuanian energy system and preparing it for synchronous operation with European electricity networks it moved an extremely powerful 180 MVar shunt reactor from the transformer substation of Ignalina Nuclear Power Plant to Elektrėnai. After removing it from the transformer substation of Ignalina Nuclear Power Plant, it will no longer participate in the management of cross-system power flows with the Belarusian system.

On 11 November 2019, at Vilnius transformer substation (TS), LITGRID launched and put into operation a second new 300 MVA (megavolt amps) power autotransformer. They are the most powerful mechanism operating in Lithuanian transmission network substations. The second mechanism was switched on 6 November 2019.

On 18 November 2019, *Single Intraday Coupling* (*SIDC*) parties *confirm* successful *2nd wave go-live*: 7 new countries will join in November with 14 already participating (Lithuania joined SIDC in 2018).

On 28 November 2019, the strategic environmental assessment report of the new line Vilnius - Neris development plan and the concept of the development plan were drafted.

On 28 November 2019, LitPol Link interconnection has been successfully connected to SIDC. The successful go-live of the second launch of SIDC (formerly known as XBID) confirmed, with 7 other countries joining the market: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania and Slovenia.

On 29 November 2019, it was announced that EPSO-G, the group of energy transmission and exchange companies, would directly control 100% of the shares of the contractor company Tetas. This was supported by the shareholders of EPSO-G and the subsidiary LITGRID. The purpose of this change is to streamline the corporate governance structure of the state-controlled group and make it more efficient. This will allow both LITGRID and Tetas, as from now directly patronised by EPSO-G, to focus on their core operations.

On 29 November 2019, the transmission system operator LITGRID has completed the project to expand the Bitėnai transformer substation to the switchyard. It became the first of the strategic projects approved by the Government in autumn of 2019 for synchronization of Lithuania with the European electricity networks.

On 4 December 2019, in preparation for independent reliable management of the country's electricity transmission system, LITGRID and STiEMO UAB signed an agreement on the installation of an experimental battery energy storage system, according to which the companies planned to test the possibilities of a modern storage device under real conditions.

On 4 December 2019, the executives of Lithuanian and Polish transmission system operators and the representative of the Innovation and Networks Executive Agency in Brussels signed an agreement on EU support of EUR 10 million for the submarine connection Harmony Link.

On 23 December 2019, LITGRID successfully completed and moved into a new system management and data center. This construction meets the physical security requirements set for companies and installations of strategic importance for the national security. The new headquarters of LITGRID has 230 workplaces. It also focuses on environmental issues - digital tools help to reduce paper consumption, waste is sorted, and the office features modern power-saving and light-adjusting equipment. The investment in this project was funded by the Company. The project was implemented by the general contractor Conresta UAB.

X. Significant events subsequent to the end of the reporting period

On 10 January 2020, the selection of independent members to the Board of LITGRID AB was announced. The selection is based on the fact that the four-year term of office of the current LITGRID AB Board expires on 20 April 2020.

28 January 2020, the National Energy Regulatory Council (NERC) coordinated the 2019-2028 plan of investment for network security, reliability and development of the transmission system operator LITGRID.

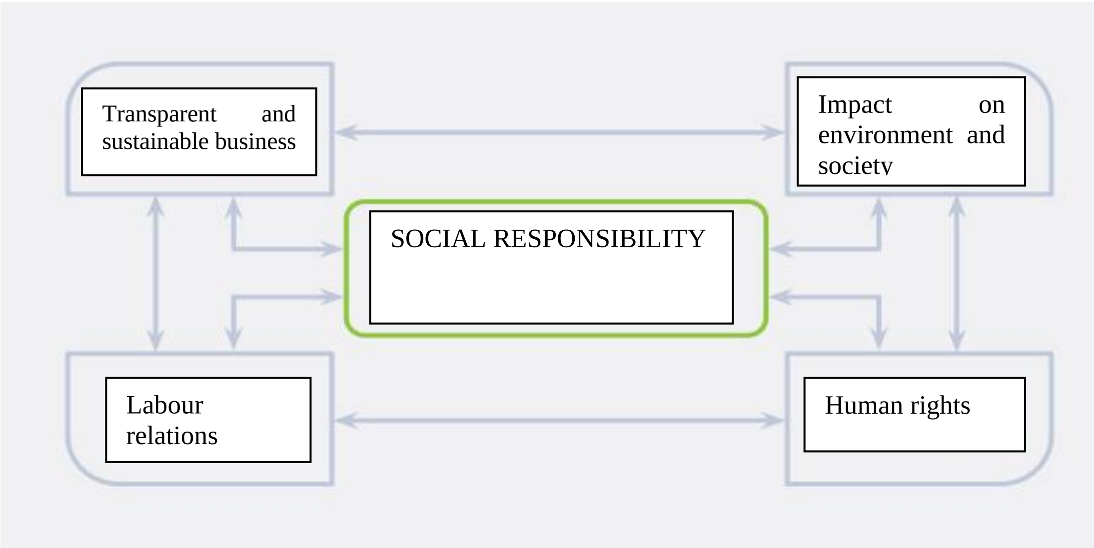
As of February 2020, considering the state-level emergency in Lithuania due to the spread threat of the new coronavirus (COVID-19), new business continuity and preventive measures are being reviewed and planned by LITGRID AB: responsible personnel for monitoring the situation and providing information to the Company's management has been appointed; units and personnel performing critical functions and administering the key systems have been identified; additional organizational measures at system control centers are being applied; technical and replacement measures in case of the virus spread have been planned. The Company is also in the process of reviewing emergency management plans, the preparation of additional documentation and implementing measures - lists of critical activities, lists of resources needed to keep those activities going, lists of resources and persons in charge, as well as other documents and measures.
During the preparation of the report, the potential impact of COVID-19 on the Company's economic activities was assessed for: customer credit risk, revenue, operating profit, plans for timely implementation of strategic projects.

Corporate Responsibility Progress Report

LITGRID: Collaboration, Professionalism, Progress

LITGRID activities are based on the principles of social responsibility, sustainable development, transparency, and advanced environmental protection. The company activities are an integral condition for the successful functioning of the national economy, and long-term strategic goals and ongoing strategic electrical energy projects contribute to ensuring national energy independence.
The scope and importance of the projects being implemented encourage the company and its employees and management to adhere to the highest professional and ethical standards, to take responsibility for nurturing and developing the awareness, responsibility, and willingness of the public and its individual groups to actively participate in the creation of the well-being of the country. Our social responsibility policy focuses on ensuring fair and motivating working conditions, developing responsibility and citizenship, and contributing to the growth and strengthening of the society in which we operate.
We dedicate our strength and resources to:

- Help to grow economically the society in which we operate
- Support the communities we work with
- Ensure motivating and perfection encouraging conditions for the people who work with us
- Preserve nature, which provides us with resources.



As we implement strategic projects of high value and historical significance, we realize that great works bring great responsibility. Maintaining and promoting a quality dialogue with the society for which and in which we work is a top priority in our daily operations.

UAB "EPSO-G" Group companies understand the sustainable development of the business as a set of purposeful economic, social and environmental actions through the increase of the general well-being of the society and reduction of the permissible environmental impact limits in their professional activities as defined in the National Sustainable Development Strategy approved by the Government of the Republic of Lithuania.

Corporate social responsibility policy is understood as an integral and inseparable part of the business. The policy covers the following areas: Corporate Business Ethics in the Market and Prevention of Corruption, Preservation of Environment, Employee Development, Human Rights, Equality and Diversity, Occupational Safety and Health, as well as Mutual Trust Relationships with Stakeholders.

Social Responsibility in the Market: Effective and Transparent Business

Informing stakeholders

At the Mo Museum on 7 May, LITGRID presented the results of the previous period, where invited partners, representatives of the Seimas and ministries and partners. Not only the breakthrough in synchronization that happened in 2018 was reviewed and evaluated during discussions, but also the economic growth (speaker Tadas Povilauskas, an economist at SEB Bank) and energy security challenges were overviewed (speaker Dr. Artūras Petkus, the Head of Research, NATO Energy Security Centre of Excellence).

(All amounts are in EUR thousands unless otherwise stated)

The company presented a decade-long development plan on 1 July that covers sustainable integration and security, while creating value for the society by ensuring efficient operation of the transmission network. In the ten-year network development plan, LITGRID's planned investment will reach 1023 million.

Each year, LITGRID prepares a 400-110 kV grid development plan for the Lithuanian electrical energy system, which aims at providing for possible electrical energy and power needs, generating power and generation changes, prognosticate the volumes of transmission grid development and restoration, evaluate investments, etc. in long-term prospects after assessing the current state of the electrical energy system and resolutions.

Activities and major events are regularly reported in the media: one press conference was organised per year, over 80 press releases were distributed and published.

Occupational Safety

2019	Workplace inspections	Number of violations detected
I quarter	26	5
II quarter	67	10
III quarter	75	14
IV quarter	43	9
Total:	**211**	**38**

No suspended works due to violations of the occupational safety of employees were during the workplace inspection of contractors in 2019, one fine for fixed violations was imposed. Most of the violations identified were accompanied by verbal warnings to the staff responsible for the organization and execution of works, and in a few cases, contractors were informed in writing of the non-compliance with the occupational safety requirements.

Contractors' Day

In November, LITGRID organized a "Contractors' Day", an information event for business representatives - potential contractors. During the event, intended projects were presented to potential contractors along with potential service needs. The Company organizes the "Contractors' Day" to promote interest and participation of the partners in open and transparent tenders, by increasing awareness of the projects, and market participants learn about the works to be carried out from a direct source. Additionally, it is also a way of promoting fair and non-discriminatory activity on the market and effective dialogue with its participants.

Prevention of Corruption

The Company regulates the procedure of declaration of private interests - declarations of interests are submitted by all employees of the Company. All new employees undergo corruption prevention training.

The Company does not tolerate any manifestation of corruption, acceptance of inappropriate benefits, submission, offer, promise or claim through misuse of the office held.

Corruption at LITGRID is understood to mean offering and accepting improper privileges, trafficking in influence and authority, protectionism and nepotism. The striving is that our decisions are not influenced by personal interests or pursuit of personal gain.

The legislation defines corruption as the disclosure of the causes and conditions of corruption and elimination thereof through the establishment and implementation of the system of appropriate measures, as well as the impact on individuals so as to deter for committing corruption-related offenses.

The Company also encourages its employees, customers, business partners, and other interested parties to report breaches of legal acts and unethical conduct by email pranesk@litgrid.eu or tel. +370 615 62 290. Information about notifications is available only to the Corruption Prevention Officer of the Company who ensures anonymity and confidentiality.

Social Responsibility in Environmental Protection

We adhere to the principle that harmony with the environment in which we work and live is the basis for the successful operation and development of the Company. Our Environmental Protection Policy Principles are as follows:

· Routes for new power lines are planned in a way that minimizes damage to human economic activity and nature.
· When designing objects to be reconstructed or under construction, we provide for preventive environmental protection measures.
· We use environmentally friendly technologies and electrical energy-efficient equipment.

Forest Planting

When maintaining and cleaning security areas of overhead lines, trees are pruned and cut back. This is necessary to ensure the reliability of the electrical transmission.

Realizing the impact on nature resulting from the maintenance of overhead lines, the staff of the Company cherishes the tradition of organizing the forest planting in April when a professional holiday of energy workers is celebrated.

LITGRID colleagues estimate that up to this year they have enriched the Lithuanian forests with more than 11 thousand spruces, pines, and birches during such forest planting activities. This time colleagues went to Jagelonys Forestry, where they planted 5 thousand four-year-old fir trees.

These forests are dominated by spruce groves - 70.6%, pine forests amount to 7.1%, oak forests - 9.5%, black alder forests - 7.6%, birch forests - 3.7%. Every year, 8.1 thousand cubic m3 of wood is cut down in state forests and the forest is restored within 29 ha area.

Interestingly, tree seedlings are grown by the nurseries of the State Forest Enterprise from the seeds collected by the foresters themselves. They are collected only from the objects of the seed forest base - seed plantations, genetic reserves, seed stands, selected trees and clone sets.

Forests in Lithuania are highly valued, and we are pleased to have the opportunity to contribute to their cultivation and conservation for future generations.

Rescued a Rare Bird Family

Typically, ospreys settle down near wetlands, mature stands near water bodies, but on June 17, the LITGRID contractors found the nest of this osprey when dismantling supports along the section of the power transmission line in Visaginas Municipality.

The osprey is a rare bird of limited distribution. According to the website of the Lithuanian Ornithological Society, scientists were interested in the report. The report was accompanied by several photos of two adolescent fledglings and the ornithologists had no doubts about the first case of osprey brooding on the power transmission line in Lithuania.

These birds extremely defend themselves, like tranquillity and are fearful, so the ornithologists rejoiced when they went to check on the supports the next day and saw both the fledglings and the parents flying around and feeding them.

Dismantling works are suspended; the consultations on when the fledglings will leave the nest so that the scheduled works could be completed were carried out with ornithologists.

It is estimated that up to 40 couples of this species are currently brooding in Lithuania.

The ospreys are quite conservative and settle in the same nests every year; they sometimes brood in the same nest up to 20 years! Even if, for example, their nest is destroyed by the storm, when they return they repair it or try to rebuild it. The Lithuanian Society of Ornithologists considers the possibility of installing a structure near the tree where the ospreys could build their nest. This way, the family of this rare bird included in the Lithuanian Red Book would be maintained in the Visaginas region.

Conservation of Resources

The decision on the complete sorting made during the reporting period is the result of the initiative of employees, PDA Kaizen solution implemented by means of the Lean tool. It was also decided to refuse water in plastic bottles and to use tap water and refillable water-bottles or carafes.

Saving the Environment in Infrastructure Projects

In 2019, the noise modelling was carried out at substations in Vilnius, Šiauliai, Utena, Alytus, Kaunas, Jurbarkas, at the Lithuanian Power Plant Distribution Station and in preparation for the expansion of “LitPol Link”.

During the reporting period, the study “Determination of Permissible Parameters of Electromagnetic Fields in the Protection Zones of the Overhead Lines of Lithuanian Transmission Network” was also started. The study is scheduled to end in July 2020.

The first reconstructions of transformer substations started in 2019 where the decision to use renewable electricity resources - solar power plants for own use was taken. The solar power plants are planned to be equipped with 13 substations.

Environmental impact assessment or selection procedures are carried out for the power transmission lines planned to be built, the conclusions of which are evaluated during the preparation of the technical projects. When preparing the design tasks, environmental requirements are set for all transformer substations and switchgear that are being constructed or reconstructed. In all cases, efforts shall be made to select less environmentally harmful facilities. For example, oil circuit breakers used to date in transformer substations are being replaced by more modern gas ones. This minimizes the risk of environmental pollution in the event of an accident and also reduces the operating costs of the equipment.

As 330 kV transformer substations switch to remote control without the need for on-call staff, potentially contaminated rainwater purification systems with automatic oil-polluted flow closure and information transfer to the System Control Centre are installed. Contractors are obliged to organize the works in such a way as to avoid or reduce potential effects on the environment, to manage the waste generated during construction, to record and declare imported taxable packaging and to provide supporting documentation.

When purchasing works, contractors should have environmental management systems installed in accordance with LST EN ISO 14001. Acceptance of the work performed shall include the verification that the contractors have complied with the requirements, that the waste has been properly disposed of and that supporting documents are available.

Social Responsibility in Relations with Employees

Equal Opportunities

Implementing the requirements of the Labour Code of the Republic of Lithuania in the field of equal opportunities and non-discrimination, on 30 December 2019, the Company approved the Description of the Equal Opportunities Procedure and the Plan for the Implementation of Equal Opportunities for 2020-2021.

We adhere to the following non-discriminatory principles in all fields of our activities:

• Through recruitment, selection and dismissal procedures of employees, we establish objective criteria not based on the stereotypes.

• By creating a work environment and applying equal working conditions for all employees. We strive to create an open, flexible and involving work environment, believing that this will help all LITGRID employees to successfully combine work and family responsibilities. We encourage and contribute to employee sports and volunteering initiatives. We listen to each employee’s ideas and encourage them to implement them.

• We follow the principles of fairness and gender equality in the formation and implementation of pay policies.

After approving measures for the implementation of equal opportunities, we have committed ourselves to respond quickly and effectively to the daily manifestations of unwanted behaviour and to ensure equal conditions for all employees and the candidates applying for a job.

We strive that equal opportunities exist not only in the documentation, and for the LITGRID community to be modern, caring, tolerant and open. We hope that respect for the individual, human rights and freedoms will become part of our daily conduct. Therefore, we encourage everyone to take an active interest in equal opportunities and contribute to the implementation and enforcement of equal opportunities within the Company.

Working Conditions

The Company closely cooperates with the Power Transmission Network Workers Union operating in the Company, which had 98 members in 2019. Mutual cooperation is based on the principles of respect and social partnership.

On 1 January 2019, after the amendments to the Law on Personal Income Tax of the Republic of Lithuania, State Social Insurance of the Republic of Lithuania, Law on Sickness and Maternity of the Republic of Lithuania entered into force, an agreement on the amendment of the Collective Agreement valid in the LITGRID was signed, whereby the material aid benefits according to the collective agreement from which an employee pays the personal income tax have been increased after the tax reform by applying the factor of 1,289 stipulated in the laws in order to keep the actual amount of agreed benefits received by the employees as a result of the tax reform unchanged..

Social Responsibility in Relations with Society

Meetings with Communities

LITGRID informs local communities in advance of projects being implemented in their neighbourhood; therefore, the Company initiated a series of meetings with communities. LITGRID staff, along with prominent public figures - journalist Giedrius Drukteinis, actress, writer Nijole Narmontaitė, historian Alfredas Bumblauskas - met in towns and cities close to which synchronization projects will be carried out up to 2025. LITGRID introduced to residents what the synchronization and specific infrastructure projects are, as well as the opportunity to spend meaningful leisure time was provided.

LITGRID also strives to minimize the inconvenience caused to residents during the implementation of infrastructure projects and the new routes are planned with the utmost care so as to minimize the impact on the living environment and nature. The planning of the route of the new overhead line Vilnius - Neris started in 2019, during which representatives of the Company met and consulted with the elders, examined all the alternatives of the route in order to select the optimal route for all interested parties.

Safe Behaviour

LITGRID participated in the campaign “I will work safely” organized by the State Labour Inspectorate. Employees of the Company visited schools in the elderships where the high-voltage transmission network stretches and told about their daily work: line maintenance, work at transformer substations. The project was designed to promote a responsible approach to safe work, so the LITGRID staff outlined the principles of safe electrical work that not only energy engineers need to know, but also everyone, especially if there are high-voltage overhead lines in the environment, i.e. in cultivated fields, near roads, etc. The students liked the funny instructional footages and the trying on the safety helmet - the symbol of safe work.

Over the summer, LITGRID initiated articles in the regional and local press - over 40 newspapers - on safe behaviour near high-voltage overhead lines. The number of various events caused by insecure human behaviour increases during the warm season, when agricultural works and deforestation become more intense. In order to prevent accidents and to keep the network running reliably, you need to know what works can be done and how far from a high voltage line, and what to do when you see a damaged line.

Auction and Cake Day

The Company has an approved support policy; however, the Company did not grant any support under it in 2019. LITGRID implements social responsibility through employee initiative and volunteering.

During the summer event of the employees of the group, the Day of Discoveries, a charity auction during which around EUR 1,700 was collected took place. For some of these funds, LITGRID organized a trip to Vilnius, excursions and fun activities for children attending Pivašiūnai Day Care Centre “Family Support”.

The Cake Day celebrated in November, which has become a tradition all over Lithuania, is also enthusiastically organized in the Company LITGRID. Traditionally, the employees donate the funds raised during it to children who attend the Pivašiūnai Children Day Care Centre. In 2019, the staff raised nearly EUR 600 for which they invited children to Vilnius at Christmas, organized entertainment and bought presents.

Volunteering

Social responsibility is implemented on the initiative of employees, while the voluntary activity of LITGRID employees is encouraged - according to the collective agreement, one day per year is dedicated to that.

Some of the LITGRID staff used the day to volunteer by organizing activities for the children at the day care centre and work at a stray animal care organization.

Excursions

LITGRID System Control Centre and high-voltage DC converter stations “Nord Balt” and “LitPol Link” were visited by pupils of all ages, representatives of the project “Pupils to the Government”, students, delegations from foreign countries, ESO and “Ignitis” colleagues.

For the pupils and students, these excursions are a great opportunity to broaden their horizons and get to know how the energy system works and to quicken their interest in the energy profession; for others - to foster collaboration and share experiences.

INFORMATION ABOUT COMPLIANCE WITH TRANSPARENCY GUIDELINES OF LITGRID AB

Company LITGRID AB is acting in compliance with the Policy of Performance Transparency and Communication of the group of companies UAB "EPSO-G" (approved in full scope by the Board of LITGRID AB on 23 October 2017), where the requirements set in the Transparency Guidelines are reviewed in detail and their application to the companies belonging to the group UAB "EPSO-G" is defined.

Implementation of the Transparency Guidelines is safeguarded in LITGRID AB essentially through the information disclosed in annual report and the information's disclosure on the Company's website and in the stock exchange NASDAQ, in order to provide information to the interest holders in reasonable and comprehensive mode.

It is stated in Article 3 of the Government's Resolution No. 1052 of 14 July 2010 "Regarding Approval of Description of the Guidelines ensuring the Transparency of Activities of State-Owned Enterprises" (hereinafter – Transparency Guidelines) that the State-owned enterprises follow the provisions of the Corporate Governance Code for the Companies listed on AB Nasdaq Vilnius related to public disclosure of information.

The structured information on implementation of the Transparency Guidelines is provided below:

The following information has to be made available on the website of LITGRID AB (www.litgrid.eu) / other requirements have to be met:	
Company's name, code and register, where the data about the Company are accumulated and stored, registered office (address)	Met
Legal status if LITGRID AB is under transformation, reorganization (mode of reorganization has to be indicated), liquidation, going bankrupt or is bankrupt	Irrelevant
Information about institution that represents the State, i.e. Ministry of Energy, and link to its website	Met
Objectives of activities, vision and mission	Met
Structure	Met
Manager's data*	Met
Data of the Board's Chairman and members*	Met
Data of the Supervisory Board's Chairman and members *	Met
Names of committees, data of their chairmen and members*	Met
*<u>*The following data are made available:*</u> *name, surname, start of current position, other managing positions in other legal entities, education, qualification, professional experience; it has to be indicated whether a member of the collegial body was elected or appointed as an independent member*.	
Amount of nominal values of shares owned by the State (in euro and euro cents)) and part (in percentage) in the authorized capital of LITGRID AB	Met
Information about initiatives and measures of social responsibility, important investment projects under implementation or that are planned	Met
If LITGRID AB is a participant of other legal entities (not applicable for daughter enterprises and daughter enterprises of subsequent level), name of such legal entity, code and register, where the data about the Company are accumulated and stored, registered office (address), websites	Met
Set of annual financial statements of LITGRID AB, annual report of LITGRID AB, as well as auditor's report regarding annual financial statements of LITGRID AB have to be made available on the website of LITGRID AB within 10 business days after approval of the set of annual financial statements	Met
Sets of interim financial statements of LITGRID AB and interim reports of LITGRID have to be made available on the website of LITGRID AB within 2 months after the end of respective reporting period	Met
The following documents have to be made available on the website of LITGRID AB (www.litgrid.eu) / other requirements have to be met:	
Articles of Association of LITGRID AB	Met
Performance strategy or its summary in the cases when performance strategy contains some confidential information or information that is considered to be trade (industrial) secret	Met
Remuneration policy that includes fixing of wages for manager of LITGRID AB and members of collegial bodies and committees formed in LITGRID AB	Met
Annual and interim reports of LITGRID AB	Met
Sets of annual and interim financial statements of at least 5 years, as well as reports of auditor of annual financial statements	Met

The aforementioned documents should be posted in PDF format and technical possibilities should be provided to print them out	Met
The following has to be included in the sets of financial statements and reports/ the following requirements have to be met	
LITGRID AB is handling accounting in such a way as to safeguard formation of financial statements in accordance with international accounting standards	Met
LITGRID AB prepares a set of interim financial statements of 6 months	Met
In addition to annual report, LITGRID AB prepares an interim report of 6 months	Met
In addition to requirements set for the content in the Law on Financial Accountability of Companies of the Republic of Lithuania, LITGRID AB has to provide the following additional information in its annual report[1]:	
Brief description of business model of LITGRID AB	Met
Information about important events that took place in the financial year or after it (before annual report) and that were of essential significance for EPSO-G activities	Met
Outcomes of reaching the objectives provided in the performance strategy	Met
Indexes of profitability, liquidity, turnover of assets, and debt	Met
Implementation of special obligations	Met
Implementation of investment policy, ongoing and planned investment projects and investments of the reporting year	Met
Implementation of risk management policy applied by LITGRID AB	Met
Implementation of dividend policy	Met
Implementation of remuneration policy	Met
Total annual wages fund, average monthly wages according to the position held and/or units	Met
It is recommended for the State-owned enterprises that do not have to prepare a report on social responsibility to provide information on the issues of safeguarding of environmental protection, social and staff, human rights, anticorruption and antibribery issues in annual report or in annual performance report, as the case is	Met
The structure of the group of companies is presented in the consolidated annual report, as well as name of each daughter enterprise, code and register, where the data about the Company are accumulated and stored, registered office (address), part of managed shares (percentage) in the authorized capital of a daughter enterprise, financial and non-financial performance results of the financial year	Met
The interim report of LITGRID AB contains a brief description of business model of EPSO-G, analysis of financial results of the reporting period, information about important events that took place in the reporting period, indexes of profitability, liquidity, turnover of assets, and debt, and their changes, when compared to respective period of last year	Met

[2] *If information is considered a trade (industrial) secret or confidential information of the State-owned enterprise, the State-owned enterprise may leave such information undisclosed; however, it has to be stated in the annual report of the State-owned enterprise that this information is not disclosed and why it is not disclosed.*

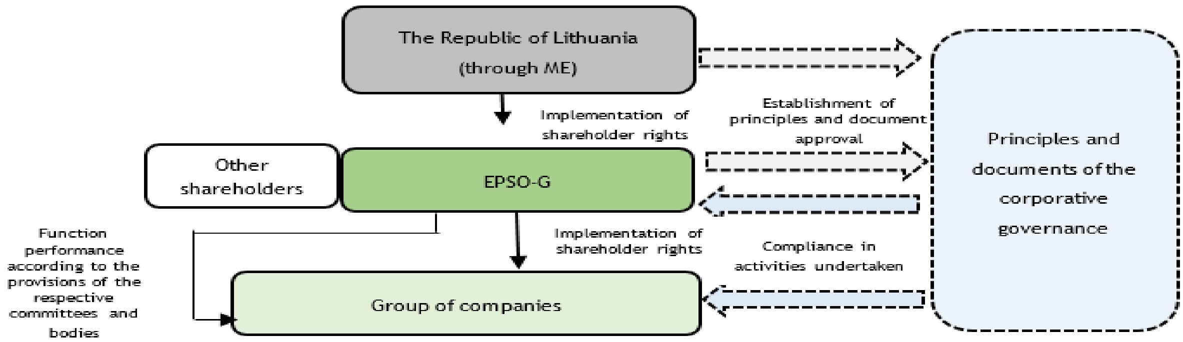
Litgrid AB Notice of Compliance with the Corporate Governance Code for the Companies Listed on AB NASDAQ OMX Vilnius

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.

Free-form summary of the corporate governance statement:

Litgrid 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 LITGRID AB.

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



Although the company belongs to the EPSO-G group of companies, it does not deny the independency of the company. The company acts independently and has the obligation to check if corporate group policies are in favour of it's shareholders', creditors and other stakeholders interests.

Corporate governance structure:

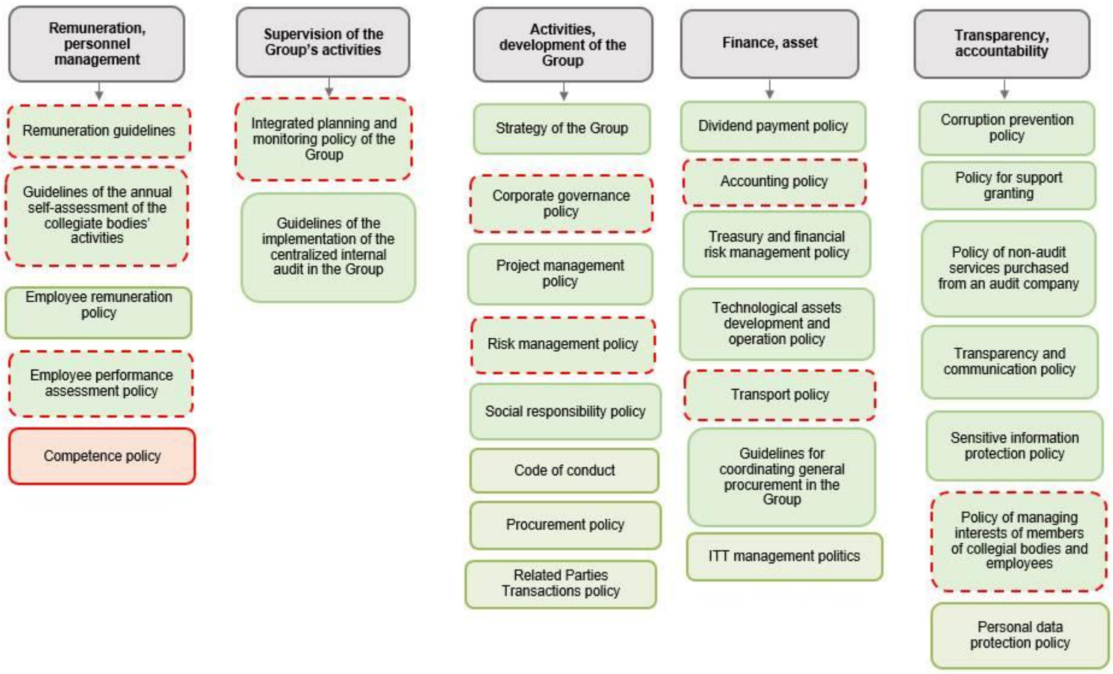
- General Meeting of Shareholders.
- The Board (five members, two of whom are independent members, three members are nominated by the sole shareholder UAB EPSO-G);
- Committees operating at the Group level:
    - Remuneration and Appointment Committee (majority of the independent members);
    - Audit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

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

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

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

Operating policies currently applicable in the Company:



Explanatory notes:

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

– The new Group policy approved in 2019.

The report on the governance of state-owned enterprises states that EPSO-G Group is implementing and adhering to the principles of good governance. The group has been assigned the title as the leaders among the state-owned enterprises in terms of transparency and accountability A+ with overall rating set at A.

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. In additions, shareholders' rights and responsibilities have been set by Chapter IV of the Company's Articles of Association.

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. 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. So far there is no need to vote by electronic means. Upon requests by the shareholders, the introduction of such a voting option would be considered.

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. 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 acquaint ted with documents related with the agenda of the meeting, decision projects, a general voting paper at the premises of LITGRID AB, during business hours of the Company.
1.10. Members of a collegiate body, heads of administration 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.

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**	-

2.2. The Formation of the Supervisory Board 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**	-

(All amounts are in EUR thousands unless otherwise stated)

PRINCIPLE III: The Board

3.1. *Roles and responsibilities of the Board*

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 36 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 36 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. Also, in 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](https://www.oecd.org/daf/anti-bribery/44884389.pdf)[2] 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: - internal audit is accountable to the Board which is formed from external members (2 members are independent); - the Audit Committee is composed of the majority of independent members, who are also accountable to the Internal Audit; - 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.

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

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. The Article 56 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		
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. 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. 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.

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**	The information is published and updated on the Company's website. This information is not repeated additionally in the annual report. The information about chairman of the Board, CEO, Chief Financial Officer and internal auditor is presented 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. .	**YES**	The Article 27 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. One of the measures for ensuring the impartiality of the Chairman of the Board is established in Article 46 of the Articles of Association of the Company - the Chairman of the Board may not be elected from the Company's employees elected to the Board of the Company.

3.2.6. Each 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. 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.
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[3]; 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 participation of the Board in the meetings is set out in the annual report. 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.

[3] 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.

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. 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.

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. 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.

PRINCIPLE IV: Working procedures of company's Supervisory Board and the Board 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.		
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. 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).
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**	The Board reglamentation sets out the materials must be presented to the Board 5 working days before the scheduled 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.

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. [4]	**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. 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**	

[4] 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).

5.1.3. Functions assigned to committees formed in companies under provisions laid down by law may be performed by the collegial body itself. 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. The above Articles of Association establish that the Remuneration, Appointment and Audit Committees shall consist of not less than 3 members. The Remuneration and Appointment Committee ensures that there is at least 1 independent member and at least 2 independent members in the Audit Committee in the group of 3 members. Not all members of the Remuneration and Appointment Committee and the Audit Committee are appointed from the 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.

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). 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		
5.2.1. The main functions of the Appointment Committee should be as follows: 1) select candidates to vacant positions of members of management bodies and recommend them to the collegiate body for consideration. The committee should assess the balance of skills, knowledge and experience in a management body, prepare a description of functions and abilities required for a specific position, and assess the time necessary for the discharge of obligations; 2) on a regular basis, evaluate the structure, size, composition and activities of supervisory and management bodies, make recommendations for changes to the collegiate body; 3) 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: - helps to select the candidates for collegiate bodies for the group companies; - provides recommendations for the group of companies for the appointment of the members of collegiate bodies, contract management and setting their remuneration policy; - make recommendations on the policies of the group of companies that govern the remuneration policy and employee performance assessment; - provides recommendations on the planning system of shifts of critical positions.
5.2.2. When 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 . The provision is not practically relevant at the moment, as there are no Company employees in the Board.

5.3. Remuneration Committee		
The main functions of the Remuneration Committee should be as follows: 1) make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments 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; 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; 3) review, on a periodic basis, the remuneration policy and its implementation.	**YES**	Refer to the comment 5.2.1.

5.4 **Audit Committee.** 5.4.1. Main roles of the Committee are described in the acts of law, describing the activities of the Audit Committee. 5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.	**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: - supervises the audit and financial reporting of the group of companies; - is responsible for the ensuring the principles of independence and non-bias for the Group audit companies and auditors; - is responsible for the internal control, risk management and internal audit systems, work process efficiency control; - is responsible for the group of companies auditor and (or) non audit service provision control; - ensures the functioning of complaints system and complaints handling; - evaluates transactions with related parties.
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**	The Rules of Procedures of the Audit Committee stipulate that the members of the Committee, at their own discretion, may invite to their meetings the members of the bodies, employees, representatives, candidates for certain positions of the group of companies, or other persons, and obtain from them the necessary explanations within their competence, as well as require for that purpose that necessary actions would be taken for the performance of the functions of the Committee.

5.4.4 The audit committee should be informed 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**	The Audit Committee is informed periodically, at least quarterly, of the Internal Audit Reports and, at least once every six months, of the Internal Audit Plan and may make recommendations to the Boards of the Group. The Audit Committee organizes meetings with external auditors to discuss the auditor's work program and any uncertainties that may arise during the audit, and the external auditors discuss their findings and recommendations. The audit firm shall make an annual statement of independence to the Audit Committee and to the companies at the beginning of the annual audit.
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 terms of reference of the Audit Committee provide that the Audit Committee shall ensure the effective functioning of the complaints system and the proportionate and independent investigation of complaints submitted. In exercising this function, the Chairman of the Audit Committee is immediately informed of significant complaints received, as well as periodically reports to the Audit Committee on all complaints received by the Group companies, their investigation and decisions taken on the basis of the findings of investigations.

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. 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.

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 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.		
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. 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.

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.	**YES/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.

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. 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. 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.There are no such schemes applied in the Company.

PRINCIPLE VIII: Role of stakeholders in corporate governance The corporate governance system should recognise the statutory rights of stakeholders and promote active collaboration between them and the company in creating the company's welfare, jobs and financial stability. For the purposes of this principle, stakeholders include investors, employees, creditors, suppliers, customers, local community and other persons having interests in a specific company.		
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. 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**	The Corruption Prevention section of the Company's website contains the Trust Line contacts. The Audit Committee acting UAB EPSO-G group of companies-wide ensures the functioning of the system of lodging complaints and their handling. It is expected that a system will be established in the near future to provide information to a group-wide Audit Committee.

(All amounts are in EUR thousands unless otherwise stated)

PRINCIPLE IX: Disclosure of information The corporate governance system must ensure that information on all material issues relevant to the company, including financial position, operations and management, is disclosed timely and accurately		
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. This list is a minimum list and companies are encouraged not to confine themselves to the disclosure of this information. 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 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 Independent Auditor is appointed by the Board of the Company.
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 company 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. 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.

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CONSOLIDATED AND COMPANY'S STATEMENTS OF FINANCIAL POSITION
(All amounts are in EUR thousands unless otherwise stated)

	Notes	Group		Company	
		At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
ASSETS					
Non-current assets					
Intangible assets	4	4,857	6,593	4,857	6,529
Property, plant and equipment	5	322,579	309,741	322,579	307,047
Right-of-use assets	6	5,004	-	5,004	-
Investments in subsidiaries	7	-	-	-	1,174
Deferred income tax assets	24	8,255	4,505	8,255	4,469
Loans granted	8	1,000	-	1,000	2,203
Financial assets at fair value through other comprehensive income	9	1,984	2,693	1,984	2,693
Long-term share of unused funds balance of congestion management revenue	22	8,185	10,439	8,185	10,439
Total non-current assets		**351,864**	**333,971**	**351,864**	**334,554**
Current assets					
Inventories	10	36	1,107	36	107
Prepayments		527	527	527	468
Trade receivables	11	16,764	20,861	16,764	17,012
Other amounts receivable	12	111	1,243	111	47
Prepaid income tax		-	478	-	460
Loans granted	8	1,203	-	1,203	-
Short-term share of unused funds balance of congestion management revenue	22	4,463	4,922	4,463	4,922
Other financial assets	13	2,371	2,521	2,371	2,521
Cash and cash equivalents	14	30	627	30	397
Total current assets		**25,505**	**32,286**	**25,505**	**25,934**
TOTAL ASSETS		**377,369**	**366,257**	**377,369**	**360,488**
EQUITY AND LIABILITIES					
Equity					
Authorised share capital	15	146,256	146,256	146,256	146,256
Share premium	15	8,579	8,579	8,579	8,579
Revaluation reserve	16	-	222	-	-
Reserve for changes in fair value of financial assets	17	52	655	52	655
Legal reserve	17	14,626	14,626	14,626	14,626
Other reserves	17	23,099	63,309	23,099	63,309
Retained earnings (deficit)		4,130	(38,622)	4,130	(37,588)
Total equity		**196,742**	**195,025**	**196,742**	**195,837**
Liabilities					
Non-current liabilities					
Non-current borrowings	20	79,903	94,128	79,903	94,128
Lease liabilities	21	4,771	599	4,771	-
Congestion management revenue	22	34,672	10,832	34,672	10,832
Other non-current amounts payable and liabilities	23	6,310	1,931	6,310	1,878
Total non-current liabilities		**125,656**	**107,490**	**125,656**	**106,838**
Current liabilities					
Current portion of non-current borrowings	20	14,225	14,225	14,225	14,225
Current borrowings	20	-	12,615	-	12,517
Current portion of lease liabilities	21	270	221	270	-
Trade payables	25	25,596	22,173	25,596	17,909
Share of congestion management revenue of the current year	22	4,463	4,922	4,463	4,922
Advance amounts received	26	2,338	929	2,338	829
Income tax liability		426	-	426	-
Other current amounts payable and liabilities	27	7,653	8,657	7,653	7,411
Total current liabilities		**54,971**	**63,742**	**54,971**	**57,813**
Total liabilities		**180,627**	**171,232**	**180,627**	**164,651**
TOTAL EQUITY AND LIABILITIES		**377,369**	**366,257**	**377,369**	**360,488**

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

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CONSOLIDATED AND COMPANY'S STATEMENTS OF COMPREHENSIVE INCOME
(All amounts are in EUR thousands unless otherwise stated)

	Notes	Group		Company	
		2019	2018	2019	2018
Revenue					
Revenue from electricity transmission and related services	28	184,675	169,758	184,675	169,758
Other income	29	9,599	20,883	616	2,191
Total revenue		**194,274**	**190,641**	**185,291**	**171,949**
Expenses					
Expenses of electricity transmission and related services	30	(134,948)	(118,993)	(134,948)	(118,993)
Revaluation of property, plant and equipment	5	-	(50,981)	-	(50,981)
Depreciation and amortisation	4,5,6	(21,224)	(25,898)	(20,418)	(25,387)
Wages and salaries and related expenses		(15,572)	(15,042)	(9,717)	(8,545)
Repair and maintenance expenses		(5,532)	(2,851)	(9,176)	(5,064)
Telecommunications and IT maintenance expenses		(1,804)	(1,666)	(1,644)	(1,508)
Property, plant and equipment write-off expenses		(193)	(977)	(187)	(977)
Impairment of property, plant and equipment	5	(239)	-	(239)	-
Impairment of inventories and accounts receivables		346	515	356	499
Impairment of investments		-	-	-	1,000
Other expenses		(11,906)	(19,785)	(6,086)	(5,847)
Total expenses		**(191,072)**	**(235,678)**	**(182,059)**	**(215,803)**
Operating profit (loss)		**3,202**	**(45,037)**	**3,232**	**(43,854)**
Financing activities					
Finance income		217	140	259	173
Disposal of the subsidiary	7	2,720	-	2,150	-
Finance costs		(1,145)	(1,303)	(1,117)	(1,251)
Total finance costs		**1,792**	**(1,163)**	**1,292**	**(1,078)**
Profit (loss) before income tax		**4,994**	**(46,200)**	**4,524**	**(44,932)**
Income tax					
Current year income tax expenses	24	(4,074)	(2,945)	(4,074)	(2,939)
Deferred income tax income (expenses)	24	3,690	9,784	3,680	9,781
Total income tax		**(384)**	**6,839**	**(394)**	**6,842**
Net profit (loss)		**4,610**	**(39,361)**	**4,130**	**(38,090)**
Other comprehensive income (expenses) that will not be reclassified to profit or loss					
Revaluation of property, plant and equipment		391	(5,289)	-	(5,289)
Change in fair value of financial assets		(709)	-	(709)	-
Effect of deferred income tax		47	793	106	793
Other comprehensive income that will not be reclassified to profit or loss		**(271)**	**(4,496)**	**(603)**	**(4,496)**
Total other comprehensive income (expenses)		**4,339**	**(43,857)**	**3,527**	**(42,586)**
Basic and diluted earnings/(deficit) per share (in EUR)	33	**0.009**	**(0.078)**	**0.008**	**(0.076)**

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

CONSOLIDATED AND COMPANY'S STATEMENTS OF CHANGES IN EQUITY
(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 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	16	-	-	(618)	-	-	-	618	-
Transfer to reserves	17	-	-	-	-	-	542	(542)	-
Transferred to retained earnings	17	-	-	(44)	-	(164)	-	208	-
Dividends	18	-	-	-	-	-	-	(7,716)	(7,716)
Balance at 31 December 2018		**146,256**	**8,579**	**222**	**655**	**14,626**	**63,309**	**(38,622)**	**195,025**
Balance at 1 January 2019		**146,256**	**8,579**	**222**	**655**	**14,626**	**63,309**	**(38,622)**	**195,025**
Comprehensive income (expenses) for the year		-	-	332	(603)	-	-	4,610	4,339
Depreciation of revaluation reserve and amounts written off	16	-	-	(58)	-	-	-	58	-
Disposal of the subsidiary	7	-	-	(496)	-	-	-	496	-
Transferred to retained earnings	17	-	-	-	-	-	(40,210)	40,210	-
Dividends	18	-	-	-	-	-	-	(2,622)	(2,622)
Balance at 31 December 2019		**146,256**	**8,579**	**-**	**52**	**14,626**	**23,099**	**4,130**	**196,742**

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 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	16	-	-	(503)	-	-	-	503	-
Transfer to reserves	17	-	-	-	-	-	542	(542)	-
Dividends	18	-	-	-	-	-	-	(7,716)	(7,716)
Balance at 31 December 2018		**146,256**	**8,579**	**-**	**655**	**14,626**	**63,309**	**(37,588)**	**195,837**
Balance at 1 January 2019		**146,256**	**8,579**	**-**	**655**	**14,626**	**63,309**	**(37,588)**	**195,837**
Comprehensive income (expenses) for the year		-	-	-	(603)	-	-	4,130	3,527
Transferred to retained earnings	17	-	-	-	-	-	(40,210)	40,210	-
Dividends	18	-	-	-	-	-	-	(2,622)	(2,622)
Balance at 31 December 2019		**146,256**	**8,579**	**-**	**52**	**14,626**	**23,099**	**4,130**	**196,742**

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

Litgrid

CONSOLIDATED AND COMPANY'S STATEMENTS OF CASH FLOWS
(All amounts are in EUR thousands unless otherwise stated)

		Group		Company	
	Notes	2019	2018	2019	2018
Cash flows from operating activities					
Profit (loss) for the year		4,610	(39,361)	4,130	(38,090)
Adjustments for non-cash items and other adjustments:					
Depreciation and amortisation expenses	4,5,6	21,224	25,898	20,418	25,387
Impairment of financial assets		-	-	-	(1,000)
Revaluation of property, plant and equipment	5	-	50,981	-	50,981
(Reversal of) / impairment of assets		(3,166)	(2,941)	(3,176)	(2,925)
Written-off bad debts		2,820	2,426	2,820	2,426
Impairment of property, plant and equipment		239	-	239	-
Income tax expenses	24	384	(6,829)	394	(6,842)
Other non-cash expenses (income) recovery					
(Gain) loss on disposal/write-off of property, plant and equipment		187	977	187	977
Elimination of results of financing and investing activities:					
Interest income		(4)	-	(47)	(36)
Interest expenses		1,118	1,281	1,076	1,228
Disposal of subsidiary		(2,720)	-	(2,150)	-
Dividend income		(174)	(130)	(174)	(130)
Other finance costs (income)		(12)	12	3	16
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		1,425	1,816	(221)	1,043
(Increase) decrease in inventories, prepayments and other current assets		132	33	(30)	85
Increase (decrease) in amounts payable, grants, deferred income and advance amounts received		1,980	5,373	3,861	4,818
Changes in other financial assets		(50)	(9,146)	(50)	(9,146)
Income tax (paid)		(3,211)	(4,518)	(3,209)	(4,486)
Net cash flows from operating activities		**24,782**	**25,872**	**24,071**	**24,306**
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets		(42,640)	(22,997)	(41,957)	(22,156)
Disposal of property, plant and equipment and intangible assets		166	-	-	-
Grants received	19	14,848	24,283	14,848	24,283
Loans granted	8	-	-	-	(1,000)
Revenue generated from congestion management	22	27,318	12,208	27,318	12,208
Decrease (increase) in congestion management revenue balance		2,713	-	2,713	-
Disposal of subsidiary		3,092	-	3,315	-
Interest received		-	-	47	17
Dividends received		174	130	174	130
Net cash flows from investing activities		**5,671**	**13,624**	**6,458**	**13,482**
Cash flows from financing activities					
Repayments of borrowings		(14,225)	(8,082)	(14,225)	(8,082)
Overdraft		(98)	(34,558)	-	(33,311)
Borrowings from related parties		(11,991)	12,517	(12,517)	12,517
Lease payments		(870)	(443)	(338)	-
Interest paid		(1,247)	(1,312)	(1,197)	(1,259)
Dividends paid		(2,619)	(7,690)	(2,619)	(7,690)
Other cash flows from financing activities		-	3	-	-
Net cash flows from financing activities		**(31,050)**	**(39,565)**	**(30,896)**	**(37,825)**
Increase (decrease) in cash and cash equivalents		**(597)**	**(69)**	**(367)**	**(37)**
Cash and cash equivalents at the beginning of the period	14	627	696	397	434
Cash and cash equivalents at the end of the period	14	**30**	**627**	**30**	**397**

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: Viršuliškių skg. 99B, LT-05131, 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 2019, 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 2019 and 2018, the Company's shareholder structure was as follows:

Company's shareholders	Number of shares held	Number of shares held (%)
EPSO-G UAB	491,736,153	97.5
Other shareholders	12,595,227	2.5
Total:	**504,331,380**	**100.0**

The ultimate controlling shareholder of EPSO-G UAB (company code 302826889, address Gedimino Ave. 20, 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 2019 and 2018, 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 2019	Shareholding as at 31 December 2018	Profile of activities
Tetas UAB	Senamiesčio Str. 102B, Panevėžys, Lithuania	-	100 %	Transformer substation, distribution station and electricity line design, reconstruction, repair and maintenance services. On 29 November 2019, the company was sold to the parent company EPSO-G UAB.
Litgrid Power Link Service UAB	A. Juozapavičiaus Str. 13, Vilnius, Lithuania	-	100 %	Management and operation of electricity interconnection facilities. Liquidated and deregistered as of 19 December 2019.
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 %	In the process of liquidation

On 19 December 2019, Litgrid Power Link Service UAB was liquidated and removed from the Register of Legal Entities. LITGRID AB carries on the activities of the liquidated company.

The extraordinary general meeting of shareholders of LITGRID AB held 29 November 2019 adopted the decision to approve the decision of the Board of the Company as of 7 November 2019 to conclude TETAS UAB 100 % share purchase and sale agreement with EPSO-G UAB. Shares of TETAS UAB (400,000 units) were sold at the price set by the independent property valuer - EUR 3.15 million.

On 19 June 2019, Polish and Lithuanian transmission system operators PSE and LITGRID, the sole shareholders of LitPol Link, each holding 50 percent of the company, decided to liquidate the company. As at 31 December 2019 and 2018, the acquisition cost of the investment to LitPol Link Sp.z.o.o. was EUR 295 thousand, which was 100 % recognized for impairment.

On 9 April 2019, the Company and the energy company group Ignitis grupė UAB renewed the sale of shares in Duomenų logistikos centras (DLC), which provides data transmission and data center services. It was established that the Company is expected to sell its owned 20.36 % shares and Lietuvos Energija (currently Ignitis grupė UAB) will dispose of its 79.64 % DLC shares. Due to the Company's active steps in selling shares of the associated company, investment in the said company was recorded within current assets under the caption 'Other financial assets'.

Investments in subsidiaries and associates are described in Note 7.

As at 31 December 2019, the Group had 290 employees (31 December 2018: 638), and the Company had 290 employees (31 December 2018: 267).

2. Summary of principal accounting policies

The principal accounting policies applied in the preparation of Company's and the Group's financial statements for the year ended 31 December 2019 are set out below:

2.1 Basis of preparation

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

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment losses, 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 20 March 2020. The shareholders of the Company have a statutory right to approve or not to approve those and request for a preparation of the new financial statements.

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

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

IFRSs and their amendments adopted by the Group and the Company for the first time in the financial year ended 31 December 2019 are as follows:

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

Lessee recognizes:

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

1 January 2019, the Company and the Group first adopted IFRS 16 and its amendments using a modified retrospective method, in which rights-of-use assets and liabilities were recognized in equal amounts, without any adjustment to equity. For impact of first-time adoption of IFRS 16 on the statement of financial position as of 1 January 2019, measurement, disclosure, and impact on 31 December 2019 for the financial statements, see Notes 6 and 21 to this Explanatory Note.

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

- Assets and liabilities recognized in the statement of financial position for all types of leases and lease transactions, except for the recognition exceptions set out in the standard: a) leases with a term of more than 12 months, and b) lease when the value of the transferred assets is small - up to EUR 4,000. In these exception cases, the Company and the Group will continue to recognize operating leases on a straight-line basis over the lease term;
- rights-of-use assets include only lease components, non-lease components recognised in expense;

- The present value of the lease liability is based on the additional borrowing rate applicable to short-term borrowings (up to 5 years) and long-term borrowings (10 years), at which the Company and the Group can borrow in the market.

Lessor recognizes:

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

IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019. IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty over income tax treatments (hereinafter – uncertainties). The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Uncertainty may relate to taxable profit or loss, tax base, unused tax loss, unused tax credit or tax rate.
An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity for the calculation of income tax uses either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.
An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. In the opinion of the Company and the Group, first time application of this interpretation did not have a material impact on the financial statements and disclosures of the Company and the Group because of the absence of significant uncertainties over income tax treatment.

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

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

Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) (effective for annual periods beginning on or after 1 January 2019).
Improvements have affected the following standards:
Improvement to **IFRS 3** clarifies that the acquirer shall reassess its previous interest in the joint venture when it acquires control of the business; IFRS 11 now specifies that an investor need not reassess its previously held interest when it acquires joint control of a joint operation.
Improvements to **IAS 12** clarify that an entity recognizes the full income tax consequences of dividends if it has recognized any transactions or events that have resulted in a related distributable profit.
Improvements to **IAS 23** clarify that borrowings that are specifically borrowed to finance a specific asset, when the asset is substantially complete or available for sale, the balance of such outstanding borrowings is included in gross capitalized borrowing costs. In the opinion of the Company and the Group, first time application of the improvements to the said standards did not have any impact on the financial statements.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019).

In case of changes in a pension plan or defined benefits The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. This amendment did not have any significant impact on the financial statements of the Company and the Group.

b) 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:

Amendments to Conceptual Framework for Financial (effective for annual periods beginning on or after 1 January 2020). The Conceptual Framework provides a comprehensive set of concepts that is used in the preparation of financial statements, standards, and accounting policies. The revised Conceptual Framework introduces a new chapter on valuation, provides reporting guidance on financial performance, and clarifies definitions. The IASB has also issued a separate accompanying document, Amendments to References to the IFRS Conceptual Framework, which contains amendments to the related standards to update references to the revised Conceptual Framework. It is also intended to facilitate the transition of companies to a revised Conceptual Framework when such companies prepare accounting policies based on the Conceptual Framework and where no IFRS can be applied in a particular case. If accounting policies are prepared on the Conceptual Framework, it should be complied with for periods beginning on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 - Definition of Material (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance, which have so far been reflected in other IFRSs, clarifications have been added to the definition. The amendments ensure that the definition of material is applied consistently across all IFRSs. Information is considered to be material if its omission or misstatement could reasonably be expected to affect the decisions of key users of the financial statements that are made on the basis of the financial statements that present the financial information of the particular reporting entity. Currently, the Company and the Group are assessing the future impact on the financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020). These adjustments were prompted by the replacement of interest rate benchmarks such as LIBOR and other interbank rates with an alternative benchmark. Amendments to the interest rate benchmark reform:
• it affects specific hedge accounting requirements: an entity may assume that the reform does not change the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based;
• mandatory for all hedges directly affected by the interest rate benchmark reform;
• the relief does not apply in circumstances arising from the reform (if hedges no longer meet hedge accounting requirements for reasons other than changes), it is required to discontinue hedge accounting;
• additional disclosures about the effect of reform and change on hedges.
In the opinion of the Company and the Group, these amendments will not have a material impact on the financial statements as the Company and the Group do not have hedges.

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

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

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

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

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

2.2 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 operation

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 venture

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.

(All amounts are in EUR thousands unless otherwise stated)

Estimated useful lives of property, plant and equipment and intangible assets are as follows:

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

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

The 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.

Financial assets at fair value through other comprehensive income

The Company had securities financial assets that it chose to classify in the fair value through comprehensive income (previously classified as assets available for sale).

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 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.

2.12 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.

2.13 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.

2.14 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. Asset-related grants also include funds of connection of new customers (producers) to the electricity transmission network (in accordance with the applicable accounting policy before 1 July 2009). Public service obligation (hereinafter "PSO") service fees allocated to the Company for the development and implementation of strategic plans and share of congestion management revenue for financing investments, are recognized as asset-related grants.

They are also recorded as a deduction of value of related assets and subsequently recognized as income, reducing the depreciation charge of related asset over the expected useful life of the asset.

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

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

2.15 Lease liabilities

Initial recognition of lease liability

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

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

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

Subsequent recognition of lease liability

Subsequent to initial recognition, a change in the value of the lease liability is recognized as follows:
- by increasing the value of the liability at the interest accrued;
- by reducing the carrying amount be lease payments made;
- by re-assessing the liability for lease changes or revised payments

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

Re-assessment of lease liability

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

Revised discount rate

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

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

Unchanged discount rate

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

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

Lease changes

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

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

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

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

2.16 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 Congestions 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.

As of May 2019, the account of the accumulated congestion management funds was linked to the EPSO-G Group account and is used to finance the Company's operations until there is no need to finance investments.

In the statement of financial position, the Company records unused congestion management revenue as long-term and short-term liabilities (part of the expected congestion management revenue to be utilized within 12 months).

2.19 Right-of-use assets

Accounting as of 1 January 2019

Right-of-use assets are assets that the Company has the right to manage during the lease term. As of 1 January 2019, the Company recognizes the right-of-use asset for the lease of all types of assets, including a lease of a right-of-use asset in the case of sublease, but excluding leases of intangible assets, short-term leases and leases of low value assets.

Initial recognition of right-of-use assets

At the start date of the lease, the Company assesses the right-of-use assets at cost, which consists of: the present value of the initial recognition of the lease liability, the initial direct cost of the leased asset, any lease payments at the start date less any lease incentives.

Subsequent recognition of right-of-use assets

After the initial recognition, the Company applies a cost method for right-of-use assets: the carrying amount of the asset at the relevant date is calculated as the difference between the acquisition cost and the accumulated depreciation, plus any subsequent adjustments to the lease liability re-evaluation.

Depreciation of the right-of-use assets starts from the date the assets is transferred for use (the start date) until the earliest of these dates: the end of the lease term or the end of the useful life.

For the purposes of measuring the depreciation of the right-of-use assets, the Company has applied the following standards:

Land	99 years
Vehicles	from 2 to 3 years
Buildings	from 2 to 3 years
Other property, plant and equipment	from 2 to 3 years

2.20 Leases

The Group and the Company as a lessor

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

The Group and the Company as a lessee

The Group and the Company accounts for lease payments, other than those recognized as right-of-use assets, as operating expenses.

2.21 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.

2.22 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. IFRS 15 Revenue from Contracts with Customers, effective from 2018, does not have a material impact on the Group's and the Company's financial statements as the Group and the Company has no long-term contracts with multi-element amendments, no take-or-pay contracts, there are no sales promotions, no significant contract costs or significant prepayments. The main sales contracts are concluded for one year and coincide with the reporting period, no value adjustments for later periods are made for past periods, and contract amendments are rare.

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.

IFRS 15, 'Revenue from Contracts with Customers' that came into effect in 2018 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 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 expenses

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 PSO funds provided by the Commission are accounted for by the Company/Group as grants related with income, as they are intended to compensate for the loss of revenue from services provided by electricity producers using renewable energy sources. Such grants are recognized as income:

- 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. The connection service provided to the aforementioned producers is recognized as revenue over different periods: the part of the service paid for by the producers, is recognized as income upon completion of the connection works, and the part of the value of connection works is paid for by the PSO funds, when the NCC allocates the PSO funds. The Company / Group estimates that the NCC's decision to allocate PSO funds for the connection performed by the producers is a confirmation that the Company / Group meets the grant allocation criteria.
- PSO service funds allocated by the NCC for balancing electricity produced from the renewable energy resources.

2.23 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.

2.24 Income tax

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

Income tax

Income tax charges are calculated on current profit before tax, as adjusted for certain non-deductible expenses/non-taxable income. Income tax is calculated using the tax rate effective as at the date of issue of the financial statements. Income tax rate of 15% was used in 2019 and 2018.

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.

2.25 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.

2.26 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.

2.27 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.

2.28 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.

2.29 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 2019 and 2018, 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 9) and property, plant and equipment (Notes 2.7 and 5).

The Group's and the Company's capital financial assets not at fair value, comprise cash and cash equivalents, trade receivables, trade and other payables and borrowings. Fair value is defined as the price at which an asset would be sold on the valuation date between market participants under an orderly transaction. The fair value of a financial asset is not less than the amount discounted from the first day, on which payment may be required.

The carrying amount of a financial asset as of 31 December 2019 and 2018 is close to its fair value, including the fair value of the loans (Note 36).

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:

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 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, congestion revenue balance as of 31 December 2019 will essentially be used to finance investment projects coordinated with the Commission, including Synchronization projects, by 2025. Only EUR 0.2-1 million congestion management revenues will be used annually to offset losses resulting from the disconnection of interconnections and the safeguarding use of traded capacity.

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 %. As of 31 December 2019, the Company and the Group has adjusted its intangible assets and related provisions by EUR 700 thousand, based on the information available on paid servitude compensations for the year 2019 and after the recalculation of the amount of compensations of subsequent periods.

(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 2017						
Acquisition value	358	5,797	2	-	-	6,157
Accumulated amortisation	(115)	(2,390)	(2)	-	-	(2,507)
Residual value	**243**	**3,407**	**-**	**-**	**-**	**3,650**
Residual value at 31 December 2017	**243**	**3,407**	**-**	**-**	**-**	**3,650**
Acquisitions	-	1,729	-	2,300	61	4,090
Reclassification to (from) PPE	-	(93)	-	-	-	(93)
Transfers between categories	111	(111)	-	-	-	-
Amortisation	(124)	(930)	-	-	-	(1,054)
Residual value at 31 December 2018	**230**	**4,002**	**-**	**2,300**	**61**	**6,593**
At 31 December 2018						
Acquisition value	469	7,319	2	2,300	61	10,151
Accumulated amortisation	(239)	(3,317)	(2)	-	-	(3,558)
Residual value	**230**	**4,002**	**-**	**2,300**	**61**	**6,593**
Residual value at 31 December 2018	**230**	**4,002**	**-**	**2,300**	**61**	**6,593**
Acquisitions	24	249	-	-	-	273
Transfers between categories	38	(146)	108	-	-	-
Value adjustments impacted by changes in assumptions	-	-	-	(700)	-	(700)
Amortisation	(157)	(1,056)	(9)	-	-	(1,222)
Effect on disposal of subsidiary	(24)	(2)	-	-	(61)	(87)
Residual value at 31 December 2019	**111**	**3,047**	**99**	**1,600**	**-**	**4,857**
At 31 December 2019						
Acquisition value	507	6,763	110	1,600	-	8,980
Accumulated amortisation	(396)	(3,716)	(11)	-	-	(4,123)
Residual value	**111**	**3,047**	**99**	**1,600**	**-**	**4,857**

* In 2018, 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 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 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%. As of 31 December 2019, the Company and the Group has adjusted its intangible assets and related provisions by EUR 700 thousand, based on the information available on paid servitude compensations for the year 2019 and after the recalculation of the amount of compensations of subsequent periods.

(All amounts are in EUR thousands unless otherwise stated)

Company	Patents and licences	Computer software	Other intangible assets	Statutory easements	Total
At 31 December 2017					
Acquisition value	358	5,760	2	-	6,120
Accumulated depreciation	(115)	(2,356)	(2)	-	(2,473)
Residual value	**243**	**3,404**	**-**	**-**	**3,647**
Residual value at 31 December 2017	**243**	**3,404**	**-**	**-**	**3,647**
Additions	-	1,726	-	2,300	4,026
Reclassification to (from) PPE	-	(93)	-	-	(93)
Transfers between categories	111	(111)	-	-	-
Amortisation	(124)	(927)	-	-	(1,051)
Residual value at 31 December 2018	**230**	**3,999**	**-**	**2,300**	**6,529**
At 31 December 2018					
Acquisition value	469	7,282	2	2,300	10,053
Accumulated depreciation	(239)	(3,283)	(2)	-	(3,524)
Residual value	**230**	**3,999**	**-**	**2,300**	**6,529**
Residual value at 31 December 2018	**230**	**3,999**	**-**	**2,300**	**6,529**
Additions	-	249	-	-	249
Transfers between categories	38	(146)	108	-	-
Value adjustments impacted by changes in assumptions	-	-	-	(700)	(700)
Amortisation	(157)	(1,055)	(9)	-	(1,221)
Residual value at 31 December 2019	**111**	**3,047**	**99**	**1,600**	**4,857**
At 31 December 2019					
Acquisition value	507	6,763	110	1,600	8,980
Accumulated depreciation	(396)	(3,716)	(11)	-	(4,123)
Residual value	**111**	**3,047**	**99**	**1,600**	**4,857**

(All amounts are in EUR thousands unless otherwise stated)

5. Property, plant and equipment

Group	Land	Buildings	Structures and machinery	Motor vehicles	Other PPE	Construction in progress	Total
At 31 December 2017							
Acquisition value	534	12,841	411,654	2,423	16,731	7,967	452,150
Accumulated depreciation	-	(1,896)	(63,612)	(826)	(7,413)	-	(73,747)
Residual value	**534**	**10,945**	**348,042**	**1,597**	**9,318**	**7,967**	**378,403**
Residual value 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 PPE	-	-	-	-	-	2,017	2,017
Revaluation	(14)	(394)	(55,702)	-	(160)	-	(56,270)
Write-offs	-	(3)	(1,036)	-	(6)	-	(1,045)
Reclassification to (from) inventories	-	-	-	-	(131)	-	(131)
Reclassification to (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)
Amortisation	-	(574)	(22,004)	(259)	(2,007)	-	(24,844)
Residual value at 31 December 2018	**520**	**10,251**	**281,011**	**1,731**	**8,550**	**7,678**	**309,741**
At 31 December 2018							
Acquisition value	520	10,592	281,311	2,816	9,601	7,678	312,518
Accumulated depreciation	-	(341)	(300)	(1,085)	(1,051)	-	(2,777)
Residual value	**520**	**10,251**	**281,011**	**1,731**	**8,550**	**7,678**	**309,741**
Residual value at 31 December 2018	520	10,251	281,011	1,731	8,550	7,678	**309,741**
Additions	-	-	230	126	562	46,866	47,784
Prepayments of PPE	-	-	-	-	-	(227)	(227)
Revaluation	-	391	-	-	-	-	391
Sales	-	-	(163)	(3)	-	-	(166)
Write-offs	-	-	(246)	-	(2)	-	(248)
Impairment	-	-	-	-	-	(239)	(239)
Reclassification to right-of-use assets	-	-	-	(1,194)	-	-	(1,194)
Reclassification to (from) inventories	-	-	-	-	126	5	131
Transfers between categories	-	8,060	16,708	-	2,343	(27,111)	-
Set-off of grants with non-current assets	-	-	-	-	-	(12,251)	(12,251)
Amortisation	-	(532)	(16,689)	(144)	(1,923)	-	(19,288)
Effect on disposal of subsidiary	-	(531)	(282)	(516)	(526)	-	(1,855)
Residual value at 31 December 2019	**520**	**17,639**	**280,569**	**-**	**9,130**	**14,721**	**322,579**
At 31 December 2019							
Acquisition value	520	18,099	297,180	-	10,925	14,960	341,684
Accumulated depreciation	-	(460)	(16,611)	-	(1,795)	-	(18,866)
Accumulated impairment	-	-	-	-	-	(239)	(239)
Residual value	**520**	**17,639**	**280,569**	**-**	**9,130**	**14,721**	**322,579**

(All amounts are in EUR thousands unless otherwise stated)

Company	Land	Buildings	Structures and machinery	Other PPE	Construction in progress	Total
At 31 December 2017						
Acquisition value	534	12,305	411,244	15,421	7,967	447,471
Accumulated depreciation	-	(1,622)	(63,363)	(6,458)	-	(71,443)
Residual value	**534**	**10,683**	**347,881**	**8,963**	**7,967**	**376,028**
Residual value at 31 December 2017	534	10,683	347,881	8,963	7,967	**376,028**
Additions	-	-	16	352	17,377	17,745
Prepayments of PPE	-	-	-	-	2,017	2,017
Revaluation	(14)	(394)	(55,702)	(160)	-	(56,270)
Write-offs	-	(3)	(1,036)	(6)	-	(1,045)
Reclassification to (from) inventories	-	-	-	(131)	-	(131)
Reclassification to (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)
Amortisation	-	(507)	(21,953)	(1,876)	-	(24,336)
Residual value at 31 December 2018	**520**	**10,039**	**280,719**	**8,091**	**7,678**	**307,047**
At 31 December 2018						
Acquisition value	520	10,039	280,719	8,091	7,678	307,047
Accumulated depreciation	-	-	-	-	-	-
Residual value	**520**	**10,039**	**280,719**	**8,091**	**7,678**	**307,047**
Residual value at 31 December 2018	520	10,039	280,719	8,091	7,678	**307,047**
Additions	-	-	18	371	46,866	47,255
Prepayments of PPE	-	-	-	-	(227)	(227)
Write-offs	-	-	(246)	(2)	-	(248)
Impairment	-	-	-	-	(239)	(239)
Reclassification to (from) inventories	-	-	-	126	5	131
Transfers between categories	-	8,060	16,708	2,343	(27,111)	-
Set-off of grants with non-current assets	-	-	-	-	(12,251)	(12,251)
Amortisation	-	(460)	(16,630)	(1,799)	-	(18,889)
Residual value at 31 December 2019	**520**	**17,639**	**280,569**	**9,130**	**14,721**	**322,579**
At 31 December 2019						
Acquisition value	520	18,099	297,180	10,925	14,960	341,684
Accumulated depreciation	-	(460)	(16,611)	(1,795)	-	(18,866)
Accumulated impairment	-	-	-	-	(239)	(239)
Residual value	**520**	**17,639**	**280,569**	**9,130**	**14,721**	**322,579**

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

The total amount of capitalised interest for the period ended 31 December 2019 was EUR 91 thousand (EUR 22 thousand for the period ended 31 December 2018). The annual interest rate of capitalisation was 0.96% (0.83% for the period ended 31 December 2018).

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 2018. In 2019, no regulatory decisions that could materially affect the value of the property were adopted.

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 2019 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 2020-2036 were calculated;
- 2020-2036 cash flows decreased by cash flows of loans granted and income received and dividends and income tax on financial activities;

- Added discounted adjusted cash flows for 2020-2036;
- Added discounted continuity value (after 2036);
- Subtracted value of intangible fixed assets;
- Subtracted value of construction in progress (excluding development projects);
- Subtracted value of right-of-use assets;
- Added working capital value.

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 2036 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 and discounted to 2019.

Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 3.79 %.

The outcome of the fair value estimation performed in respect of property, plant and equipment as at 31 December 2019 amounted to EUR 308,928 thousand. The estimated value of the assets is higher by EUR 2,755 thousand than the carrying amount of the assets - there is no impairment, the difference between the calculated and the carrying amount of the assets is 0.9 %. By assessing the sensitivity of the assumptions, the Company did not present the result of the asset valuation in its financial statements.

The tables below present sensitivity of the outcome of asset valuation to congestion revenues and the share of value of assets optimized via the LRAIC model:

Change in discount rate (and rates of return on investment from 2027), %	Value of assets, EUR thousand
-1,0 %	323,980
-0,5 %	316,206
0,0 %	308,928
0,5 %	302,000
1,0 %	295,342

Share of congestion revenue, % of forecast revenue	Value of assets, EUR thousand
0 %	320,962
25 %	311,996
50 %	303,827
100 %	308,928
125 %	318,612

Share of value of assets optimized via the LRAIC model, % of forecast	Value of assets, EUR thousand
80 %	302,467
90 %	305,697
100 %	308,928
110 %	312,159
120 %	315,390

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 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), was performed by the Company's internal resources without using the services of an independent external valuer.

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 were reduced by cash flows from loans granted, and interest and dividends received;
- 2025 cash flow reduced by 2023-2025 regulatory surplus discounted to 2025 that should be paid back in 2027;
- 2025 cash flow reduced by discounted model of investment into LRAIC to 2025 optimized asset items by 2026-2035 cash flows;
- 2025 cash flow increased by discounted working capital for congestion revenue to 2025 by 2026-2035 cash flows;
- Discounted adjusted cash flows for 2019-2025 were added;
- Discounted terminal value (beyond 2025) was added;
- Value of non-current intangible assets was deducted.

The discounted continuity value is calculated as follows:

- Assuming that in the long run congestion revenue due to the increase of cross-system capacities and interconnection of markets should converge to 0 and investments should maintain future asset position (i.e. to match depreciation costs) and that cash flow should be generated only by return on investments of regulated assets and unregulated operating income, calculated normalized cash flow by multiplying LRAIC modelled value of regulated assets for the end of 2025 with the rate of return on investment and deducting income tax and adding other (unregulated) revenue after tax;
- Capitalized value was calculated by dividing normalized cash flow by discount rate, normalized cash flow growth rate equals 0;
- Capitalized value discounted to 2018.

Net cash flows generated by the assets were discounted using the discount rate calculated by the Company (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 carrying amount exceeded the estimated value of the Company's assets and the Company accounted for impairment of the value of assets in its financial statements – EUR 56,270 thousand.

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, rates of return on investment for 2021-2025 and to the amount of congestion revenues:

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 (by recalculating the rate of return on investment to the relevant continuing value), %	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

(All amounts are in EUR thousands unless otherwise stated)

As at 31 December 2019, the Group and the Company had contractual commitments to purchase property, plant and equipment in amount of EUR 76,189 thousand (31 December 2019: EUR 98,213 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). PSO funds allocated to the Company for the development and implementation of strategic projects and the portion of congestion management revenue for financing investments are accounted for as asset-related grants.

Had the value of property, plant and equipment not been reduced by the amount of grants, the carrying amount would by higher by EUR 300,876 thousand as at 31 December 2019 (EUR 296,763 thousand as at 31 December 2018). Below is information about property, plant and equipment, the value of which was reduced by the amount of grants received/receivable:

	Group		Company	
	2019	2018	2019	2018
Opening balance	**296,763**	**297,649**	**296,763**	**297,649**
Additions	12,251	7,054	12,251	7,054
Depreciation	(8,118)	(7,929)	(8,118)	(7,929)
Write-offs	(20)	(11)	(20)	(11)
Closing balance	**300,876**	**296,763**	**300,876**	**296,763**

6. Right-of-use assets

As stated below, the Company and the Group leases land, office space, vehicles, and other property, plant and equipment. The lease term is 3 years. The Company and the Group, in recognizing its right-of-use assets and lease liabilities by determining the lease terms assessed the likelihood of early termination of contract extension.

The Group's and the Company's rights-of-use assets comprise:

Group	**Land**	**Buildings and structures**	**Motor vehicles**	**Other PPE**	**Total**
Initial value of recognised assets at 1 January 2019	4,465	52	1,212	138	5,867
Transferred from PPE	-	-	1,194	-	1,194
Acquisitions	-	508	-	-	508
Amortisation	(45)	(120)	(500)	(49)	(714)
Effect on disposal of subsidiary	-	(427)	(1,424)	-	(1,851)
Residual value at 31 December 2019	**4,420**	**13**	**482**	**89**	**5,004**
At 31 December 2019					
Acquisition value	4,465	25	684	138	5,312
Accumulated depreciation	(45)	(12)	(202)	(49)	(308)
Residual value	**4,420**	**13**	**482**	**89**	**5,004**

Company	**Land**	**Buildings**	**Motor vehicles**	**Other PPE**	**Total**
Initial value of recognised assets at 1 January 2019	4,465	25	684	138	5,312
Amortisation	(45)	(12)	(202)	(49)	(308)
Effect on disposal of subsidiary	-	-			-
Residual value at 31 December 2019	**4,420**	**13**	**482**	**89**	**5,004**
At 31 December 2019					
Acquisition value	4,465	25	684	138	5,312
Accumulated depreciation	(45)	(12)	(202)	(49)	(308)
Residual value	**4,420**	**13**	**482**	**89**	**5,004**

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

(All amounts are in EUR thousands unless otherwise stated)

7. 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, the Company's investments comprised as follows:

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

As described in Note 1, in 2019, the Company liquidated its subsidiary Litgrid Power Link Service UAB and sold its shares in another subsidiary TETAS UAB to EPSO-G UAB.

Litgrid Power Link Service liquidation

On 26 April 2019, the decision of the sole shareholder was made to terminate the activities of Litgrid Power Link Service UAB and liquidate the company. On 14 October 2019, the authorized capital of Litgrid Power Link Service UAB (EUR 174 thousand) was annulled, partially covering it with the amount of retained earnings (EUR 9 thousand). Cash with a balance of EUR 165 thousand was paid to the Company. On 19 December 2019, Litgrid Power Link Service UAB was liquidated and removed from the Register of Legal Entities.

Sale of shares of TETAS UAB

The extraordinary general meeting of shareholders of LITGRID AB held 29 November 2019 adopted the decision to approve the decision of the Board of the Company as of 7 November 2019 to conclude TETAS UAB 100 % share purchase and sale agreement with EPSO-G UAB. Shares of TETAS UAB (400,000 units) were sold at the price set by the independent property valuer - EUR 3.15 million, which on 29 November 2019 were paid by EPSO-G UAB to the Company. TETAS UAB sales profit amounting to EUR 2.15 million is recognized in the Company's statement of comprehensive income.

The activities of Tetas UAB were not included in the Group's key business components (segments) and, as a result, the disposal of the subsidiary was not recognized as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The sale of shares of Tetas UAB in the Company's financial statements is reflected as a sale of non-current financial assets and the Group's as a sale of part of its activities. The effect of the disposal of the subsidiary on the financial statements of the Group is disclosed in Notes 4 to 25, in relevant items of assets and liabilities, reflecting the effect of the sale on the item concerned.

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

On 9 April 2019, the Company and the energy company group Ignitis grupė UAB renewed the sale of shares in Duomenų logistikos centras (DLC), which provides data transmission and data center services. It was established that the Company is expected to sell its owned 20.36 % shares and Lietuvos Energija (currently Ignitis grupė UAB) will dispose of its 79.64 % DLC shares. Due to the Company's active steps in selling shares of the associated company, investment in the said company was recorded within current assets under the caption 'Other financial assets' (Note 13).

On 19 June 2019, Polish and Lithuanian transmission system operators PSE and LITGRID, the sole shareholders of LitPol Link, each holding 50 percent of the company, decided to liquidate the company. As at 31 December 2019 and 2018, the acquisition cost of the investment to LitPol Link Sp.z.o.o. was EUR 295 thousand, which was 100% recognized for impairment.

The financial position and results of operations of the associate and the joint venture as at 31 December 2019 and for the year then ended:

	Assets	**Liabilities**	**Sales revenue**	**Net profit (loss)**
Duomenų logistikos centras UAB	9,082	3,653	3,764	610
LitPol Link" Sp.z.o.o.(no data)	-	-	-	-

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	594
LitPol Link" Sp.z.o.o.	110	1	-	(1)

(All amounts are in EUR thousands unless otherwise stated)

8. 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. 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 2019 and 2018 was EUR 2,202,523.

9. Financial assets at fair value through other comprehensive income

The Group's and the Company's financial assets at fair value, by recognising a change in fair value in other comprehensive income, comprised the shares of the following entities:

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Nord Pool Holding AS (2 %)	1,984	2,693	1,984	2,693
Carrying amount	**1,984**	**2,693**	**1,984**	**2,693**

As stated in the note on the events after the end of the reporting period, on 15 January 2020, LITGRID, together with other shareholders of Nord Pool Holding AS, the Nordic and Baltic Transmission System Operators (TSOs), sold Euronext 66 % of Nord Pool Holding AS through its jointly controlled company TSO HOLDING AS. The Company and the Group made adjustments to the value of Nord Pool Holding AS shares based on the price agreed in the Share Purchase and Sale Agreement and recognized the result in other comprehensive income and reduced the revaluation reserve.

The valuation corresponded to Level 2 of the fair value hierarchy (Note 2.29), where the value is determined on the basis of the transaction occurred.

In 2018, the shareholders of Nord Pool Holding AS took an active role in arranging the sale of shares of the subsidiary Nord Pool AS, which is an electricity exchange operator. The fair value of Nord Pool Holding AS as of 31 December 2018 based on the information available to the Company at that time on the valuation results of the expected sale of Nord Pool AS was not less than reflected in the accounting.

The valuation corresponded to level 3 of the fair value hierarchy (Note 2.29).

10. Inventories

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

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Materials and consumables	314	1,447	314	413
Less: impairment	(278)	(340)	(278)	(306)
Carrying amount	**36**	**1,107**	**36**	**107**

Inventories of the Group as of 31 December 2019, resulting from the disposal of the subsidiary, decreased by EUR 497 thousand.

Change in impairment for inventories in 2019 and 2018 are indicated below:

	Group		Company	
	2019	2018	2019	2018
Carrying amount at 1 January	340	304	306	255
Change in impairment	(62)	36	(28)	51
Carrying amount at 31 December	**278**	**340**	**278**	**306**

In 2019 and 2018, 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 2019 amounted to EUR 2 370 thousand (2018: EUR 8 831 thousand), the Company's within 2019 – EUR 75 thousand (2018: EUR 164 thousand).

(All amounts are in EUR thousands unless otherwise stated)

11. Trade receivables

Trade receivables comprised as follows:

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Receivables from transmission of electricity	15,679	18,513	15,679	18,513
Receivables for contractual works and other services	-	3,880	-	-
Other trade receivables	1,348	1,911	1,348	1,911
Less: impairment allowance for trade receivables	(263)	(3,443)	(263)	(3,412)
Carrying amount	**16,764**	**20,861**	**16,764**	**17,012**

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

Trade receivables of the Group as of 31 December 2019, resulting from the disposal of the subsidiary, decreased by EUR 2,006 thousand.

In 2019, the Group and the Company accounted for the reversal of impairment allowance of EUR 592 thousand (2018: EUR 564 thousand) for the amounts settled, and write-off of EUR 2,820 thousand (2018: EUR 2,426 thousand) for individually assessed doubtful receivables related to debts. As of 31 December 2019, it was additionally accounted for doubtful receivables amounting to EUR 263 thousand, through individual assessment.

The ageing analysis of trade receivables that were not impaired:

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Not overdue	16,764	20,268	16,764	17,012
Overdue up to 30 days	-	344	-	-
Overdue from 30 to 60 days	-	-	-	-
Overdue from 60 to 90 days	-	6	-	-
Overdue more than 90 days	-	243	-	-
Carrying amount	**16,764**	**20,861**	**16,764**	**17,012**

12. Other amounts receivable

Other amounts receivable were as follows:

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Other receivables	134	1,266	134	70
Less: impairment of other receivables	(23)	(23)	(23)	(23)
Carrying amount	**111**	**1,243**	**111**	**47**

For biggest part of other amounts receivable of the Group as of 31 December 2019 include receivables for long-term contracts in progress.

Other amounts receivables of the Group as of 31 December 2019, resulting from the disposal of the subsidiary, decreased by EUR 633 thousand.

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

The ageing analysis of other amounts receivable not impaired:

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Not overdue	111	1,243	111	47
Overdue up to 30 days	-	-	-	-
Overdue from 30 to 60 days	-	-	-	-
Overdue from 60 to 90 days	-	-	-	-
Overdue more than 90 days	-	-	-	-
Carrying amount	**111**	**1,243**	**111**	**47**

(All amounts are in EUR thousands unless otherwise stated)

13. Other financial assets

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Funds deposited for guarantees and deposits	1,619	1,769	1,619	1,769
Financial assets held for sale	752	752	752	752
Carrying amount	**2,371**	**2,521**	**2,371**	**2,521**

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

The fair value of other financial assets approximated their carrying amount as at 31 December 2019 and 2018.

14. Cash and cash equivalents

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Cash at bank	30	627	30	397
Carrying amount	**30**	**627**	**30**	**397**

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

15. Share capital and share premium

As at 31 December 2019 and 2018, 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 2019 and 2018, 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.

16. 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 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**
Depreciation of revaluation reserve	(68)	10	(58)
Revaluation of property, plant and equipment	391	(59)	332
Effect on disposal of subsidiary	(585)	89	(496)
Balance at 31 December 2019	**-**	**-**	**-**

(All amounts are in EUR thousands unless otherwise stated)

Company	Revaluation reserve	Deferred income tax	Net of deferred income tax
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	-	-	-
Depreciation of revaluation reserve	-	-	-
Balance at 31 December 2019	-	-	-

17. 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. The legal reserve must be no less than 10% of the share capital and 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 23 April 2019, the decision was made to approve the proposed profit appropriation and to transfer EUR 40,210 thousand from retained earnings to other reserves.

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.

18. Dividends

During the Ordinary General Meeting of Shareholders of LITGRID AB held on 23 April 2019, the decision was made to pay out dividends in the amount of EUR 2,622,523. Dividends per share amounted to EUR 0.0052.

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

19. Grants

The grants are for the acquisition of non-current assets. Movements in grants in 2019 and 2018 were as follows:

	Group	Company
Balance at 31 December 2017	**22**	**22**
Grants received	24,283	24,283
Congestion revenue (note22)	2,939	2,939
Transfer to property, plant and equipment (note5)	(7,054)	(7,054)
Transfer to property, plant and equipment in 2016	(20,150)	(20,150)
Grants used for expenditure compensation	(40)	(40)
Balance at 31 December 2018	-	-
Grants received	8,464	8,464
The grants received in advance	6,384	6,384
Congestion revenue (note22)	3,787	3,787
Transfer to property, plant and equipment (note5)	(12,251)	(12,251)
Transferred to advances received	(6,384)	(6,384)
Balance at 31 December 2019	-	-

(All amounts are in EUR thousands unless otherwise stated)

20. Borrowings

Borrowings of the Group and the Company were as follows:

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Non-current borrowings				
Borrowings from banks	79,903	94,128	79,903	94,128
Current borrowings				
Current portion of non-current borrowings	14,225	14,225	14,225	14,225
Related party borrowings	-	12,517	-	12,517
Overdraft	-	98	-	-
Total	**94,128**	**120,968**	**94,128**	**120,870**

Maturity of non-current borrowings

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Between 1 and 2 years	14,225	14,225	14,225	14,225
From 2 to 5 years	37,535	42,676	37,535	42,676
After 5 years	28,143	37,227	28,143	37,227
Total	**79,903**	**94,128**	**79,903**	**94,128**

As at 31 December 2019 and 2018, no assets were pledged as collateral by the Group and the Company.

As at 31 December 2019, the weighted average interest rate on the Group's and the Company's borrowings was 1% (31 December 2018: 0.95%). As at 31 December 2019, the Group's and the Company's borrowings balance with the fixed rate on amounted to EUR 58.86 million (31 December 2018: EUR 65 million).

As at 31 December 2019, the Group's unwithdrawn balance of loans and overdrafts amounted to EUR 23,000 thousand (31 December 2018: EUR 11,785 thousand), the Company's – EUR 23,000 thousand (31 December 2018: EUR 10,483 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 2019 – EUR 0 (31 December 2018: EUR 12,517 thousand). After connecting the account of accumulated congestion management funds to the account of EPSO-G UAB group, accumulated congestion funds are temporarily used to finance the Company's activities.

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 6.5 in 2019 and 4.5 in 2018. The outstanding balance of non-current borrowings from Nordic Investment Bank, which was subject to this requirement, amounted to EUR 27,188 thousand as at 31 December 2019 (31 December 2018: EUR 35,271 thousand), and the outstanding balance of non-current borrowings from European Investment Bank amounted to EUR 52,714 thousand as at 31 December 2019 (2018: EUR 58,857 thousand), without taking into account the current portion of non-current borrowings. As at 31 December 2019 and 2018, 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 2019 and 2018. The Company complied with this requirement.

Reconciliation of net debt balances and cash flows from financing activities of 2019 and 2018:

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Cash and cash equivalents	30	627	30	397
Non-current borrowings	(79,903)	(94,128)	(79,903)	(94,128)
Lease liabilities	(4,771)	(599)	(4,771)	-
Current portion of non-current borrowings	(14,225)	(14,225)	(14,225)	(14,225)
Current borrowings	-	(12,615)	-	(12,517)
Current portion of lease liabilities	(270)	(221)	(270)	-
Net debt	**(99,139)**	**(121,161)**	**(99,139)**	**(120,473)**

(All amounts are in EUR thousands unless otherwise stated)

Group	Cash	Borrowings	Lease liabilities	Total
Net debt as at 31 December 2017	696	(151,091)	(1,263)	(151,658)
Acquisition	-	(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)**
Repayment	-	12,517	-	12,517
(Decrease) in cash and cash equivalents	(597)	-	(4,221)	(4,818)
Change in overdraft	-	98	-	98
Repayment of borrowing	-	14,225	-	14,225
Net debt as at 31 December 2019	**30**	**(94,128)**	**(5,041)**	**(99,139)**

Company	Cash	Borrowings	Lease liabilities	Total
Net debt as at 31 December 2017	434	(149,746)	-	(149,312)
Acquisition	-	(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)**
Acquisition	-	-	-	-
(Decrease) in cash and cash equivalents	(367)	-	(5,041)	(5,408)
Change in overdraft	-	12,517	-	12,517
Repayment of borrowing	-	14,225	-	14,225
Net debt as at 31 December 2019	**30**	**(94,128)**	**(5,041)**	**(99,139)**

21. Lease liabilities

Lease liabilities and their movement in 2019 were as follows:

	Group	Company
Carrying amount at the beginning of the period*	**820**	**-**
Recognition of lease liabilities under IFRS 16	5,867	5,312
Concluded lease contracts	348	-
Lease payments (Principal and Interest)	(595)	(271)
Effect on disposal of subsidiary	(1,399)	-
Carrying amount at the end of the period	**5,041**	**5,041**
Non-current lease liabilities	4,771	4,771
Current lease liabilities	270	270

* Value of liabilities under leases

The Group 's and the Company' s lease liabilities comprise:

	Group		Company	
	2019-12-31	**2019-01-01**	**2019-12-31**	**2019-01-01**
Current year	270	731	270	285
Repayment terms of non-current liabilities:				
Between 1 and 2 years	240	822	240	267
From 2 to 3 years	140	470	140	241
From 3 to 5 years	66	329	66	184
After 5 years	4,325	4,335	4,325	4,335
Total	**5,041**	**6,687**	**5,041**	**5,312**

The Group's interest calculated on lease liabilities reflected in financial operating expenses is EUR 70 thousand EUR (the Company's - EUR 67 thousand).

(All amounts are in EUR thousands unless otherwise stated)

Expenses of short-term lease (up to 12 months) and low value lease (up to EUR 4,000) of assets of the Group in 2019 amounted to EUR 1,485 thousand are recognized in expenses (the Company's - EUR 568 thousand).

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

In 2019, the Group made lease payments worth EUR 665 thousand (the Company - EUR 338 thousand).

Residual value of leased vehicles of the Group company TETAS UAB as of 31 December 2018 amounted to EUR 1,194 thousand.

22. Congestion management revenue

	Group		Company	
	2019	2018	2019	2018
Congestion management revenue	34,672	10,832	34,672	10,832
Share of congestion management revenue of the current year	4,463	4,922	4,463	4,922
	39,135	**15,754**	**39,135**	**15,754**

	Group		Company	
	2019	2018	2019	2018
Opening balance of congestion management revenue	**15,754**	**6,564**	**15,754**	**6,564**
Congestion management revenue received during the period	27,366	12,940	27,366	12,940
Reclassified to property, plant and equipment	(3,787)	(2,939)	(3,787)	(2,939)
Congestion management revenue recognised as income during the period	(198)	(811)	(198)	(811)
Closing balance of congestion management revenue	**39,135**	**15,754**	**39,135**	**15,754**

The principles of receipt and use of the congestion management revenue are set out in Note 2.18. As at 31 December 2019 the unused balance of the congestion management revenue amounted to EUR 39,135 thousand, , the projected use is specified in Note 3 of this Explanatory Note. The short-term share of the liability is expected to be repaid (used) within 12 months.

Long-term share of unused balance on congestion management revenue as of 31 December 2019 amounted to EUR 8,185 thousand EUR (as of 31 December 2018 - EUR 10,439 thousand), short-term - EUR 4,463 thousand (as at 31 December 2018 - EUR 4,922 thousand). As set out in Note 2.18, the difference between the balance of congestion revenue in current liabilities and assets is due to the temporary use of funds to finance the Company's operations.

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 2019 – EUR 27,318 thousand (2018: EUR 12,208 thousand).

23. Other non-current amounts payable and liabilities

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Advances received from connection of new users	801	609	801	609
Provisions for pension benefits to employees*	173	216	173	169
Provisions for guarantees	-	6	-	-
Provisions of servitude obligations (Note 4)**	650	1,100	650	1,100
Grants received in advance***	4,686	-	4,686	-
Carrying amount	**6,310**	**1,931**	**6,310**	**1,878**

*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 Note4, 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. Provisions for easement liabilities in 2019 were reduced by 700 thousand. (Of which long-term provision for easement liabilities was reduced by EUR 450 thousand). Provisions for servitude liabilities in 2019 were reduced by EUR 700 thousand (of which the part of long-term provision for servitude liabilities was reduced by EUR 450 thousand). Current share of provisions of servitude obligations is accounted for in current liabilities 'Other amounts payable and current liabilities' (Note27).

(All amounts are in EUR thousands unless otherwise stated)

***Grants received in advance consist of funds received from the CEF (Connecting Europe Facility) fund for the implementation of the Synchronization program. Expenditures for which a grant was awarded are planned to be incurred in the 1st quarter of 2021.

24. Current income tax and deferred income tax

Income tax expense components:

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Current year income tax	4,074	2,945	4,074	2,939
Deferred income tax expenses (benefit)	(3,690)	(9,784)	(3,680)	(9,781)
Current year income tax expenses (benefit)	**384**	**(6,839)**	**394**	**(6,842)**

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 remunerated transfer of tax losses. 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 remunerated transfer of tax losses and between the subsidiary Litgrid Power Link Service UAB and LITGRID AB regarding the remunerated transfer of tax losses. According to the mentioned agreement, the Company obliged to pay EPSO-G UAB per cent of the amount of the transferred tax losses, i.e. EUR 380 thousand, while at the expense of the tax loss taken over by Litgrid Power Link Service UAB income tax payable by the Company to the State Budget was reduced by EUR 7 thousand.

All transactions were carried out in accordance with the provisions of the Law on Income Tax.

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

Group

Deferred income tax assets	**PPE revaluation (impairment)**	**Impairment of assets**	**Accrued expenses/ income**	**Statutory servitudes**	**Other**	**Total**
At 31 December 2017	**16,582**	**1,116**	**1,378**	**-**	**1,579**	**20,655**
Deferred income tax assets offset with deferred 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**
Recognised in profit or loss	32	(465)	3,501	174	561	3,803
Recognised in other comprehensive income	106	-	-	-	-	106
Disposal of the subsidiary	42	**(12)**	(11)	-	**(65)**	(46)
At 31 December 2019	**1,398**	**20**	**6,034**	**174**	**2,541**	**10,167**

Deferred income tax liabilities	**PPE revaluation (increase in value)**	**Differences in depreciation rates**	**Tax relief on acquisition of PPE**	**Statutory servitudes**	**Effect of interest capitalisa-tion**	**Total**
At 31 December 2017	**(24,710)**	**89**	**(1,826)**	**-**	**(280)**	**(26,727)**
Deferred income tax assets offset with deferred 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)**
Recognised in profit or loss	-	(3)	135	(240)	(5)	(113)
Recognised in other comprehensive income	(58)	-	-	-	-	(58)
Disposal of the subsidiary	58	-	-	-	-	58
At 31 December 2019	**-**	**155**	**(1,545)**	**(240)**	**(282)**	**(1,912)**

Deferred income tax assets, net, at 31 December 2018	**4,505**
Deferred income tax assets, net, at 31 December 2019	**8,255**

Company

(All amounts are in EUR thousands unless otherwise stated)

Deferred income tax assets	PPE revaluation (impairment)	Impairment of assets	Accrued expenses/ income	Statutory servitudes	Other	Total
At 31 December 2017	**16,591**	**1,109**	**1,331**	**-**	**1,524**	**20,555**
Deferred income tax assets offset with deferred 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**
Recognised in profit or loss	32	(465)	3,525	174	525	3,791
Recognised in other comprehensive income	106	-	-	-	-	106
At 31 December 2019	**1,398**	**20**	**6,034**	**174**	**2,541**	**10,167**

Deferred income tax liabilities	PPE revaluation (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PPE	Statutory servitudes	Effect of interest capitalisation	Total
At 31 December 2017	**(24,641)**	**89**	**(1,828)**	**-**	**(280)**	**(26,660)**
Deferred income tax assets offset with deferred 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)**
Recognised in profit or loss	-	(3)	137	**(240)**	(5)	**(111)**
At 31 December 2019	**-**	**155**	**(1,545)**	**(240)**	**(282)**	**(1,912)**
Deferred income tax assets, net, at 31 December 2018						**4,469**
Deferred income tax assets, net, at 31 December 2019						**8,255**

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

	Group		Company	
	At 31 Dec 2019	**At 31 Dec 2018**	**At 31 Dec 2019**	**At 31 Dec 2018**
Deferred income tax assets:				
Deferred income tax assets to be realised after 12 months	10,150	6,172	10,150	6,174
Deferred income tax assets to be realised within 12 months	17	132	17	96
Total	**10,167**	**6,304**	**10,167**	**6,270**
Deferred income tax liabilities:				
Deferred income tax liabilities to be settled after 12 months	(1,858)	(1,661)	(1,858)	(1,663)
Deferred income tax liabilities to be settled within 12 months	(54)	(138)	(54)	(138)
Total	**(1,912)**	**(1,799)**	**(1,912)**	**(1,801)**

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 2019	**At 31 Dec 2018**	**At 31 Dec 2019**	**At 31 Dec 2018**
Profit (loss) before income tax	**4,994**	**(46,200)**	**4,524**	**(44,932)**
Income tax calculated at a rate of 15%	749	(6,930)	679	(6,740)
Preceding year income tax expenses (benefit)	(3)	(1,381)	(3)	(1,381)
Impact of take-over of tax losses	-	(1,747)	-	(1,747)
Unrecognised deferred income tax on tax losses	-	(12)	-	-
Tax effect of non-taxable income and non-deductible expenses	(362)	3,231	(282)	3,026
Income tax expenses/(benefit) recognised in profit or loss	**384**	**(6,839)**	**394**	**(6,842)**

(All amounts are in EUR thousands unless otherwise stated)

25. Trade payables

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Amounts payable for electricity	11,837	11,587	11,837	11,587
Amounts payable for contractual works, services	3,857	5,877	3,857	1,613
Amounts payable for property, plant and equipment and inventories	9,902	4,709	9,902	4,709
Carrying amount	**25,596**	**22,173**	**25,596**	**17,909**

Due to the disposal of the subsidiary, the Group's trade payables as of 31 December 2019 decreased by EUR 966 thousand.

The fair value of trade payables approximated their carrying amount.

26. Advance amounts received

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Advance amounts received from new users*	628	712	628	712
Grants received in advance	1,698	-	1,698	-
Other advance amounts received	12	217	12	117
Carrying amount	**2,338**	**929**	**2,338**	**829**

*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.

27. Other amounts payable

	Group		Company	
	At 31 Dec 2019	At 31 Dec 2018	At 31 Dec 2019	At 31 Dec 2018
Employment-related liabilities	167	437	167	205
Accrued expenses of vacation reserve	918	1,338	918	806
VAT payable	1,035	779	1,035	461
Immovable property tax payable	532	536	532	534
Dividends payable	500	496	500	496
Accrued other expenses and deferred income*	2,057	1,399	2,057	1,298
Guarantee to secure fulfilment of obligations**	919	1,119	919	1,119
Provisions for servitude obligations (Note **Error! Reference source not found.**)***	511	1,200	511	1,200
Other amounts payable and current liabilities	1,014	1,353	1,014	1,292
Carrying amount	**7,653**	**8,657**	**7,653**	**7,411**

* Increase in revenue of accrued other expenses and deferred income was mainly due to the return material of equipment dismantled in reconstructed facilities, sales revenue of which will be used to compensate (reduce) the write-off expenses of the dismantled assets in future periods.

** The Group’s and the Company’s guarantees to secure fulfilment of obligations contain deposits received.

*** As set out in Note4, 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. In 2019, provisions for servitude obligations were decreased by EUR 700 thousand (short-term share of provisions for servitude obligations decreased by EUR 250 thousand). Non-current share of provisions of servitude obligations is accounted for in non-current liabilities ‘Other non-current amounts payable and liabilities’ (Note23).

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

(All amounts are in EUR thousands unless otherwise stated)

28. Revenue from electricity transmission and related services

Electricity revenue comprised as follows:

	Group		Company	
	2019	2018	2019	2018
Electricity transmission services	69,315	66,508	69,315	66,508
Trade in balancing/regulating electricity	26,376	26,441	26,376	26,441
Capacity reserve services	70,750	59,058	70,750	59,058
Other sales of electricity and related services	7,195	5,199	7,195	5,199
Services under PSO scheme	9,274	7,414	9,274	7,414
Income from connection of new users	1,483	4,278	1,483	4,278
Congestion revenue	198	812	198	812
Income from the administration of guarantees of origin	84	48	84	48
Total	**184,675**	**169,758**	**184,675**	**169,758**

Revenue from electricity transmission increased by 4 % to EUR 69.3 million compared to 2018 and accounted for 36% of the Group's total revenue. Increase in revenue led to 6 % higher average actual cost of electricity transmission as the amount of electricity transmitted decreased by 2 % to 10.277 million kWh.

Revenue from trade in balancing/regulating electricity, in comparison to 2018, remained almost unchanged and amounted to EUR 26.4 million.

Revenue from system services increased by 20% to EUR 70,7 million largely due to 16% higher system service tariff established by the National Control Commission for Prices and Energy as from 1 January 2019.

29. Other income

	Group		Company	
	2019	2018	2019	2018
Repair and other services	8,546	18,569	-	-
Income from lease of assets	548	562	498	544
Design works	390	369	-	-
Other income	115	1,383	118	1,647
Total	**9,599**	**20,883**	**616**	**2,191**

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).

30. Expenses of electricity transmission and related services

Electricity expenses comprised as follows:

	Group		Company	
	2019	2018	2019	2018
Expenses of compensation for technological losses of electricity	22,226	22,639	22,226	22,639
Expenses of system services	74,398	59,781	74,398	59,781
PSO expenses (balancing of production from renewable energy sources)	9,166	7,300	9,166	7,300
Expenses of electricity balancing and regulating	25,917	26,006	25,917	26,006
Expenses of participation in ENTSO-e ITC mechanism	3,043	2,455	3,043	2,455
Expenses of guaranteeing the use of allocated capacities of interconnections	198	812	198	812
Total	**134,948**	**118,993**	**134,948**	**118,993**

In 2019, electricity and related services accounted for the major part of the Group's expenses – EUR 134.9 million or 71%, compared to 2018 they increased by 13%. Expenses of electricity balancing and regulating remained almost unchanged and amounted to EUR 25.9 million. Expenses of system services increased by 24% up to EUR 74.4 million. Expenses of compensation for technological losses in the transmission network on purchase of electricity decreased by 2 % to EUR 22.2 million. Transit

(All amounts are in EUR thousands unless otherwise stated)

(ITC) expenses amounted to EUR 3 million, the expenses of the provision of PSO services amounted to EUR 9.2 million. Expenses of guaranteeing the use of allocated capacities of interconnections amounted to EUR 0.2 million.

31. Segment reporting

The Group has singled out the following business segments:

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

Services related with 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 were carried out by the Company's subsidiaries TETAS UAB (on 29 November 2019 transferred to EPSO-G UAB) and Litgrid Power Link Service UAB (before 1 August 2018, when the activities were terminated).

The Group's information on segments for the period ended 31 December 2019 is presented in the table below:

2019	Electricity transmission and related services activities	Repair and maintenance activities	Total
Revenue	185,291	13,365	198,656
Inter-segment revenue	-	(4,382)	(4,382)
Revenue after elimination of intercompany revenue within the Group	**185,291**	**8,983**	**194,274**
Operating profit/(loss)	3,232	(30)	**3,202**
Finance income/(cost), net*	x	x	**1,792**
Profit/(loss) before income tax	x	x	**4,994**
Income tax*	x	x	**(384)**
Profit/(loss) for the year	x	x	**4,610**
Depreciation and amortisation expenses	20,418	806	21,224
Write-offs of property, plant and equipment	187	6	193
Impairment of property, plant and equipment	239	-	239

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

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

2018	Electricity transmission and related services activities	Repair and maintenance activities	Total
Revenue	171,949	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 operates in Lithuania and its revenue generated from customers in Lithuania accounts for 92 % of total revenue.

In 2019 and 2018, the Group's and the Company's revenue by geographical location of customers:

	Group		Company	
	2019	2018	2019	2018
Lithuania	179,079	177,798	172,782	159,106
Sweden	3,521	3,018	3,521	3,018
Norway	234	894	234	894
Estonia	6,949	6,027	6,949	6,027
Latvia	604	510	604	510
Poland	876	692	876	692
Germany	2,686	-	-	-
Other	325	1,702	325	1,702
Total:	**194,274**	**190,641**	**185,291**	**171,949**

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

The Group's/Company's revenue in 2019 from the largest clients, for which sales in the Group's segments exceeded 10%:

Name of the company	Group	Company
Energijos skirstymo operatorius AB	130,638	125,238
ELERING AS	6,949	6,949
IGNITIS GAMYBA AB	6,852	6,852

The Group's/Company's revenue in 2018 from the largest clients, for which sales in the Group's segments exceeded 10%. (Data for 2018 changed due to revenue from electricity transmission and related services only):

Name of the company	Group	Company
Energijos skirstymo operatorius AB	134,163	116,583
Energijos tiekimas UAB	7,071	7,071
Lietuvos energijos gamyba AB	6,356	6,356

32. Related-party transactions

The Company's/Group's related parties in 2019 and 2018 were as follows:

- EPSO-G (the parent company). 100% of EPSO-G share capital is owned by the Ministry of Energy of the Republic of Lithuania;
- Epso-G UAB Group companies:
  - Amber Grid AB (common shareholders);
  - Tetas UAB (from 29 November 2019 common shareholders);
  - Baltpool UAB (common shareholders).
  - Litgrid Power Link Service UAB (before 19 December 2019 subsidiary);
- Ignitis grupė UAB companies:
  - Duomenų logistikos centras UAB (associate);
  - Energijos skirstymo operatorius AB;
  - Ignitis UAB;
  - Ignitis gamyba UAB;
  - Energetikos paslaugų ir rangos organizacija UAB.

  Other state-controlled companies:
  - State Enterprise Ignalina Nuclear Power Plant;
  - Other state-controlled companies or those under significant influence.
- Management.

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

(All amounts are in EUR thousands unless otherwise stated)

The Group's transactions conducted with related parties in 2019 and balances arising from these transactions as at 31 December 2019 were as follows:

Related parties	Amounts payable and accrued charges	Receivables and accrued income	Loans granted	Sales	Purchase	Finance income	Costs of financial operations
EPSO-G UAB group companies							
EPSO-G UAB	16	-	-	3,150	120	-	29
TETAS UAB	254	246	2,203	-	507	4	-
Amber Grid AB	-	-	-	2	-	-	-
BALTPOOL UAB	-	415	-	4,800	-	-	-
State-controlled companies							
Energijos skirstymo operatorius AB	2,661	13,835	-	130,740	2,429	-	2
Ignitis gamyba AB	7,308	580	-	6,852	72,949	-	-
Energijos tiekimas UAB	-	-	-	1,991	1,065	-	-
Ignitis UAB	-	15	-	2,762	1,312	-	-
Duomenų logistikos centras UAB	34	21	-	253	178	81	-
Ignitis grupės paslaugų centras UAB	-	26	-	263	-	-	-
Vilniaus kogeneracinė jėgainė UAB	35	-	-	264	-	-	-
Transporto valdymas UAB	18	-	-	-	549	-	-
Energetikos paslaugų ir rangos organizacija UAB	240	-	-	90	989	-	6
Kauno kogeneracinė jėgainė UAB	-	281	-	279	-	-	-
Lietuvos geležinkeliai AB	-	-	-	396	-	-	-
SE Ignalina Nuclear Power Plant	41	94	-	908	178	-	-
	10,607	**15,513**	**2,203**	**152,750**	**80,276**	**85**	**37**

The Company's transactions conducted with related parties in 2019 and balances arising from these transactions as at 31 December 2019 were as follows:

Related parties	Amounts payable and accrued charges	Receivables and accrued income	Loans granted	Sales	Purchase	Finance income	Costs of financial operations
EPSO-G UAB group companies							
EPSO-G UAB	16	-	-	3,150	113	-	17
TETAS UAB	254	246	2,203	16	4,856	47	5
BALTPOOL UAB	-	415	-	4,800	-	-	-
State-controlled companies							
Energijos skirstymo operatorius AB	2,661	13,835	-	125,340	2,269	-	-
Ignitis gamyba AB	7,308	580	-	6,852	72,949	-	-
Energijos tiekimas UAB	-	-	-	1,991	1,065	-	-
Ignitis UAB	-	15	-	2,762	1,312	-	-
Duomenų logistikos centras UAB	34	21	-	253	178	81	-
Ignitis grupės paslaugų centras UAB	-	26	-	263	-	-	-
Vilniaus kogeneracinė jėgainė UAB	35	-	-	264	-	-	-
Transporto valdymas UAB	18	-	-	-	183	-	-
Energetikos paslaugų ir rangos organizacija UAB	240	-	-	-	989	-	-
Kauno kogeneracinė jėgainė UAB	-	281	-	279	-	-	-
Lietuvos geležinkeliai AB	-	-	-	396	-	-	-
SE Ignalina Nuclear Power Plant	41	94	-	908	178	-	-
	10,607	**15,513**	**2,203**	**147,274**	**84,092**	**128**	**22**

(All amounts are in EUR thousands unless otherwise stated)

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	**Amounts payable and accrued charges**	**Receivables and accrued income**	**Loans received**	**Loans granted**	**Sales**	**Purchase**	**Finance income**	**Costs of financial operations**
EPSO-G UAB group companies								
EPSO-G UAB	415	-	12,517	-	-	155	-	18
BALTPOOL UAB	-	849	-	-	7,680	116	-	-
Amber Grid AB	-	-	-	-	1	-	-	-
State-controlled companies								
Energijos skirstymo operatorius AB	428	18,061	-	-	134,270	1,531	-	22
Ignitis gamyba AB	5,627	680	-	-	6,356	59,131	-	-
Energijos tiekimas UAB	127	1	--	-	7,070	1,703	-	-
Duomenų logistikos centras UAB	35	27	-	-	295	185	62	-
Ignitis grupės paslaugų centras UAB	-	27	-	-	268	116	-	-
Transporto valdymas UAB	72	-	-	-	-	710	-	-
Energetikos paslaugų ir rangos organizacija UAB	529	9	-	-	10	2,258	-	-
Kauno kogeneracinė jėgainė UAB	609	-	-	-	-	-	-	-
NT Valdos UAB	3	-	-	-	-	781	-	-
Lietuvos geležinkeliai AB	-	52	-	-	424	-	-	-
SE Ignalina Nuclear Power Plant	25	92	-	-	1,006	162	-	-
Other state-controlled companies	11	34	-	-	48	79	-	-
	7,881	**19,832**	**12,517**	**-**	**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	**Amounts payable and accrued charges**	**Receivables and accrued income**	**Loans received**	**Loans granted**	**Sales**	**Purchase**	**Finance income**	**Costs of financial operations**
EPSO-G UAB group companies								
EPSO-G UAB	413	-	12,517	-	-	143	-	18
TETAS UAB	411	23		2,203	303	2,123	36	-
Litgrid Power Link Service UAB	-	-		-	52	709	-	-
BALTPOOL UAB	-	849		-	7,680	116	-	-
State-controlled companies								
Energijos skirstymo operatorius AB	332	13,965		-	116,690	1,509	-	-
Ignitis gamyba AB	5,627	680		-	6,356	59,131	-	-
Energijos tiekimas UAB	127	1		-	7,070	1,703	-	-
Duomenų logistikos centras UAB	35	27		-	295	185	62	-
Ignitis grupės paslaugų centras UAB	-	27		-	268	-	-	-
Transporto valdymas UAB	23	-		-	-	254	-	-
Energetikos paslaugų ir rangos organizacija UAB	271	-		-	-	1,554	-	-
Kauno kogeneracinė jėgainė UAB	609	-		-	-	-	-	-
NT Valdos UAB	3	-		-	-	560	-	-
Lietuvos geležinkeliai AB	-	52		-	424	-	-	-
SE Ignalina Nuclear Power Plant	25	92		-	1,006	162	-	-
Other state-controlled companies	10	2			45	65		
	7,886	**15,718**	**12,517**	**2,203**	**140,189**	**68,214**	**98**	**18**

Payments to the key management personnel

	Group		**Company**	
	2019	**2018**	**2019**	**2018**
Employment-related payments	953*	1,057	764	776
Whereof: termination benefits	-	45	-	41
Number of the key management personnel (average annual)	11	12	7	7

*Payments to the managers of the subsidiary Tetas UAB within the period of eleven months in 2019.

No loans, guarantees, other disbursements or transfers of assets were made to the management of the Group and the Company during 2019 and 2018.

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

33. Basic and diluted earnings per share

In 2019 and 2018, the Group's basic and diluted earnings per share were as follows:

	2019	2018
Net profit (loss) attributable to the Company's shareholders (EUR thousands)	4,610	(39,361)
Weighted average number of shares (units)	504,331,380	504,331,380
Basic and diluted earnings (deficit) per share (in EUR)	**0.009**	**(0.078)**

34. Additional information on cash flows

The change in the Company's payables for non-current assets amounting to EUR 5,229 thousand (2018: EUR 1,610 thousand) and capitalised interest amounting to EUR 91 thousand (2018: EUR 22 thousand) were taken into account when calculating cash flows from investing activities in 2019.

35. Financial risk factors

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

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

	Group		Company	
Financial assets	**At 31 Dec 2019**	**At 31 Dec 2018**	**At 31 Dec 2019**	**At 31 Dec 2018**
Trade receivables	16,764	20,861	16,764	17,012
Other receivables	111	1,243	111	47
Loans granted	2,203	-	2,203	2,203
Congestion revenue	12,648	15,361	12,648	15,361
Other financial assets	2,371	2,521	2,371	2,521
Cash and cash equivalents	30	627	30	397
Loans and receivables	**34,127**	**40,613**	**34,127**	**37,541**
Other financial assets				
Financial assets at fair value through other comprehensive income	1,984	2,693	1,984	2,693
Total	**36,111**	**43,306**	**36,111**	**40,234**

	Group		Company	
Financial liabilities	**At 31 Dec 2019**	**At 31 Dec 2018**	**At 31 Dec 2019**	**At 31 Dec 2018**
Borrowings	94,128	120,968	94,128	120,870
Lease liabilities	5,041	-	5,041	-
Trade payables	25,596	22,173	25,596	17,909
Other amounts payable and liabilities	3,475	3,233	3,475	2,600
Total	**128,240**	**146,374**	**128,240**	**141,379**

Credit risk

As at 31 December 2019 and 2018, exposure to credit risk was related to the following items:

	Group		Company	
	At 31 Dec 2019	**At 31 Dec 2018**	**At 31 Dec 2019**	**At 31 Dec 2018**
Financial assets, except asset at fair value through other comprehensive income	34,127	40,613	34,127	37,541

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 98% (31 December 2018: 92%) of the Group's and 98% (31 December 2018: 99%) of the Company's total trade and other amounts receivable as at 31 December 2019. Amounts receivable from the largest customer – distribution network operator Energijos Skirstymo Operatorius AB – accounted for 72% (31 December 2018: 70%) of the Group's and 72% (31 December 2018: 71%) of the Company's total amounts receivable as at 31 December 2019.

(All amounts are in EUR thousands unless otherwise stated)

When entering into contracts with customers, LITGRID requires to pay a cash deposit of the established amount or to provide a bank guarantee in accordance with terms and conditions set out in the contract of electricity balancing and regulating. Under electricity transmission service contracts with a state-owned company – Energijos skirstymo operatorius AB or other large corporate customer, as well as contracts where the prices of the services provided are not high, the Group and the 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 **Error! Reference source not found.**):

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

Trade and other receivables are mainly from the state-controlled entities and large manufacturers with no history of significant defaults.

For ageing analysis of the Group's/Company's trade and other receivables see Notes 11 and12.

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.

he Group's cash flows from operating activities were positive in 2019, 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 2019 were 0.46 and 0.46 , respectively (31 December 2018: 0.51 and 0.49). The Company's liquidity and quick ratios as at 31 December 2019 were 0.46 ir 0.46, respectively (31 December 2018: 0.45 and 0.45).

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 2019					
Trade and other amounts payable	29,071	-	-	-	-
Borrowings	1,336	13,780	14,969	38,899	29,002
At 31 December 2018					
Trade and other amounts payable	24,965	-	-	-	-
Borrowings	1,471	26,407*	15,116	44,465	38,404

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 2019					
Trade and other amounts payable	29,071	-	-	-	-
Borrowings	1,336	13,780	14,969	38,899	29,002
At 31 December 2018					
Trade and other amounts payable	20,066	-	-	-	-
Borrowings	1,373	26,407*	15,116	44,465	38,404

* Part of the specified repayable borrowing – EUR 12,517 thousand - was comprised of the liability in accordance with EPSO-G loan agreement (overdraft).

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 42 thousand effect of interest of the Group's borrowings on profit before tax as at 31 December 2019 (31 December 2018: EUR 73 thousand).

b) Foreign exchange risk

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

36. Fair value of financial assets and financial liabilities

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

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

- The carrying amount of current trade and other amounts receivable, time deposits, other financial assets, cash and cash equivalents, current borrowings, current trade and other amounts payable approximates their fair value (level 3).
- The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with 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 483 thousand euros than their carrying amounts as at 31 December 2019 (2018: EUR 583 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).

37. Contingent liabilities

Litigations

On 21 November, the applicant Elektros tinklų statyba AB filed a claim against the defendant LITGRID AB for the adjudication for debt for contract works performed and transferred (EUR 10,393.93). On 7 May 2019, the court judgement was rendered and the claim was partially satisfied: the set-off of EUR 6,477.46 was declared invalid. The applicant has appealed against the judgment of the Court of First Instance. Following an exchange of procedural documents, the case hearing was moved to the Court of Appeal.
Prognosis: As the applicant contests the decision and asks for the adjudication of the full amount, to leave the set provision for the amount of EUR 10,393.93.

On 3 September 2019, the applicant TETAS UAB filed a claim against LITGRID AB for unilateral set-off acknowledgment as unlawful, and the adjudication of debt and default interest. The amount of the claim is EUR 46,803.39 of debt, EUR 3,369.84 of default interest, and 8 % of the procedural interest.
Case outcome: on 05 December 2019, Vilnius Regional Court rendered a judgment favourable to the Company and dismissed the claim of TETAS UAB. TETAS UAB filed an appeal and the proceedings are transferred to the Court of Appeal. Due to an indeterminate outcome of the court, the Company established a provision of EUR 46,803.39.

On 28 October 2019, the claim of Elektros tinklų statyba AB against LITGRID AB was received in Vilnius Regional Court. By this claim, Elektros tinklų statyba AB requests the court to declare the Company's set-off of EUR 11,263.87 invalid and to adjudge from the Company the debt of EUR 11,263.87, a default interest of EUR 811.80, % of the procedural interest from the amount adjudged by the court from the date of commencement of civil proceedings to the date of full execution of the judgment, and litigation costs.
Prognosis: The parties are currently preparing procedural documents (reply - rejoinder), therefore it is not expedient to predict the outcome of the case at this stage. The Company formed a provision of EUR 11,263.87.

Other disputes

Administrative case in accordance with the Company's complaint regarding the conclusion of the Public Procurement Office (hereinafter - PPO) and the decision taken by the Lithuanian Business Support Agency (hereinafter - LBSA) and the financial correction applied. On 3 September 2017, the Company applied to the Vilnius Regional Administrative Court and appealed against the administrative acts adopted by the PPO and the LBSA regarding the 2014-2015 procurement of the Company - 110 kV power transmission line Kretinga - Benaičiai substation, the object of which is partially financed by EU investments. Towards the end of the procurement contract, LBSA commissioned an evaluation of the project by PPO and on 3 August 2017 submitted an evaluation report stating that LITGRID unduly estimated the unusually low price quoted by the winning supplier TETAS UAB

and violated the principles of rational use of funds, transparency and equality. Accordingly, following the presentation of the Opinion, on 24 August 2017, LBSA adopted a decision finding that LITGRID had committed an infringement of public procurement and awarded the sanction of 25 % of eligible project funds or a financial penalty of EUR 486,27.25 (EU funds reduced by EUR 243,463.62). The Company disagreed with the conclusion of the PPO and the decision of the LBSA and appealed to the court seeking their annulment and suspension (including prohibiting the LBSA from deducting the financial penalty calculated in the decision from the requests submitted by the Company under the related project). The court accepted the complaint, however refused to enforce the enforcement measures and did not suspend the validity if the administrative acts against the Company. LBSA and PPO opposed the complaint and submitted their comments to the court. On 18 January 2018, Vilnius Regional Administrative Court issued a decision rejecting the complaint. The appeal will be lodged.
Case outcome: on 18 December 2019, Supreme Administrative Court of Lithuania dismissed the Company's appeal and upheld the decision of the Court of First Instance, which was unfavourable to the Company.

On 13 May 2016, ACHEMA lawsuit was filed against the defendants LITGRID AB and TETAS AB to indemnify for the loss of EUR 2,326,964.40 due to a power outage in Achema AB ammonia production department. An order dismissing the claim on EUR 1,759,864.34 regarding the loss of income was issued on 17 February 2017. On 9 March 2017, expert examination was assigned to the case, the case was suspended. On 22 September 2017, a forensic report was received. The findings of the court-ordered expert examination are unfavourable to the Company, however, the experts interviewed at the hearing confirmed that the power outage at Achema AB ammonia production department was partly due to the Company's own fault.
On 1 April 2019, a court decision was adopted dismissing the claim of Achema AB. Achema AB appealed the judgment to a court of the higher instance. LITGRID AB filed a response. The case hearing was referred to an appeal body.
Prognosis: As the case has been reopened, to leave the set provision for the amount of EUR of EUR 567,100.06 for the amount of the claim.

38. Services rendered by the audit firm

In 2019, the audit firm did not provide any other services to the Group / the Company.

39. Events after the end of the reporting period

On 15 January 2020, LITGRID, together with other shareholders of Nord Pool Holding AS, the Nordic and Baltic Transmission System Operators (TSOs), sold Euronext 66 % of Nord Pool Holding AS through its jointly controlled company TSO HOLDING AS.

Considering the state-level emergency in Lithuania due to the spread threat of the new coronavirus (COVID-19), new business continuity and preventive measures are being reviewed and planned by LITGRID AB: responsible personnel for monitoring the situation and providing information to the Company's management has been appointed; units and personnel performing critical functions and administering the key systems have been identified; additional organizational measures at system control centres are being applied; technical and replacement measures in case of the virus spread have been planned. The Company is also in the process of reviewing emergency management plans, the preparation of additional documentation and implementing measures - lists of critical activities, lists of resources needed to keep those activities going, lists of resources and persons in charge, as well as other documents and measures.

Due to the effects of the pandemic, the Company's revenue may decline in 2020 as a result of reduced electricity consumption. However, restrictions should not significantly affect the volumes of power transmission services during the quarantine. In addition, in the long term, the price regulation mechanism provides for loss of revenue during the calendar year to be offset in future periods.

The Company does not forecast liquidity or credit risk issues. The main clients are large companies, which are often also regulated and / or listed as risk-free. The Company has concluded a credit insurance contract. In addition, imbalance market participants have provided flat-rate bank guarantees or paid their deposits. At the time of reporting, settlements took place as usual, however the Company will take measures to strengthen payment controls.

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

Uninterrupted communication is maintained with commercial and institutional banks.

The Company's contractors continue to carry out the projects in progress. The projects are conducted outdoors, by small groups of employees, so there are no reasons for suspending them. The supply of necessary materials has not been stopped.

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