



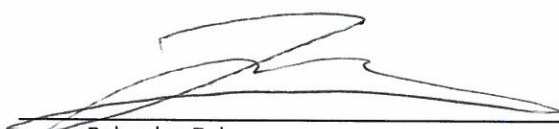
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR
2017 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING
STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, PRESENTED
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED
ANNUAL REPORT

Translation note:

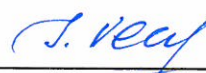
This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions,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

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These financial statements were approved on 9 April 2018.



Rolandas Zukas
General Manager



Ilona Vaitkuvienė
Chief Financier



Independent auditor's report

To the shareholders of EPSO-G UAB

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

Our opinion

In our opinion, the stand-alone and consolidated financial statements give a true and fair view of the stand-alone and consolidated financial position of EPSO-G UAB ("the Company") and its subsidiaries ("the Group") as at 31 December 2017, and of their stand-alone and consolidated financial performance and their stand-alone and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

What we have audited

The Company's and the Group's stand-alone and consolidated financial statements comprise:

- the stand-alone and consolidated statement of financial position as at 31 December 2017;
- the stand-alone and consolidated statements of comprehensive income for the year then ended;
- the stand-alone and consolidated statement of changes in equity for the year then ended;
- the stand-alone and consolidated statement of cash flows for the year then ended; and
- the notes to the stand-alone and consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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

PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania
T: +370 (5) 239 2300, F: +370 (5) 239 2301, Email: vilnius@lt.pwc.com, www.pwc.com/lt

PricewaterhouseCoopers UAB, company code 111473315, is a private company registered with the Lithuanian Register of Legal Entities.



The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 34 to the financial statements.

Our audit approach

Overview



Overall Company materiality is EUR 1.7 million, which represents 0.5% of Company's total assets.

Overall Group materiality is EUR 1.9 million, which represents 2.5% of Group's net profit before interest, tax, depreciation and amortization, impairment loss, revaluation and write-offs of property, plant and equipment (EBITDA).

The Group consisted of 6 subsidiaries as at 31 December 2017. PricewaterhouseCoopers UAB performed full scope audits of 5 Group companies.

- Valuation of property, plant and equipment
- Contingent consideration in purchase of shares premium

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

Materiality

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

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



Overall Company materiality	EUR 1.7 million
Overall Group materiality	EUR 1.9 million
How we determined it	0.5% of total assets and 2.5% of EBITDA respectively
Rationale for the materiality benchmark applied	As the benchmark for determining the materiality level of the Group, we selected EBITDA and the Company's materiality level was the total assets, because in our opinion, these criteria are the key measure used both internally by management and externally by stakeholders, including the shareholders, regulator and creditors in evaluating the performance of the Group and the Company.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 150 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter

How our audit addressed the key audit matter

Valuation of property, plant and equipment

As described in the Note 3 and Note 2.27 of the financial statements, during the year 2017 the Group has changed its accounting policy for property, plant and equipment. According to new accounting policy, property, plant and equipment is carried at revalued amounts, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

We focused on the valuation of property, plant and equipment due to its significance for the statement of the Group's financial position (EUR 620 million as at 31 December 2017) and because management's assessment of revalued amount of property, plant and equipment at the end of the reporting period involves significant judgments and estimates.

The Management has applied the income method using the discounted cash flows

We obtained, understood and evaluated management's policies, processes, methods and assumptions used to assess the fair values of property, plant and equipment. We also discussed the main changes as per assumptions that the management used in prior periods when assessing the recoverable amount of the property, plant and equipment.

We took into account our knowledge of the Group and its business activities, as well as our accumulated knowledge related to the industry where the Group operates, including the changes in the regulatory environment.

With the assistance of our valuation experts, we independently assessed the following significant inputs used in the valuation model:

- expected cash flows from the Group operations during years 2018–2022 and 2018–2025;



technique in determining the fair value of property, plant and equipment as at 31 December 2017 and consequently has recognised the revaluation decrease in amount of EUR 35.5 million in the profit or loss for the year then ended. The revaluation decrease was proportionally allocated to those individual assets that have net book value higher than the regulated asset base, as based on management's assessment such an excess in value will not generate future revenue for the Group based on current rules for regulated services.

• ***Contingent consideration in purchase of shares premium***

As described in the Note 2.27 of the financial statements, in 2012 the Company acquired 97.5% of the shares of Litgrid AB for the value determined by independent valuers of EUR 217 million. Taking into account the valuation assumptions used by independent valuers and uncertainties regarding the future changes in the principles of determining the tariffs for regulated activities, the share purchase agreement provided for a premium to the final sale price, which would depend on future performance that is significantly impacted by the regulatory environment.

The calculation of the price premium is based on the assumptions of the calculation of return on investments of Litgrid AB for 2014-2018. Taking into account these assumptions, at the end of 2017, the Company's management

- adjustments made to cash flows regarding the grants for the key gas and electricity network projects
- adjustments made to cash flows regarding capital expenditures;
- discounted perpetuity value beyond year 2022 and 2025 which is based on expected return on the regulated assets investments;
- the discount rate.

We discussed these inputs with management and traced them to internal and external information where appropriate.

We ensured that valuation model is mathematically accurate and that the results are accurately compared and allocated to the carrying values of individual assets. We also assessed the appropriateness of the method to allocate the revaluation decrease to individual assets used by the Management.

In addition, we assessed sensitivity of property, plant and equipment valuation results to changes in selected assumptions and traced it to the disclosures included in the Financial statements.

Our work gave us sufficient audit evidence to conclude that the carrying values of property, plant and equipment is supportable and appropriate in light of the evidence obtained.

We reviewed the terms and conditions of the agreement on sale/purchase of shares of Litgrid AB and the calculation formula for determining the final price of the share premium.

The actual and projected significant data used for the price premium calculation according to the formula, where applicable, was compared with external and internal sources of information:

- the value of regulated assets that are subject to the determined rate of return on investments;
- return on investments;
- the value of grants decreasing the return on investments;
- normative average profit of Litgrid AB estimated on the date of the share purchase agreement and the weighted



performed an assessment of the price premium and determined that the final share price would decrease by EUR 4.6 million. In the statement of comprehensive income for 2016, according to the management's assessment for that year, the Company recorded a decrease of EUR 4.1 million. In 2017, when the management updated the estimates for the pricing of the premium, the Company recognized in the statement of comprehensive income of that year a further decrease of EUR 0.5 million.

average cost of capital used for valuation purposes;

We ensured that the calculation formula is mathematically accurate and corresponds to the formula for calculating the price premium provided for in the contract.

Our work performed gave us sufficient audit evidence to conclude that the estimated final price premium is supportable and appropriate.

How we tailored our Group audit scope

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

The Group consisted of 6 subsidiaries as at 31 December 2017. PricewaterhouseCoopers UAB performed full scope audits of 5 Group companies. One subsidiary was unconsolidated because it was insignificant for the Group.

Reporting on other information including the consolidated annual report

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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



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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw



attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

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

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

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
9 April 2018

		Group	Company	Group	Company	Group
		At 31	At 31 December	At 31 December	At 31	At 1 January
ASSETS	Notes	December 2017	2017	2016 (adjusted)	December 2016	2016 (adjusted)
Non-current assets						
Intangible assets	4	4,674	1	2,138	1	1,701
Property, plant and equipment	5	620,438	44	683,715	54	758,072
Investments in subsidiaries	6	675	344,132	675	344,132	-
Investments in associates	6	-	-	-	-	942
Deferred income tax assets	21	81	44	100	30	66
Amounts receivable after one year	9	998	-	-	-	-
Available-for-sale financial assets	7	2,693	-	2,693	-	2,273
Total non-current assets		629,559	344,221	689,321	344,217	763,054
Current assets						
Inventories	8	3,017	-	5,271	1	5,422
Prepayments		637	9	441	8	378
Trade receivables	9	29,078	-	25,399	26	22,389
Other amounts receivable	10	86,207	6	82,576	38	102,079
Prepaid income tax		12	-	3	-	1,457
Other financial assets	11	13,841	-	16,044	-	38,021
Cash and cash equivalents	12	8,075	13	16,718	1,328	33,655
Total current assets		140,867	28	146,442	1,401	203,401
Non-current assets held for sale	8	30	-	-	-	3
TOTAL ASSETS		770,456	344,249	835,763	345,618	966,458
EQUITY AND LIABILITIES						
Equity						
Share capital	13	22,483	22,483	22,483	22,483	22,483
Revaluation reserve	14	5,246	-	5,468	-	6,072
Reserve for change in fair value of financial assets	15	639	-	639	-	291
Legal reserve	15	16,682	2,248	16,620	2,248	16,486
Other reserves	15	61,198	-	61,178	-	61,178
Retained earnings (deficit)		117,758	136,438	120,516	101,593	82,630
Equity attributable to owners of the parent		224,006	161,169	226,904	126,324	189,140
Non-controlling interest		12,241	-	13,509	-	12,826
Total equity		236,247	161,169	240,413	126,324	201,966
Liabilities						
Non-current liabilities						
Grants	17	22	-	38	-	3,870
Non-current borrowings	18	175,366	7,680	208,897	10,240	266,407
Finance lease liabilities	19	820	-	-	-	-
Deferred income tax liabilities	21	7,659	-	13,934	-	14,905
Deferred income	31	8,065	-	9,501	-	1,569
Other non-current amounts payable and liabilities	20	170,941	169,856	194,150	193,572	210,599
Total non-current liabilities		362,873	177,536	426,520	203,812	497,350
Current liabilities						
Current portion of non-current borrowings	18	28,531	2,560	22,086	2,560	33,193
Current borrowings	18	49,187	2,321	48,179	-	92,069
Finance lease liabilities	19	443	-	-	-	10
Trade payables	22	24,692	35	19,560	24	36,740
Advance amounts received	23	7,543	-	5,247	-	7,336
Income tax liabilities		1,621	-	2,237	-	326
Other current amounts payable and liabilities	24	59,319	628	71,521	12,898	97,468
Total current liabilities		171,336	5,544	168,830	15,482	267,142
Total liabilities		534,209	183,080	595,350	219,294	764,492
TOTAL EQUITY AND LIABILITIES		770,456	344,249	835,763	345,618	966,458

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

	Notes	Group 2017	Company 2017	Group 2016	Company 2016
Revenue					
Revenue from sale of electricity and related services	25	143,292	-	143,215	-
Revenue from natural gas transmission and related services	26	63,976	-	66,491	-
Other income	27	17,978	182	24,816	29
Total revenue		225,246	182	234,522	29
Operating expenses					
Expenses attributable to electricity and related services	25	(80,081)	-	(80,615)	-
Cost of natural gas		(7,947)	-	(7,180)	-
Depreciation and amortisation	4,5,17	(40,826)	(16)	(42,532)	(8)
Wages and salaries and related expenses		(23,550)	(1,305)	(23,009)	(956)
Repair and maintenance expenses		(8,768)	-	(9,509)	-
Telecommunications and IT maintenance expenses		(2,316)	(40)	(3,862)	(26)
Write-offs of property, plant and equipment (hereinafter "PP&E")	5	(1,212)	-	(913)	(1)
Impairment of PP&E/(reversal) (incl. negative revaluation of PP&E)		(35,578)	-	(1,181)	-
Other expenses		(25,329)	(600)	(20,838)	(358)
Total operating expenses		(225,607)	(1,961)	(189,639)	(1,349)
Operating profit/(loss)		(361)	(1,779)	44,883	(1,320)
Financing activities					
Finance income		250	38,029	183	16,839
Income from premium to the purchase price of LITGRID AB	2,27	497	497	4,181	4,181
Interest expenses		(3,106)	(1,406)	(4,731)	(2,692)
Other finance costs		(43)	-	(60)	(13)
Total result of financing activities		(2,402)	37,120	(427)	18,315
Share of profit/(loss) of associates and joint ventures	6	-	-	32	-
Profit (loss) before income tax		(2,763)	35,341	44,488	16,995
Income tax					
Current year income tax expenses	21	(6,352)	-	(6,485)	-
Deferred income tax (expenses)/income	21	6,319	12	1,071	31
Total income tax		(33)	12	(5,414)	31
Net profit (loss)		(2,796)	35,353	39,074	17,026
Other comprehensive income that will not be reclassified subsequently to profit or loss					
Gain/(loss) on revaluation of PP&E		428	-	-	-
Change in fair value of financial assets		-	-	420	-
Effect of deferred income tax		(64)	-	(63)	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss		364	-	357	-
Total comprehensive income/(expenses) for the year		(2,432)	35,353	39,431	17,026
Net profit/(loss) attributable to:					
Owners of the Parent		(2,751)	35,353	37,841	17,026
Non-controlling interest		(45)	-	1,233	-
		(2,796)	35,353	39,074	17,026
Total comprehensive income (loss) attributable to:					
Owners of the Parent		(2,396)	35,353	38,189	17,026
Non-controlling interest		(36)	-	1,242	-
		(2,432)	35,353	39,431	17,026

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

Group	Notes	Attributable to owners of the Group							Non-controlling interest	Total
		Share capital	Revaluation reserve	Reserve for change in fair value of financial assets	Legal reserve	Other reserves	Retained earnings	Subtotal		
Balance at 1 January 2016		22,483	6,072	291	16,486	61,178	82,630	189,140	12,826	201,966
Comprehensive income										
Comprehensive income (loss) for the period		-	-	348	-	-	37,847	38,195	1,236	39,431
Depreciation of revaluation reserve and amounts written off	14	-	(604)	-	-	-	604	-	-	-
Total comprehensive income (loss) for the period		-	(604)	348	-	-	38,451	38,195	1,236	39,431
Transfer to retained earnings		-	-	-			-	-	-	-
Transfer to reserves		-	-	-	134	-	(134)	-	-	-
Dividends	16	-	-	-	-	-	(425)	(425)	-	(425)
Change in ownership interest in the subsidiary		-	-	-	-	-	-	-	(559)	(560)
Balance at 31 December 2016		22,483	5,468	639	16,620	61,178	120,522	226,910	13,503	240,413
Balance at 1 January 2017		22,483	5,468	639	16,620	61,178	120,522	226,910	13,509	240,413
Comprehensive income										
Comprehensive income (loss) for the period		-	355	-	-	-	(2,751)	(2,396)	(36)	(2,432)
Depreciation of revaluation reserve and amounts written off	14	-	(577)	-	-	-	577	-	-	-
Total comprehensive income (loss) for the period		-	(222)	-	-	-	(2,174)	(2,396)	(36)	(2,432)
Transfer to retained earnings		-	-	-	-	-	-	-	-	-
Transfer to reserves		-	-	-	62	20	(82)	-	-	-
Dividends	16	-	-	-	-	-	(508)	(508)	(1,226)	(1,734)
Change in ownership interest in the subsidiary		-	-	-	-	-	-	-	-	-
Balance at 31 December 2017		22,483	5,246	639	16,682	61,198	117,758	224,006	12,241	236,247
Company		Share capital	Legal reserve	Retained earnings	Total					
Balance at 1 January 2016		22,483	2,245	84,995	109,723					
Comprehensive income (loss) for the period		-	-	17,026	17,026					
Transfer to reserves		-	3	-3	-					
Dividends		-	-	(425)	(425)					
Balance at 31 December 2016		22,483	2,248	101,593	126,324					
Balance at 1 January 2017		22,483	2,248	101,593	126,324					
Comprehensive income (loss) for the period		-	-	35,353	35,353					
Transfer to reserves		-	-	-	-					
Dividends		-	-	(508)	(508)					
Balance at 31 December 2017		22,483	2,248	136,438	161,169					

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

	Notes	Group 2017	Company 2017	Group 2016	Company 2016
Cash flows from (used in) operating activities					
Net profit (loss)		(2,796)	35,353	39,074	17,026
Adjustments for non-cash items:					
Depreciation and amortisation expenses	4,5	40,826	16	42,482	8
Revaluation of property, plant and equipment	5,17	35,578	-	-	-
(Reversal of)/impairment of assets		(792)	-	1,693	-
Loss on disposal of financial assets		-	-	-	-
Share of profit of associates and joint ventures	6	-	-	(32)	-
Income tax expenses	21	33	(12)	5,414	(31)
Amortisation of deferred revenue	17	(41)	-	(51)	-
Increase (decrease) in provisions		-	-	-	-
(Gain)/loss on disposal/write-off of property, plant and equipment	5	1,200	-	928	1
Bad debts		737	-	-	-
Elimination of results of financing and investing activities:					
Interest income		(9)	-	(78)	-
Interest expenses		3,139	1,406	4,806	2,692
Dividend income		(134)	(38,029)	(59)	(16,839)
Other finance (income)/costs		(594)	(497)	(4,247)	(4,168)
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		(2,022)	58	(13,748)	493
(Increase) decrease in inventories, prepayments and other current assets		2,210	-	(1,502)	(2)
Increase (decrease) in amounts payable, grants, deferred income and advance amounts received		(36,573)	(35,817)	(21,042)	(4,022)
Changes in other financial assets		2,322	-	22,730	-
(Income tax (paid))		(7,171)	-	(3,126)	-
Net cash flows from (used in) operating activities		35,913	(37,522)	73,242	(4,842)
Cash flows from (used in) investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(34,263)	(6)	(69,594)	(61)
Proceeds from sale of property, plant and equipment and intangible assets		12	-	13	-
Loans granted		(120)	-	-	-
Grants received	17	12,014	-	86,542	-
Disposal (acquisition) of subsidiaries (associates)/reduction of share capital	6	-	-	(452)	(388)
Congestion management revenue		8,691	-	7,966	-
Proceeds from redemption of held-to-maturity investments		-	-	-	-
Interest received		4	-	82	-
Dividends received		134	38,029	59	16,839
Other cash flows from investing activities		-	-	-	-
Net cash flows from (used in) investing activities		(13,528)	38,023	24,616	16,390
Cash flows from financing activities					
Proceeds from borrowings		-	-	38,772	12,800
Repayments of borrowings		(27,086)	(2,560)	(121,427)	(29,000)
Finance lease payments		(160)	-	(10)	-
Overdraft		1,008	2,321	(29,852)	-
Interest paid		(3,496)	(1,566)	(5,527)	(3,238)
Dividends paid		(1,861)	(508)	(994)	(425)
Other cash flows from (used in) financing activities		567	497	4,243	4,168
Net cash flows from (used in) financing activities		(31,028)	(1,816)	(114,795)	(15,695)
Net increase (decrease) in cash and cash equivalents		(8,643)	(1,315)	(16,937)	(4,147)
Cash and cash equivalents at the beginning of the period	12	16,718	1,328	33,655	5,475
Cash and cash equivalents at the end of the period	12	8,075	13	16,718	1,328

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

1. General information

EPSO-G UAB is a private limited liability company incorporated in the Republic of Lithuania. Its registered office address is: A. Juozapavičiaus g. 13, LT- 09311, Vilnius, Lithuania. EPSO-G UAB (hereinafter "EPSO-G" or "the Company") is a profit-seeking entity with limited civil liability, which was registered on 25 July 2012 with the Register of Legal Entities administered by the state enterprise Centre of Registers. The Company code is 302826889, VAT payer's code is LT100007031415.

The main activity of the EPSO-G Group is to ensure an uninterrupted, stable transmission of electric power over high voltage networks and transportation of natural gas via high pressure gas pipelines, as well as to ensure management, maintenance and development of these transmission systems.

EPSO-G provides management holding services to subsidiaries and lower-tier subsidiaries. The purpose of the provision of management holding services is to increase the efficiency of operations of the Group companies, optimise the use of resources, and implement uniform standards of operations. These services are provided in accordance with the signed public procurement agreements.

As at 31 December 2017 and 2016, the Company's authorised share capital amounted to EUR 22,482,695. As at 31 December 2017 and 2016, it was divided into ordinary registered shares with par value of EUR 0.29 each. All the shares are fully paid.

Company's shareholder	At 31 December 2017		At 31 December 2016	
	Share capital (EUR)	%	Share capital (EUR)	%
Republic of Lithuania represented by the Lithuanian Ministry of Energy	22,482,695	100	22,482,695	100

The Group consists of EPSO-G and the subsidiaries controlled by it:

Company name	Registered office address	Effective shareholding (%)		Profile of activities
		At 31 December 2017	At 31 December 2016	
LITGRID AB	A. Juozapavičiaus g. 13, Vilnius, Lithuania	97.5	97.5	Electricity transmission system operator
Amber Grid AB	Savanorių pr. 28, Vilnius, Lithuania	96.6	96.6	Natural gas transmission system operator
BALTPOOL UAB*	A. Juozapavičiaus g. 13, Vilnius, Lithuania	67.0	67.0	Energy resources exchange operator entitled to organise trade in biofuel products, and the administrator of PSO funds
TETAS UAB (controlled through LITGRID AB)	Senamiesčio g. 102B, Panevėžys, Lithuania	97.5	97.5	Design engineering, reconstruction, repair and maintenance of transformer substations and distribution stations
Litgrid Power Link Service (controlled through LITGRID AB)	A. Juozapavičiaus g. 13, Vilnius, Lithuania	97.5	97.5	Management and operation of electricity interconnection facilities
GET Baltic UAB** (controlled through Amber Grid AB)	Savanorių pr. 28, Vilnius, Lithuania	96.6	96.6	Organisation of trading on natural gas exchange

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

** On 23 December 2016, Amber Grid AB acquired the remaining ownership interest of 34% in GET Baltic UAB from Finnish natural gas company Gasum Oy and became the sole shareholder of GET Baltic UAB owning 100% of its share capital. As at 31 December 2016, the authorised share capital of GET Baltic UAB amounted to EUR 580,450 and it was divided into 3,055,000 shares with the par value of EUR 0.19 each. The subsidiary was not included in the consolidated financial statements as it was not material for the Group and the parent company.

The Company's investments in subsidiaries are described in more detail in Note 6.

The Group's investments in the associates and joint ventures are as follows:

Company name	Registered office address	The Group's shareholding, %		Profile of activities
		At 31 December 2017	At 31 December 2016	
Duomenų Logistikos Centras UAB	Žvejų g. 14, Vilnius, Lithuania	20	20	IT services
LitPol Link Sp.z.o.o	Wojciecha Gorskiego 900-033 Warsaw, Poland	50	50	Execution and coordination of joint tasks related to the management of the existing interconnection Lithuania-Poland, planned expansion of the network and other cooperation fields

On 27 January 2017, the Board of LITGRID AB approved the organisation of the sale of the entire 20.36% ownership interest in Duomenų Logistikos Centras UAB held by LITGRID AB by the right of ownership together with the ownership interest held by Lietuvos Energija UAB. On 7 August 2017, the shareholders of Duomenų Logistikos Centras UAB, i.e. LITGRID AB and Lietuvos Energija UAB, signed the agreement on the sale and purchase of the company's shares with Telia Lietuva. The sale of the shares of Duomenų Logistikos Centras UAB is expected to be fully completed upon receiving the concentration permit from the Competition Council. Until then, the amount of the transaction will not be disclosed. This investments in the associate is included in current assets under the line item *Other financial assets* (Note 11).

The Group's investments in associates and joint ventures are described in more detail in Note 6.

As at 31 December 2017, the Group had 1,014 employees (31 December 2016: 1,071). As at 31 December 2016, the Company had 22 employees (31 December 2016: 16).

The Company's management approved these financial statements on 9 April 2018. The shareholders of the Company have a statutory right to approve or not to approve these financial statements and require that management prepare a new set of financial statements.

2. Summary of principal accounting policies

The principal accounting policies adopted in the preparation of the Company's and the Group's financial statements for the year ended 31 December 2017 are summarised below.

2.1 Basis of preparation

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

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

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

Due to the rounding effects of individual amounts to the nearest thousand of euros, the tabular amounts may not add up to the total figures. These rounding errors are not material in the financial statements.

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

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

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

The following IFRSs and amendments thereto were adopted by the Company and the Group for the first time for the financial year ended 31 December 2017:

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12. The amendments have clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax assets for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve

future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Company has not yet assessed the impact of the application of this standard, as the Company and the Group do not use debt instruments with a fixed maturity.

Disclosure Initiative – Amendments to IAS 7. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. Reconciliation of liabilities arising from financing activities is disclosed in Note 18.

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

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.
- The Company and the Group will apply IFRS 9 starting from 1 January 2018 using the modified retrospective approach. The Group and the Company does not expect the adoption of the standard to have any impact or its impact on the financial statements to be prepared from 1 January 2018 will be immaterial, since the impairment loss on amounts receivable was historically immaterial and cash and cash equivalents as well as other current financial assets are held at credit institutions with high credit ratings.

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

IFRS 15, Revenue from Contracts with Customers (effective for financial periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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

The Company assessed the impact of the amendments to this standard on the Company's financial statements. With the help of analysis and the 'Five Step' approach, the Company performed an assessment and determined that the amendments to the standard will have no impact or will have insignificant impact on the Company's and the Group's financial statements to be prepared as from 1 January 2018. The Company does not have any long-term contracts with multiple-element modifications, nor have they any take-or-pay arrangements, sale incentives, material contracting costs or material prepayments. The main sale contracts are signed for the term of one year and coincide with the reporting period. All subsequent value adjustments for previous periods are not made, and contract modifications are rare.

The Company and the Group will apply IFRS 15 starting from 1 January 2018 using the modified retrospective approach. The Company and the Group have assessed the impact of amendments to this standard on the Company's and the Group's financial statements. With the help of analysis and the 'Five Step' approach, the Company and the Group performed an assessment and determined that the amendments to the standard will have no impact or will have insignificant impact on the Company's and the Group's financial statements to be prepared as from 1 January 2018. The Company and the Group do not have any long-term contracts with multiple-element modifications, nor have they any take-or-pay arrangements, sale incentives, material contracting costs or material prepayments.

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

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

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

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

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

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

Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or 2018 (changes to IFRS 1 and IAS 28)); not yet adopted by the EU). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by-investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The Company and the Group have not assessed the impact of these amendments on their financial statements.

Transfers of Investment Property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The Company and the Group have not assessed the impact of the standard on their financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Company and the Group have not assessed the impact of the interpretation on their financial statements.

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

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all

related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company and the Group plan to adopt the interpretation as soon as it becomes effective.

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

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

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

2.2 Principles of consolidation

Subsidiaries are all entities that the Company has a power to exercise control over the entity to which investment is made (i.e. has effective rights that at the current moment grant the right to control significant activities). The Company controls an entity when it can or has a right to receive variable returns from this relation and it can have impact on these returns due to the power to govern the entity to which the investment is made.

The consolidated financial statements of the Group include EPSO-G and its subsidiaries. The financial statements of the subsidiaries have been prepared for the same reporting periods and using uniform accounting policies as those of the parent company's financial statements.

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

2.3 Business combinations

IFRS 3, 'Business combinations' is not applied to business combinations between entities under common control, therefore such business combinations are accounted for using the pooling of interest method (the predecessor 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.

All other business combinations are accounted for under the acquisition method. The consideration transferred in return for control over the acquiree is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group at the date of acquisition. All acquisition-related costs are expensed when incurred. The acquiree's identifiable assets acquired, liabilities and contingent liabilities that meet recognition criteria defined in IFRS 3, 'Business combinations' are recognised at their fair values at the acquisition date.

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

Non-controlling interest in the acquiree is measured initially at the non-controlling interest's proportionate share of the fair value of the recognised amounts of net assets, liabilities and contingent liabilities.

2.4 Assets held for sale and discontinued operations

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

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

2.5 Change in ownership interest in subsidiaries resulting in no change in control

Transactions with non-controlling interests resulting in no loss of control are accounted for as transactions with the equity owners which are recorded in equity. For purchases from non-controlling interests, the difference between the fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.6 Company's investments in subsidiaries

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

2.7 Investments in associates and joint ventures

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

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

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

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

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

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

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

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

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

2.8 Property, plant and equipment and intangible assets

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

Property, plant and equipment

Property, plant and equipment is stated at revalued amount, less accumulated depreciation and 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 recognised in the profit and loss account. Decreases in the carrying amount arising on the subsequent revaluation of property, plant and equipment that offset previous increases of the same asset are charged against revaluation reserve directly in equity, and all other decreases are charged to the profit and loss account. Revaluation increases in property plant and equipment value that offset previous decreases are taken to the profit and loss account. All other increases in the carrying amount arising on subsequent revaluations 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. Upon the sale or write-off of an asset item any balance related to these assets is transferred from revaluation reserve to retained earnings.

Interest and other borrowing costs (such as the bank's administration fee, etc.) are included in the acquisition cost of property, plant and equipment if they are directly attributable to the acquisition of a qualifying asset. A qualifying asset is regarded to be an asset which is developed on the basis of a project the value of which is not less than EUR 1 million and the preparation of which for its intended use or sale takes no less than 12 months. Borrowing costs that are attributable to the acquisition of a qualifying asset are capitalised as part of the cost of that asset. The capitalisation of borrowing costs is started when costs related to the production or acquisition of the qualifying asset are incurred (a prepayment is made or a payment for works is made according to the signed statement on the works carried out and their respective value) and ended when all the activities necessary for the preparation of the qualifying asset for its intended use or sale are substantially complete (a statement on the recognition of the construction as fit for use is signed). While determining the amount of borrowing costs eligible for the capitalisation of costs incurred in the acquisition of qualifying assets, the capitalisation rate is applied.

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

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

Prepayments for non-current assets are classified as non-current assets because they are used in long-term activities and are presented in the balance sheet line item 'Construction in progress'.

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

Property, plant and equipment

Intangible assets are initially recognised at cost. Intangible assets are recognised only when it is probable that future economic benefits associated with these assets will flow to the Company and the Group and the value of assets can be measured reliably.

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

Depreciation and amortisation

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

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

Categories of property, plant and equipment and intangible assets	Useful lives (in years)
Buildings	15-80
Structures and equipment	5-80
Plant and machinery	3-20
Motor vehicles	4-10
Other property, plant and equipment	3-10

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

Subsequent repair costs are added to the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognized as expenses in the profit or loss during the financial period in which they are incurred.

2.9 Impairment of property, plant and equipment and intangible assets

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

The recoverable value is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable value of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (cash-generating unit) is reduced to its recoverable value. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve.

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

2.10 Financial assets

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

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

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

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

Available-for-sale financial assets

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

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

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

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

Held-to-maturity financial assets

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

Loans and receivables

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

Cash and cash equivalents

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

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

Effective interest rate method

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows is retained, but there is an obligation to pay the full amount to a third party under a 'pass-through' agreement in a short period; or
- the Group/Company has transferred the rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2.11 Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value. Acquisition cost of inventories includes acquisition price and related taxes (not subsequently refunded by tax authorities), and incremental costs associated with bringing inventory into their current condition and location. Cost of inventories (other than natural gas) is determined on the first-in, first-out (FIFO) basis. Cost of natural gas balance is determined on the basis of weighted average cost. Inventories that cannot be realised are written off.

2.12 Non-current assets held for sale

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

2.13 Trade payables and other financial liabilities, borrowings

Financial liabilities, borrowings

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

Subsequent to initial recognition, financial liabilities are carried at amortised cost using the effective interest rate method. Interest expense is recognised using the effective interest rate method as disclosed in note 2.10 of the financial statements.

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

Derecognition of financial liabilities

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

Trade payables

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

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

2.14 Dividend distribution

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

2.15 Foreign currency

In the consolidated financial statements, results of operations and financial position of each entity of the Group are presented in the euros, which is the functional currency of the Company and the presentation currency of the Group's consolidated financial statements. All financial information presented in the euros has been rounded to the nearest thousand unless otherwise stated. Due to rounding effects, some of the tabular amounts may not add up.

Foreign currency transactions are recorded in the euros using the exchange rates of the euro against foreign currencies prevailing at the dates of transactions as established by the European Central Bank and the Bank of Lithuania. Monetary assets and liabilities are translated into the euros using the exchange rate prevailing at the date of preparation of financial statements.

Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised as the profit or loss of the reporting period.

2.16 Grants

Grants are recognised when there is a reasonable assurance that the grant will be received and the Group entity will comply with all the conditions attaching to it.

Asset-related grants

The government and the EU grants received in the form of property, plant and equipment or intended for the purchase of property, plant and equipment are considered as asset-related grants. These grants are accounted for by reducing by the carrying amount of respective property, plant and equipment. For the purpose of statement of comprehensive income, grants are recorded by reducing the depreciation charge of related asset over the expected useful life of the asset.

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

2.17 Provisions

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

2.18 Employee benefits

Social security contributions

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

Variable part of remuneration

The Company and the Group recognise a liability and an expense for the variable part of remuneration where contractually obliged or where there is a past practice that has created a constructive obligation.

Post-employment benefits payable at retirement age

According to the laws of the Republic of Lithuania, each employee leaving the Group and the Company at the retirement age is entitled to one-off benefit. A liability for such benefits is recognised in the balance sheet and it reflects the present value of these benefits at the date of the financial statements. At each reporting date, the non-current employee benefit obligation is estimated with reference to actuary valuations using the projected relative unit method. The present value of the defined non-current employee benefit obligation is determined by discounting the estimated future cash flows using the effective interest rates as set for government debentures denominated in a currency in which payments to employees are expected to be made and with maturity similar to that of the related liability.

2.19 Leases

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

The Group and the Company as a lessor

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

The Group and the Company as a lessee

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

2.20 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration

received or receivable, net of value added tax and discounts. The following specific recognition criteria must also be met before revenue is recognised:

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

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

Regulation of tariffs for electricity transmission and related services

The tariffs for the electricity transmission services are regulated by the National Control Commission for Prices and Energy (hereinafter "the Commission") by establishing a cap on the price for the transmission service. The specific prices and tariffs for the transmission services are established by the supplier of the service within the limits approved by the Commission.

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

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

Connection of new consumers or producers to electricity or gas transmission network

The Group recognises fees received for connection of new consumers and producers to the electricity network as income immediately upon the connection of a new consumer or producer, provided the price for electricity payable in future by the newly connected consumer or producer for the services rendered /purchased by the Company/Group does not differ from that payable by other consumers or producers who had not paid such connection fees.

Before 1 July 2009, fees received by Lietuvos Energija AB for connection of new consumers and producers to the network were recognised as non-current assets by reducing the carrying amount of the asset concerned. In the statement of comprehensive income such fees are recognised over the useful life of the asset concerned by reducing depreciation expenses.

Revenue from gas transmission services

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

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

Revenue from administration of the LNG terminal funds

Based on the provisions of Article 5(2) of the Lithuanian Law on Liquefied Natural Gas Terminal the Group carries out the functions of an administrator of the LNG terminal funds. The administration of the LNG terminal funds is performed in accordance with *the Description of the procedure for the administration of funds intended to compensate for the construction and fixed operating expenses of the liquefied natural gas terminal, its infrastructure and connector*, including subsequent amendments and supplements (the title was changed on 17 December 2015 under the Commission's Resolution No 03-653 of 18 December 2015), as approved by the Commission's Resolution No 03-294 of 9 October 2012.

In implementing the requirements of the mentioned legal acts the Group collects and administers the LNG terminal funds. In collecting and administering the LNG terminal funds the Group acts as an intermediary on behalf of the state, and this activity does not generate any income/profit for the Group in the ordinary course of business, except for the share of the LNG terminal funds intended to cover the administration expenses of the LNG terminal funds, which is considered as the Group's income. The LNG terminal funds, which are collected from the payers of the LNG terminal funds and transferred to the beneficiaries of the LNG terminal funds (the Group responsible for the implementation of the LNG terminal project or the LNG terminal operator), are not treated as the Group's income/expenses, but are accounted for as other receivables/other payables and other financial assets.

Income from repair services

Income under individual contracts with customers, for instance for repair services, is recognised during the reporting period when respective services were granted with reference to the stage of completion of a certain transaction estimated on the basis of actually granted services as well as to the proportion of total services to be provided.

Construction contracts

Revenue from construction contracts is recognised under the percentage-of-completion method. The stage of completion of a contract is measured by reference to the construction costs incurred up to the date of the preparation of the financial statements

as a percentage of total estimated construction costs. The loss expected on the whole project when finished is recognised at the date such expectation occurs.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in the scope of contract work, claims and incentive payments are included in contract revenue to the extent they are agreed with the customer and can be measured reliably.

The Group uses the stage of completion basis to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the date of the preparation of the statement of financial position as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Other income

Interest income is recognised on accrual basis considering the outstanding balance of debt and the applicable interest rate. Interest received is recorded in the statement of cash flows as cash flows from investing activities.

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

Dividend income

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

Expense recognition

Expenses are recognised 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 Commission. These funds are collected from electricity consumers, using the tariff for PSO services established by the Commission as a difference between PSO service funds collected and disbursed by the Group during the previous calendar year.

The Group recognises as revenue from PSO services the following:

- PSO service funds allocated by the Commission to the Group for the connection of power generation facilities, using wind, biomass, solar energy or hydro energy in the process of power generation, to transmission networks, for optimization, development and/or reconstruction of transmission networks in relation to acceptance and transmission of electric power from producers using the renewable energy resources;
- PSO service funds allocated by the Commission to the Group for balancing electricity produced from the renewable energy resources;
- PSO service funds allocated by the Commission to the Group to cover administration costs of PSO service funds.

All other PSO service funds collected by the Group are not recognised as income/expenses.

Accounting policy for PSO service funds and the LNG terminal funds when the Group acts as an administrator of funds

In performing the PSO and the LNG terminal-related activities the Group acts only as an administrator on behalf of the Commission/Government and these activities do not generate revenue/profit for the Group in the normal course of business. A resolution has been passed by the Lithuanian Government which stipulates that the Group acts only as an administrator and the Group and the Commission have separate systems to track these transactions.

The Group recognises as revenue only the items described in Note 2.20 and records the difference between collected and disbursed PSO service funds being administered within receivables (payables).

The Commission established that the PSO service funds and the LNG terminal funds that were not collected are subject to compensation in future. Accordingly, no impairment has been recognised for receivable PSO service funds and LNG terminal funds in the Group's financial statements.

2.21 Deferred revenue

Congestion revenue arises from different electricity market prices in Lithuania, Sweden, Poland and Latvia as a result of insufficient capacity of electricity lines. Revenue that was received as a result of price differences at different bidding areas is

distributed equally by the power exchange operator (Nord Pool AS) to the transmission system operators of the countries which operate the interconnections.

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

Depending on the purpose stipulated in the EU Regulation congestion revenue is recognised as:

- a) income in the period during which the related expenses are incurred, when it is used for guaranteeing availability of the allocated capacity of the interconnections. In case of unplanned disconnection of the electricity interconnection and when the trade in the interconnection's capacities has already been completed at the electricity exchange (i.e. when they have already been allocated), the operators of the line ensure that the capacities traded are available to the market participants. In such a case, the operators incur costs that arise as a result of the price difference between the price of electricity traded by the operators and the price of regulation and (or) balancing electricity purchased/sold by the Group.
- b) grants when they are used for the maintenance or expansion of the capacity of the interconnections. In the financial statements congestion revenue is recognised using the principles for the accounting of grants, i.e. initially congestion revenue is recognised as deferred revenue and subsequently as revenue by reducing depreciation expenses of the related assets over the useful life of the assets.
- c) income in the period during which the Group receives less income due to lower tariffs established.

2.22 Borrowing costs

Borrowing costs that are directly attributable to the production, getting ready for use or sale of an asset that necessarily takes a substantial period of time to produce, get ready for its intended use or sale, are capitalised as part of the cost of that asset until the asset is ready for use or sale in full. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

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

2.23 Income tax

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

Income tax

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

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Group changes its activities due to which these losses were incurred, except when the Group does not continue its activities due to reasons which do not depend on the Group itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. Starting from 1 January 2014, tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum of 70%.

Deferred income tax

Deferred taxes are calculated using the balance sheet liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liability is recognised for all temporary differences that will increase taxable profit in the future, and deferred tax asset is recognised only to the extent it is likely to reduce the taxable income in the future. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred tax assets are reviewed at each date of the financial statements and if it is not probable that the Group and the Company will generate sufficient taxable profit to realize these assets, they are reduced to an amount which is likely to reduce

the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled.

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

Current income tax and deferred income tax

Current income tax and deferred income tax are recognized as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognized directly in equity or in other comprehensive income, in which case taxes are also recorded in equity and other comprehensive income respectively.

2.24 Contingencies

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

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

2.25 Events after the reporting period

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

2.26 Inter-company offsetting

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

2.27 Significant accounting estimates and assumptions

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

Revaluation of property, plant and equipment of LITGRID AB

LITGRID AB performed the last revaluation of its property, plant and equipment as at 31 December 2014 and recognised impairment on the basis of valuation of its property, plant and equipment as at 31 December 2014. Having regard to regulatory amendments to legal acts of 2015, LITGRID AB established no need for additional revaluation or recognition of impairment as at 31 December 2015.

As at 31 December 2016, LITGRID AB performed a valuation to determine whether the carrying amount of its property, plant and equipment does not differ materially from the value that would have been established based on the fair value at the end of the reporting period. In 2016, there were no amendments to legal acts and/or events that would have significant impact on the value of assets.

The valuation corresponded to level 3 of fair value measurement (Note 2.28). LITGRID AB estimated the fair value of the assets as at 31 December 2016 under the income method using the discounted cash flows technique. The value of assets was determined as the present value of net future cash flows.

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

The value of assets was calculated as follows:

- Cash flows from operations in 2017-2025 were calculated;
- These cash flows were adjusted by cash flows related to the grants received for the Nordbalt project and PSO funds, because, in the financial accounting of LITGRID AB, the value of the assets related to the Nordbalt project at the valuation date had already been reduced by the amount of accrued but not yet received grants;
- Adjusted cash flows for 2017-2025 were aggregated;
- Discounted going concern value (beyond 2025) was added;

- Value of intangible assets was deducted.

Net cash flows generated by the assets were discounted using a 4.38% discount rate (after-tax WACC) determined by LITGRID AB.

The result of the fair value estimation performed in respect of property, plant and equipment as at 31 December 2016 amounted to EUR 398,777 thousand. The estimated value of the assets exceeded the carrying amount (EUR 386,070 thousand), thereby leading to no impairment. The carrying amount of assets was within the value range between EUR 384,792 thousand and EUR 412,762 thousand, while the estimated value of the optimised assets for 2021-2025 was ranging between 75% and 125%. With the share of congestion revenue ranging between 50% and 125% compared to forecast revenue, the carrying amount of assets was within the range between EUR 382,460 thousand and EUR 411,153 thousand. Having taken into account the sensitivity of assumptions, LITGRID AB did not account for the result of valuation.

The tables below present sensitivity of the outcome of asset valuation to the share of value of assets optimized via the LRAIC model (a normal interval of +- 25%, however as the optimized value will depend on the decision of the Commission, the sensitivity analysis floor was increased to -75%), to changes in the discount rate (in view of a relatively stable interest rate within the interval of +-1%), and to the amount of congestion revenue (as the Company does not affect congestion revenue, the change interval floor is 0% and the ceiling - normal change of +25%):

Share of value of assets optimized via LRAIC model during 2021-2025, % of estimated value	Value of assets, EUR thousand
25%	356,822
50%	370,807
75%	384,792
100%	398,777
125%	412,762

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

Share of congestion revenue, % of forecast revenue	Value of assets, EUR thousand
0%	377,418
25%	378,534
50%	382,460
100%	398,777
125%	411,153

In 2017, there were no amendments to legal acts and/or events that would have significant impact on the value of assets. In 2017, LITGRID AB applied the same valuation model as that applied as at 31 December 2016. The valuation corresponds to level 3 of fair value measurement (Note 2.28).

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

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

The value of assets was calculated as follows:

- Cash flows from operations in 2018-2025 were calculated;

- These cash flows were adjusted by cash flows related to the grants received for the Nordbalt project, because, in the financial accounting of the Company, the value of the assets related to the Nordbalt project at the valuation date had already been reduced by the amount of accrued but not yet received grants, as well as by cash flows related to the compensation of PSO expenses of connection of electricity producers using renewable energy sources (hereinafter "RES-E producers"), because the connection of RES-E producers was conducted and assets were accounted for in 2015–2016;

- Adjusted cash flows for 2018–2025 were aggregated;
- Discounted going concern value (beyond 2025) was added;
- Value of intangible assets was deducted.

Net cash flows generated by the assets were discounted using a 4.38% discount rate (after-tax WACC) determined by LITGRID AB.

The outcome of the fair value estimation performed in respect of property, plant and equipment as at 31 December 2017 amounted to EUR 371,794 thousand. The estimated value of the assets exceeded the carrying amount (EUR 366,646 thousand), thereby leading to no impairment, and the difference between the estimated value of the assets and the carrying amount was equal to 1.4%. Having taken into account the sensitivity of assumptions, LITGRID AB will not account for the result of valuation (impairment test).

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

Share of value of assets optimized via LRAIC model during 2021–2025, % of estimated value	Value of assets, EUR thousand
25%	332,463
50%	345,573
75%	358,684
100%	371,794
125%	384,904
Change in discount rate (with the rate of return on investments recalculated beyond 2021), %	Value of assets, EUR thousand
-2.0%	394,710
-1.0%	382,936
0.0%	371,794
0.5%	366,443
1.0%	361,233
Share of congestion revenue, % of forecast revenue	Value of assets, EUR thousand
0%	367,838
25%	368,859
50%	369,837
100%	371,794
125%	372,781

Revaluation of property, plant and equipment of Amber Grid AB

Amber Grid AB applied the cost method to account for its assets at 31 December 2016. The management of Amber Grid AB performed a valuation to identify any possible impairment indications. As at 31 December 2016, the Company's management did not identify any impairment indications.

In view of the accounting principles applied in respect of property, plant and equipment by the EPSO-G UAB group, starting from 31 December 2017, property, plant and equipment was started being recorded at the revalued amount instead of recognising these assets at cost. Due to the specific character of assets used in the activities of Amber Grid AB, the fair value of property, plant and equipment was estimated under the income method by using the discounted cash flow approach to calculate the value. The management of Amber Grid AB performed the measurement of the fair value of property, plant and equipment by the help of specialists of Amber Grid AB and external consultants where their involvement was considered necessary. The fair value of the cash generating unit, i.e. the total property, plant and equipment of Amber Grid AB, was estimated. As at 31 December 2017, Amber Grid accounted for loss on revaluation of property, plant and equipment equal to EUR 35,507 thousand. The loss on revaluation of property, plant and equipment was mainly caused by changes in the management's assumptions:

- The profit resulting from operational efficiency that is exceeding the return on investments is not expected to be retained. It will be returned to the users of system services (through the reduction of tariffs for system services);
- Adjustments were made with respect to the projected return on investments for the new regulatory period of 2019–2023, as well as to subsequent continuous cash flows;
- Adjustments were made with respect to the assumption according to which a regulated return on investments will be established for transit services in the future following the same principles as those applied to transmission services.

A projected change (decrease) in the regulated rate of return on investments in the new regulatory period for natural gas transmission services prices applicable from 2019 was estimated when calculating future cash flows. The rate of return on investments for this period was projected based on the provisions of the Methodology for Setting the Rate of Return on Investments ("the Methodology") approved by the Commission's Resolution No 03-510 of 22 September 2015. Taking into consideration the fact that at the present moment it is not possible to exactly forecast indicators that will be used under the Methodology for the determination of the rate of return on investments beyond 2022, the rate of return on investments was treated to be equal to a currently effective discount rate before taxes for the purpose of calculating the discounted going concern value.

Net cash flows generated by the assets were discounted using the discount rate (WACC after tax) equal to 5.11%, which was calculated by Amber Grid AB.

Loss on revaluation of property, plant and equipment amounting to EUR 35,507 thousand was proportionally allocated to assets the carrying value of which is higher than the regulated assets base, as, according to the management, such excess of value of the assets will not generate future cash flows given the current regulatory environment.

The recoverable amount of the non-current assets of Amber Grid AB is mostly affected by the discount rate, the rate of return on assets set by the Commission, as well as changes in the regulatory environment.

The table below provides the quantitative information on the key significant non-observable market data used for the measurement of the fair value of property, plant, and equipment within Level 3 of the fair value hierarchy.

Fair value of property, plant and equipment under evaluation as at 31 December 2017*	Non-observable market data	Data used for evaluation purposes	Sensitivity interval of data in use	Relationship between data used and fair value
272,986	After-tax discount rate	5.1%	Between 4.85% and 5.35%	The higher the discount rate, the lower the fair value
	The rate of return on investments for the 2019–2022 regulatory period	3.9%	Between 3.8% and 4.5%	The higher the rate of return on investments, the higher the fair value
	Rate of return on investments after 2022	6%	Between 5.7% and 6.3%	The higher the rate of return on investments, the higher the fair value
	Growth rate of continuous cash flow	1%	Between 0% and 2%	The higher the growth rate of continuous cash flow, the higher the fair value

* The value of those items of property, plant and equipment that were evaluated using the income method.

Amber Grid AB performed a sensitivity analysis of valuation result to these key assumptions by making adjustments thereto, with all other variables held constant.

Sensitivity to changes in discount rate, percentage points:

Change in discount rate	Value of PP&E valued using the income method	Effect on profit before tax	Effect on the statement of comprehensive income/revaluation reserve before tax
+0.25%	233,251	(39,734)	-
-0.25%	242,021	(30,965)	-

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

Sensitivity to changes in return on investments during 2019-2022, percentage points:

Change in return on investments during 2019-2022	Value of PP&E valued using the income method	Effect on profit before tax	Effect on the statement of comprehensive income/revaluation reserve before tax
+0.6%	240,425	(32,560)	-
-0.1%	236,988	(35,998)	-

Return on investments for the new price regulation period will be established by the Commission in accordance with the provisions of the Methodology. The potential rate of return on investments was projected with adequate prudence, i.e. basically a minimum rate of return on investments was estimated when calculating future cash flows, therefore, the range of sensitivity to changes was uneven, which brings to an assumption that the rate on investments might increase by 0.6 percentage points following the increase in interest rates on loans. At the end of each year, the Commission will make adjustments to the rate of return on investments.

Sensitivity to changes in return on investments as regards continuous cash flows, percentage points:

Change in return on investments with regard to continuous cash flows	Value of PP&E valued using the income method	Effect on profit before tax	Effect on the statement of comprehensive income/revaluation reserve before tax
+0.3%	247,984	(25,001)	-
-0.3%	226,973	(46,012)	-

While discounting cash flows after 2022, consistency was established between the projected return on investments and the discount rate, therefore, the reasons concerning the sensitivity of return on investments to changes are the same as those concerning the sensitivity of the discount rate to changes, as described above.

Sensitivity to changes in stable growth rate, percentage points:

Change in stable growth rate	Value of PP&E valued using the income method	Effect on profit before tax	Effect on the statement of comprehensive income/revaluation reserve before tax
+1%	304,996	-	32,011
-1%	196,379	(76,607)	-

Uncertainties related to the assumptions on the determination of stable growth rate will reduce after 2021 (after the completion of the gas interconnection between Lithuania and Poland, the formation of the single regional gas market) or during the development of general changes in economy.

Valuation of investment in LITGRID AB and contingent consideration adjustment liability

As part of the implementation of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 and the requirements of the Law on Electric Energy, on 4 July 2014 the Lithuanian Government adopted Resolution No 826 *On the establishment of a private limited liability company and investment of state-owned assets*, under which the Ministry of Energy was committed to establish a private limited liability company and make all the decisions necessary to transfer the shares of LITGRID AB held by Lietuvos Energija UAB (the former Visagino Atominė Elektrinė UAB) to the newly established private limited liability company EPSO-G in return for consideration based on the market value of shares determined by independent valuers. By its Letter No (11.2-13)3-2428 of 10 July 2012 *On the implementation of the Lithuanian Government Resolution*, the Lithuanian Ministry of Energy committed Lietuvos Energija UAB to ensure that all the decisions necessary for unbundling of LITGRID AB will be made. In September 2012, an agreement was signed between Lietuvos Energija UAB and the Company on sale of shares of

electricity transmission system operator LITGRID AB. Under the agreement, 97.5% shareholding in LITGRID AB was sold to the Company by Lietuvos Energija UAB at the market value.

In September 2012, an independent valuation of shares of LITGRID AB was performed. The basic sale price of shares specified in the agreement on sale/purchase of shares of LITGRID AB was equal to the market value determined by independent valuer, i.e. EUR 217,215 thousand, and to the estimated premium to the final price considering the uncertainties of future changes in the principles of determining the tariffs for regulated services. In view of the results of the independent valuation, assumptions used and uncertainties pertaining to future changes in the principles of determining the tariffs for regulated services (the implementation of which is prescribed by the new provisions of the Lithuanian Law on Electric Energy adopted on 17 January 2012), the agreement on sale/purchase of shares of LITGRID AB provided for a premium to the final sale price that depends on potential future changes in the regulatory environment.

The premium to the final price was calculated with reference to the assumptions used in calculation of return on investments for 2015-2018. The above-described assumptions used in valuation of assets of LITGRID AB included both – return on investments from premium to RAB (as defined in the Lithuanian Government Resolution) and excess profit adjustment to return on investments in 2011-2013. Under the agreement, “the premium to the final price is determined in view of the substantial changes in the principles of determining the tariffs for regulated services of LITGRID AB”. In the opinion of the management, additional return on investments from premium to RAB and excess profit adjustment to return on investments are treated as substantial changes in the principles of determining the tariffs that were applied when calculating the initial value of shares of LITGRID AB, and accordingly, these assumptions should be included in the assumptions for calculation of the premium.

In view of these assumptions, the Company assessed the premium to the final price and concluded that it changed and is equal to EUR 4,679 thousand as at 31 December 2017 (31 December 2016: EUR 4,181 thousand). It was recognised as a reduction to the amount payable for the shares accounted for in other non-current amounts payable and liabilities in the balance sheet. This change was recorded within financing activities in the income statement.

Congestion revenue

In accordance with the accounting principles described in Note 2.21 congestion revenue is recognised depending on the purpose for which such revenue is used. These purposes are stipulated in Regulation (EC) No 714/2009 of the European Parliament and of the Council. Based on the Company's decision deferred congestion revenue as at 31 December 2017 will be used for investments in the interconnections in the upcoming periods. In 2017, the Company incurred expenses in the amount of EUR 1,445 thousand (2016: EUR 3,439) thousand for the purpose of guaranteeing availability of the allocated capacity and recognised the same amount of congestion revenue in the statement of comprehensive income (also see Note 31).

2.28 Fair value measurement

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

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

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

As at 31 December 2017 and 2016, the Group and the Company did not have significant assets or liabilities measured at fair value on a recurring or not recurring basis in the financial statements, except for the available-for-sale financial assets (Notes 2.10 and 7) and property, plant and equipment (Notes 2.8, 2.26 and 5).

Assets and liabilities for which fair value is disclosed in the financial statements comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. The management estimated that the fair value of the borrowings as at 31 December 2017 and 2016 approximated their carrying amounts as they were subject to variable interest rates, and the fair value of other above-mentioned financial assets and liabilities approximated their carrying amount largely due to the short-term maturities of these instruments as at 31 December 2017 and 2016.

3. Correction of comparative figures

Before 31 December 2017, certain categories of property, plant and equipment were carried at acquisition cost, while others were carried at revalued amount, less accumulated depreciation and accumulated impairment losses. Categories of property, plant and equipment comprising gas mains and their equipment, gas distribution pipelines and their equipment, gas technological equipment and fittings were carried at cost, less accumulated depreciation and accumulated impairment. The remaining property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations, less subsequent accumulated depreciation and subsequent impairment losses. Starting from 31 December 2017, seeking to uniform the accounting policy of the EPSO-G UAB group, property, plant and equipment is stated at revalued amount, less accumulated depreciation and impairment losses. In the opinion of the Group's management, the recognition of property, plant and equipment at revalued amount will result in a more fair presentation of its economic value. The Group applied an exemption established by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* allowing not to apply the change in the accounting policies retrospectively.

Starting from 2017, the Group changed the accounting policy in respect of grants. Before 2017, grants for non-current assets were recognised as deferred revenue in the statement of financial position and starting from 2017 grants are recognised by reducing the carrying amount of the underlying assets. This change was applied retrospectively and comparative figures were adjusted. This change had no impact on the income statement: The impact of this change on the items of the statement of financial position is presented in the table below.

	Balances before changes in accounting policies in respect of acquisition cost as at 31 December 2016	Effect of changes in accounting policies	Balances after changes in accounting policies in respect of acquisition cost as at 31 December 2016	Balances before changes in accounting policies in respect of acquisition cost as at 1 January 2016	Effect of changes in accounting policies	Balances after changes in accounting policies in respect of acquisition cost as at 1 January 2016
Property, plant and equipment	941,376	(257,661)	683,715	943,692	(185,620)	758,072
Land	659	-	659	647	-	647
Buildings	23,587	(6,255)	17,332	18,570	(129)	18,441
Plant and machinery	879,844	(246,842)	633,002	835,289	(181,573)	653,716
Motor vehicles	1,206	-	1,206	1,309	-	1,309
Other PP&E	13,526	(538)	12,988	12,902	(341)	12,561
Construction in progress and prepayments	22,554	(4,026)	18,528	74,975	(3,577)	71,398
Grants	258,738	(258,701)	38	190,609	(186,739)	3,870
Deferred income	8,461	1,040	9,501	495	1,074	1,569
Inventories	5,271	-	5,271	5,467	45	5422

4. Property, plant and equipment

Group	Patents and licences	Computer software	Other intangible assets	Total
Net book amount at 31 December 2015	175	1,470	56	1,701
Additions	44	1,335	-	1,379
Reclassification between groups	80	(80)	-	-
Reclassification from property, plant and equipment (hereinafter "PP&E")	20	(166)	-	(146)
Amortisation charge	(99)	(681)	(16)	(796)
Net book amount at 31 December 2016	220	1,878	40	2,138
At 31 December 2016				
Cost	564	4,280	109	4,953
Accumulated amortisation and impairment	(344)	(2,402)	(69)	(2,815)
Net book amount	220	1,878	40	2,138
Net book amount at 31 December 2016	220	1,878	40	2,138
Additions	76	2,734	-	2,810
Prepayments for PP&E	-	8	-	8
Reclassifications from PP&E	188	580	-	768
Amortisation charge	(159)	(875)	(16)	(1,050)
Net book amount at 31 December 2017	325	4,325	24	4,674
At 31 December 2017				
Cost	828	7,601	109	8,538
Accumulated amortisation and impairment	(503)	(3,276)	(85)	(3,864)
Net book amount	325	4,325	24	4,674

5. Property, plant and equipment

Group	Land	Buildings	Plant and machinery	Motor vehicles	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2015 (adjusted)	647	18,441	653,716	1,309	12,561	71,398	758,072
Additions	11	32	159	322	1,071	96,936	98,531
Prepayments for PP&E	-	-	-	-	-	(55,571)	(55,571)
Sales	-	(8)	-	-	-	-	(8)
Write-offs	-	-	(1,159)	-	(47)	-	(1,206)
Impairment	-	(25)	(536)	-	-	(620)	(1,181)
Transfer to/from inventories	-	-	-	-	1,424	64	1,488
Transfer to/from assets held for sale	-	-	(12)	-	-	-	(12)
Transfer to intangible assets	-	-	-	-	(28)	174	146
Transfer to/from grants not received	-	-	(2,404)	-	-	-	(2,404)
Reclassification between groups	1	(258)	52,476	30	2,090	(54,339)	-
Set-off of grants with non-current assets	-	-	(32,790)	-	(120)	(39,514)	(72,424)
Depreciation charge	-	(850)	(36,448)	(455)	(3,963)	-	(41,716)
Net book amount at 31 December 2016 (adjusted)	659	17,332	633,002	1,206	12,988	18,528	683,715
At 31 December 2016							
Cost	659	19,174	701,761	2,764	21,180	18,528	764,066
Accumulated depreciation	-	(1,842)	(68,759)	(1,558)	(8,192)	-	(80,351)
Net book amount (adjusted)	659	17,332	633,002	1,206	12,988	18,528	683,715
Net book amount at 31 December 2016 (adjusted)	659	17,332	633,002	1,206	12,988	18,528	683,715
Additions	-	-	247	1,671	854	35,493	38,265
Prepayments for PP&E	-	-	-	-	-	(450)	(450)
Revaluation	-	(189)	(35,193)	198	35	-	(35,149)
Write-offs	-	(36)	(1,223)	-	(31)	-	(1,290)
Transfer to/from inventories	-	-	-	-	(104)	-	(104)

Reclassified to non-current assets held for sale	-	(14)	-	-	-	-	(14)
Transfer to PP&E	-	-	-	-	-	(768)	(768)
Reclassification between groups	-	174	12,385	-	1,320	(13,879)	-
Set-off of grants with non-current assets	-	-	(1,281)	-	-	(22,710)	(23,991)
Depreciation charge	-	(859)	(34,813)	(480)	(3,624)	-	(39,776)
Net book amount at 31 December 2017	659	16,408	573,124	2,595	11,438	16,214	620,438

At 31 December 2017

Cost	659	18,304	636,736	3,421	18,882	16,214	694,216
Accumulated depreciation	-	(1,896)	(63,612)	(826)	(7,444)	-	(73,778)
Net book amount	659	16,408	573,124	2,595	11,438	16,214	620,438

Company	Structures and equipment						Construction in progress	Total
	Land	Buildings	Plant and machinery	Motor vehicles	Other PP&E			
Net book amount at 31 December 2015	-	-	-	-	-	2	-	2
Additions	-	-	-	-	-	61	-	61
Write-offs	-	-	-	-	-	(1)	-	(1)
Depreciation charge	-	-	-	-	-	(8)	-	(8)
Net book amount at 31 December 2016	-	-	-	-	-	54	-	54
At 31 December 2016								
Cost	-	-	-	-	-	62	-	62
Accumulated depreciation	-	-	-	-	-	(8)	-	(8)
Net book amount	-	-	-	-	-	54	-	54
Net book amount at 31 December 2016	-	-	-	-	-	54	-	54
Additions	-	-	-	-	-	6	-	6
Depreciation charge	-	-	-	-	-	(16)	-	(16)
Net book amount at 31 December 2017	-	-	-	-	-	44	-	44
At 31 December 2017								
Cost	-	-	-	-	-	68	-	68
Accumulated depreciation	-	-	-	-	-	(24)	-	(24)
Net book amount	-	-	-	-	-	44	-	44

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

In 2017, the Group capitalised part of its borrowing costs. In 2017, the total amount of capitalised borrowing costs was EUR 192 thousand (2016: EUR 177 thousand).

As at 31 December 2017, the Group had the agreements for the acquisition of non-current assets amounting to EUR 30,937 thousand (31 December 2016: EUR 52,320 thousand) that are not recognised in these financial statements.

In 2017, the Group performed revaluation of property, plant and equipment and determined its fair value corresponding to level 3 of the fair value measurement hierarchy. The assumptions used in determining the fair value of property, plant and equipment are described in more detail in Note 2.27.

Property, plant, and equipment is stated at acquisition cost, less grants received/receivable for the acquisition of property, plant, and equipment. Grants comprise financing from the EU Structural Funds, funds related to the connection of new consumers (producers) to the electricity transmission network (until 1 July 2009, as defined in the applicable accounting policies), PSO funds, and funds related to congestion revenue.

6. Investments in subsidiaries, associates and joint ventures

The Company's investments in subsidiaries

Companies of the Group in which the Company had a shareholding interest at 31 December 2017 are as follows:

Group company	Investment cost	Impairment	Carrying amount	Ownership interest (%)
LITGRID AB	217,215	-	217,215	97.5
Amber Grid AB	126,529	-	126,529	96.6
BALTPPOOL UAB	388	-	388	67.0
Total	344,132	-	344,132	

Companies of the Group in which the Company had a shareholding interest at 31 December 2016 are as follows:

Group company	Investment cost	Impairment	Carrying amount	Ownership interest (%)
LITGRID AB	217,215	-	217,215	97.5
Amber Grid AB	126,529	-	126,529	96.6
BALTPPOOL UAB	388	-	388	67.0
Total	344,132	-	344,132	

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

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

LITGRID AB

Summarised statement of financial position	At 31 December 2017	At 31 December 2016
Property, plant and equipment	376,028	398,269
Other non-current assets	7,717	8,268
Current assets	47,348	50,012
Grants	22	38
Financial liabilities	149,746	164,688
Other non-current liabilities	13,363	16,263
Other current liabilities	21,823	18,989
Total equity	246,139	256,571
Attributable to:		
Owners of the Company	239,992	250,163
Minority interest	6,147	6,408
Summarised income statement	2017	2016
Revenue	144,357	151,329
Expenses	(133,001)	(131,133)
Financing costs, net	(1,111)	(1,313)
Profit before income tax	10,245	18,883
Income tax	(2,521)	(2,055)
Net profit (loss)	7,724	16,828
Minority interest	193	420
Summarised statement of cash flows	2017	2016
Net cash flows from (used in) operating activities	45,128	22,483
Net cash flows from (used in) investing activities	(10,708)	21,618
Net cash flows from (used in) financing activities	(34,594)	(43,976)
Net (decrease) increase in cash flows	(174)	125

Amber Grid AB

Summarised statement of financial position	At 31 December 2017	At 31 December 2016
Property, plant and equipment	241,973	284,493
Other non-current assets	2,681	1,306
Current assets	35,544	42,582
Grants	-	-
Financial liabilities	77,222	93,666
Other non-current liabilities	3376	7679
Other current liabilities	27,579	24,226
Total equity	172,021	202,810
Attributable to:		
Owners of the Company	166,135	195,871
Minority interest	5,886	6,939
Summarised income statement	2017	2016
Revenue	64,321	66,742
Expenses	(76,037)	(41,977)
Financing costs, net	(339)	(484)
Profit before income tax	(12,055)	24,281
Income tax	2,194	(3,352)
Net profit (loss)	(9,861)	20,929
Minority interest	(337)	716
Summarised statement of cash flows	2017	2016
Net cash flows from (used in) operating activities	34,835	40,986
Net cash flows from (used in) investing activities	(4,250)	3,642
Net cash flows from (used in) financing activities	(37,825)	(57,631)
Net (decrease) increase in cash flows	(7,240)	(13,003)

BALTPPOOL UAB

Summarised statement of financial position	At 31 December 2017	At 31 December 2016
Property, plant and equipment	18	8
Other non-current assets	19	19
Current assets	51,540	48,401
Financial liabilities	12,210	7,193
Other non-current liabilities	-	-
Other current liabilities	38,775	40,629
Total equity	592	606
Attributable to:		
Owners of the Company	397	406
Minority interest	195	200
Summarised income statement	2017	2016
Revenue	736	726
Expenses	(549)	(469)
Profit before income tax	187	257
Income tax expense	(30)	(27)
Net profit (loss)	157	230
Minority interest	52	76
Summarised statement of cash flows	2017	2016
Net cash flows from (used in) operating activities	(4,809)	14,275
Net cash flows from (used in) investing activities	(23)	71

Net cash flows from (used in) financing activities	4,846	(14,140)
Net (decrease) increase in cash flows	14	206

Investments in associates and joint ventures

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

	Group 2017	Company 2017	Group 2016	Company 2016
Carrying amount at the beginning of the period	-	-	942	-
Acquisition of the associate or the joint venture	-	-	-	-
Annulment of shares	-	-	-	-
Transfer of the associate to available-for-sale assets	-	-	(752)	-
Associate becoming subsidiary	-	-	(222)	-
Share of result of associates and joint ventures	-	-	32	-
Carrying amount at the end of the period	-	-	-	-

As described in Note 1, on 27 January 2017, the Board approved of the organisation of the sale of 20.36% ownership interest in Duomenų Logistikos Centras UAB held by LITGRID AB by the right of ownership together with the ownership interest held by Lietuvos Energija UAB. In these financial statements the Group's investment in the associate was reclassified to available-for-sale financial assets (Note 11).

On 28 September 2016, the Extraordinary Meeting of Shareholders of LitPol Link SP.z.o.o. decided to cease the activities of LitPol Link until Polskie Sieci Elektroenergetyczne S.A. and LITGRID AB passed a decision to carry out the joint project, but for not longer than 24 months. The impairment of the Group's investment in LitPol Link Sp.z.o.o. as at 31 December 2017 and 2016 amounted to EUR 295 thousand.

7. Available-for-sale financial assets

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

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
NordPool Spot (2%)	2,693	-	2,693	-
Carrying amount	2,693	-	2,693	-

As at 31 December 2017, the Group stated the shares of NordPool at fair value which was established under the discounted cash flow method. The applied discount rate was 7.5% as at 31 December 2017 and 31 December 2016. As at 31 December 2017, there were no changes in fair value. As at 31 December 2016, gain on fair value change amounted to EUR 420 thousand and was included in other comprehensive income.

8. Inventories and non-current assets held for sale

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Raw materials, spare parts, other consumables, and assets held for sale	1,925	-	4,837	1
Natural gas	1,814	-	1,074	-
Assets held for sale	30	-	13	-
Less: write-down allowance	(722)	-	(653)	-
Carrying amount	3,047	-	5,271	1

As at 31 December 2017, the carrying amount of the Group's inventories stated at net realisable value was EUR 993 thousand (31 December 2016: EUR 932 thousand). The Group's inventories recognised as expenses amounted to 18,627 thousand (31 December 2016: EUR 14,067 thousand).

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

	Group 2017	Company 2017	Group 2016	Company 2016
Carrying amount as at 1 January	653	-	290	-
Change in write-down allowance	69	-	363	-
Carrying amount at 31 December	722	-	653	-

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

9. Trade receivables

Trade receivables comprise as follows:

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Receivables from transmission of electricity	20,538	-	19,823	-
Receivables from transmission and transit of gas	7,499	-	6,859	-
Receivables for contractual works and other services	5,267	-	4,489	-
Other trade receivables	2,313	-	1,556	26
Less: impairment of trade receivables	(6,539)	-	(7,328)	-
Carrying amount	29,078	-	25,399	26

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

In 2017, the Group recognised an additional reversal of impairment of EUR 173 thousand (2016: reversal of impairment of EUR 79 thousand) for individually assessed doubtful receivables related to debts for the purchased energy and an additional impairment of EUR 41 thousand for the thermal energy producer Geoterma UAB. The Group also accounted for write-off of impairment of EUR 737 thousand in relation to bad debts.

The amount receivable after one year, which amounted to EUR 998 thousand, comprised the payment for the connection of Intergas UAB due until 31 December 2021. The fulfilment of obligations is secured by the issued bank guarantee.

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

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Not past due	27,788	-	24,047	26
Overdue up to 30 days	1,137	-	758	-
Overdue from 30 to 60 days	20	-	7	-
Overdue from 60 to 90 days	77	-	-	-
Overdue more than 90 days	56	-	587	-
Total	29,078	-	25,399	26

10. Other amounts receivable

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Administered PSO funds receivable	45,852	-	43,358	-
Administered LNG Terminal funds receivable	14,186	-	13,279	-
PSO funds receivable	-	-	1,632	-
VAT receivable from the state budget	7	6	38	38
Grants receivable	24,292	-	22,357	-
Other accrued income	644	-	1,676	-
Receivables for lease of assets	-	-	86	-
Loan receivable from GET Baltic UAB	120	-	-	-
Other receivables	1,115	-	141	-
Less: impairment of other receivables	(9)	-	(1)	-
Carrying amount	86,207	6	82,566	38

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

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

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Not past due	52,089	6	52,617	38
Overdue up to 30 days	2,592	-	2,482	-
Overdue from 30 to 60 days	1,211	-	3,642	-
60 to 90 days	356	-	393	-
More than 90 days	29,959	-	23,432	-
Total	86,207	6	82,566	38

As at 31 December 2017, amounts receivable that were overdue more than 90 days mostly comprised amounts receivable from Achema AB, Lifosa AB, Orlen Lietuva AB and receivable PSO funds from Dirbtinis Pluoštas UAB and Akmenės Cementas AB (see more in Note 32). Amounts overdue also include administered LNG Terminal funds receivable from Achema AB (see more in Note 32). The Group is not exposed to credit risk related to PSO funds and LNG Terminal funds, since the Company acts as the administrator of PSO funds and LNG Terminal funds.

11. Other financial assets

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Administered LNG Terminal funds	91	-	1,658	-
Funds deposited for guarantees and deposits	1,877	-	1,499	-
Congestion management revenue	6,107	-	7,761	-
Available-for-sale financial assets	752	-	752	-
Monetary contributions of participants of the exchange	5,014	-	4,374	-
Carrying amount	13,841	-	16,044	-

According to the requirements prescribed by laws, the PSO funds and the LNG Terminal funds intended for beneficiaries should be reported separately from other cash and cash equivalents of the Group and can only be used for the disbursement of PSO funds and LNG Terminal funds, respectively.

As described in Note 1, available-for-sale financial assets consist of 20.36% of shares of Duomenų Logistikos Centras UAB.

On 15 May 2017, LITGRID AB and Lietuvos Energija UAB signed an agreement on the sale and purchase of shares. By this agreement, LITGRID AB transferred to Lietuvos Energija UAB 1,000 ordinary registered intangible shares of Technologijų ir Inovacijų Centras UAB, which represent 0.004% of all the shares of Technologijų ir Inovacijų Centras UAB. The shares of Technologijų ir Inovacijų Centras UAB were sold for EUR 847.

As at 31 December 2017 and 2016, the carrying amount of other financial assets approximates their fair value.

12. Cash and cash equivalents

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Cash at bank	8,075	13	16,718	1,328
Carrying amount	8,075	13	16,718	1,328

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

13. Share capital

As at 31 December 2017 and 2016, the share capital of the Company amounted to EUR 22,482,694.57 and it was divided into 77,526,533 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

Capital management

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

According to the Law on Companies of the Republic of Lithuania, equity of the Company must account for at least ½ of the amount of the authorised share capital. The Company was in compliance with this requirement as at 31 December 2017 and 31 December 2016. No other external capital requirements have been imposed on the Company.

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

14. Revaluation reserve

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

Group	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 31 December 2015	7,143	(1,072)	6,072
Depreciation of revaluation reserve	(674)	102	(572)

Write-offs of property, plant and equipment	(36)	4	(32)
Change in ownership interest in the subsidiary	-	-	-
Balance at 31 December 2016	6,433	(966)	5,468
Depreciation of revaluation reserve	(614)	92	(523)
Write-offs of property, plant and equipment	(63)	9	(55)
Revaluation of property, plant and equipment	417	(61)	356
Balance at 31 December 2017	6,173	(926)	5,246

15. Legal reserve and other reserves

Legal reserve

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit are required until the reserve reaches 10 per cent of the share capital. The legal reserve can only be used to cover future losses. As at 31 December 2017, the legal reserve was fully formed.

Reserve for change in fair value of financial assets

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

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.

16. Dividends

During the Ordinary General Meeting of Shareholders of EPSO-G UAB held on 29 April 2017, the decision was made in relation to the payment of dividends in the amount of EUR 508 thousand.

On 9 November 2016, the Lithuanian Government passed Resolution No 1116 whereby it was established that EPSO-G UAB will allocate 0.5% of its profit available for distribution in the financial year 2016-2021. This provision is applied if in a respective year EPSO-G UAB borrowings, finance lease liabilities and other non-current amounts payable and liabilities, except for deferred revenue, deferred income tax liabilities and grants, exceed the equity of EPSO-G UAB.

17. Grants

Grants comprise grants for the acquisition of non-current assets. Movements in grants in 2017 and 2016 were as follows:

	Group
Balance at 31 December 2015	3,870
Grants received during the period	72,184
Transferred to property, plant and equipment	(75,999)
Grants used for the compensation of expenses	(17)
Balance at 31 December 2016	38
Grants received during the period	13,835
Congestion revenue	10,163
Transferred to property, plant and equipment	(23,991)
Grants used for the compensation of expenses	(23)
Balance at 31 December 2017	22

The grants received during 2017 comprised as follows:

- Financial assistance received from the EU structural funds to finance the reconstruction of property, plant and equipment of LITGRID AB in the amount of EUR 8,133 thousand (2016: EUR 6,817 thousand);
- Financial assistance received from the EU funds to finance the implementation of the interconnection Lithuania-Poland (LitPolLink) in the amount of EUR 0 thousand (2016: EUR 16,449 thousand);
- PSO service funds received for the implementation of the interconnection Lithuania-Sweden (NordBalt) in the amount of EUR 0 thousand (2016: EUR 19,588 thousand);
- Financial assistance received under the EU programme European Energy Programme for Recovery to finance the interconnection project Lithuania-Sweden (NordBalt) in the amount of EUR 12,150 thousand (2016: EUR 25,700 thousand);
- Financial assistance received to compensate expenses in the amount of EUR 0 thousand (2016: EUR 38 thousand);
- Financial assistance received from the EU funds to finance the project for the construction of gas transmission pipeline Klaipėda-Kuršėnai DN800 (capacity enhancement for gas transmission pipeline Klaipėda-Kiemėnai) of Amber Grid AB in the amount of EUR 0 thousand (2016: EUR 6 thousand);

- Financial assistance received from the EU funds to finance the project for the design engineering of the gas interconnection Poland-Lithuania (GIPL) of Amber Grid AB in the amount of EUR 7 thousand (2016: EUR 2,061 thousand);
- Financial assistance received from the EU funds to finance the European Regional Development Fund projects of Amber Grid AB in the amount of EUR 4,503 thousand (2016: EUR 1,487 thousand).

18. Borrowings

Borrowings of the Group/Company were as follows:

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Non-current borrowings				
Bank borrowings	175,366	7,680	208,897	10,240
Current borrowings				
Current portion of non-current borrowings	28,531	2,560	22,086	2,560
Overdraft	49,187	2,321	48,179	-
Total borrowings	253,084	12,561	279,162	12,800

Non-current borrowings grouped by maturity profile:

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Between 1 and 2 years	40,761	2,560	33,531	2,560
From 2 to 5 years	65,762	5,120	90,124	7,680
More than 5 years	68,843	-	85,242	-
Total	175,366	7,680	208,897	10,240

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

The loan agreements provide for financial and non-financial covenants that the individual Group entities are obliged to comply with. The Group entities comply with all such covenants.

As at 31 December 2017, the weighted average interest rate on the Group's and the Company's borrowings was 0.79% and 0.52%, respectively (31 December 2016: 0.72% and 0.52%, respectively).

As at 31 December 2017, the Group's unwithdrawn balance of loans and overdrafts amounted to EUR 22,638 thousand (31 December 2016: EUR 64,101 thousand).

On 29 January 2016, the Company repaid to Lietuvos Energija UAB the loan of EUR 29,000 thousand prior to its maturity.

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

On 1 March 2017, the Company signed the agreement with SEB Bankas AB according to which an overdraft of EUR 4,000 thousand was granted to the Company by 1 March 2019.

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

Group	Cash	Borrowings	Financial lease liabilities	Total
Net debt as at 31 December 2016	16,718	(279,162)	-	(262,444)
Additions	(174)	-	(1,423)	(1,597)
(Decrease) in cash and cash equivalents	(8,469)	25,864	160	17,555
Change in overdraft	-	214	-	214
Net debt as at 31 December 2017	8,075	(253,084)	(1,263)	(246,272)
Company	Cash	Borrowings	Total	
Net debt as at 31 December 2016	1328	(12,800)	(11,472)	
(Decrease) in cash and cash equivalents	(1,315)	2,560	1,245	
Change in overdraft	-	(2,321)	(2,321)	
Net debt as at 31 December 2017	13	(12,561)	(12,548)	

19. Finance lease liabilities

Group	At 31 December 2017		At 31 December 2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
<i>Financial lease payments:</i>				
Within the first year	462	443	-	-
Within the second- fifth years	849	820	-	-
Minimum finance lease payments	1,311	1,263	-	-
Less: future finance charge	(48)	-	-	-
Present value of minimum finance lease payments	1,263	1,263	-	-

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

20. Other non-current amounts payable and liabilities

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Amounts payable for the shares of LITGRID AB	169,856	169,856	193,572	193,572
Advance amounts received from connection of new consumers	609	-	-	-
Provisions for pension benefit obligations to employees	471	-	578	-
Guarantee provisions	5	-	-	-
Carrying amount	170,941	169,856	194,150	193,572

Under the agreement for sale/purchase of shares signed on 27 September 2012 with Lietuvos Energija UAB, the outstanding amount of the price for the shares of LITGRID AB without adjustment to the final price (as described in Note 2.27) was equal to EUR 174,535 thousand as at 31 December 2017 (2016: EUR 209,975 thousand). Accrued interest payable of EUR 276 thousand as at 31 December 2017 (31 December 2016: EUR 436 thousand) was recorded within 'Other current amounts payable and liabilities'.

Provisions for pension benefit obligations to employees represent amounts payable calculated according to the Lithuanian laws (Note 2.18).

21. Current income tax and deferred income tax

Income tax expenses comprise as follows:

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Current income tax	6,352	-	6,485	-
Deferred income tax (benefit)	(6,319)	(12)	(1,071)	(31)
Income tax expenses (benefit) for the reporting period	33	(12)	5,414	(31)

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

Group	PP&E revaluation (impairment)	Impairment of assets	Accrued expenses/ income	Other	Total
Deferred income tax assets					
At 31 December 2015	19,586	22,011	483	4,577	46,657
Recognised in profit and loss	(1,462)	(1,029)	1,112	(1,692)	(3,071)
At 31 December 2016	18,124	20,982	1,595	2,885	43,586
Recognised in profit and loss	(1,542)	4,161	(167)	(55)	2,397
At 31 December 2017	16,582	25,143	1,428	2,830	45,983
	Revaluation of PP&E (increase in value)	Differences in depreciation rates	Tax relief on acquisitio n of PP&E	Effect of capitalisation of interest	Total
Deferred income tax liabilities					
At 31 December 2015	(29,282)	(29,896)	(2,138)	(180)	(61,496)
Recognised in profit and loss	2,331	1,738	154	(84)	4,139
Recognised in other comprehensive income	(63)	-	-	-	(63)

31 Dec 2016	(27,014)	(28,158)	(1,984)	(264)	(57,420)
Recognised in profit and loss	2,368	1,415	156	(16)	3,923
Recognised in other comprehensive income	(64)	-	-	-	(64)
At 31 December 2017	(24,710)	(26,743)	(1,828)	(280)	(53,561)
Net deferred income tax assets at 31 December 2016					100
Net deferred income tax assets at 31 December 2017					81
Net deferred income tax liability at 31 December 2016					(13,934)
Net deferred income tax liability at 31 December 2017					(7,659)

Pursuant to the provisions of the Law on Corporate Income Tax, LITGRID AS, for a certain consideration, took over tax losses amounting to EUR 280 thousand from TETAS UAB in 2017.

As at 31 December 2017, the Company had accumulated tax losses amounting to EUR 19,685 thousand (2016: EUR 16,967 thousand) on which no deferred income tax was recognised as the Company's management does not expect to earn taxable profit in the upcoming year. Tax losses can be carried forward for unlimited period.

The table below presents reconciliation of income tax expenses reported in the statement of comprehensive income to income tax expenses calculated at a statutory income tax rate on profit before tax:

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Profit (loss) before income tax	(2,763)	35,341	44,488	16,995
Income tax calculated at a rate of 15%	(414)	5,301	6,673	2,549
Investment relief effect	(383)	-	(521)	-
Unrecognised deferred income tax on tax losses	390	433	(75)	(55)
Previous year adjustments	15	-	2	-
Tax effect of non-taxable income and non-deductible expenses	425	(5,746)	(664)	(2,525)
Income tax expense (benefit) recognised in profit or loss of the statement of comprehensive income	33	(12)	5,414	(31)

22. Trade payables

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Amounts payable for electricity	6,705	-	4,754	-
Amounts payable for natural gas	522	-	663	-
Amounts payable for contractual works, services	6,319	35	7,765	24
Amounts payable for property, plant and equipment and inventories	11,101	-	6,258	-
Amounts payable for electricity transit	-	-	109	-
Other trade payables	45	-	11	-
Carrying amount	24,692	35	19,560	24

The fair value of trade payables approximates their carrying amounts.

23. Advance amounts received

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Guarantee to secure fulfilment of obligations	6,490	-	5,242	-
Advances received from new customers*	328	-	-	-
Other advance amounts received	725	-	5	-
Carrying amount	7,543	-	5,247	-

* Advances received from new customers represent advances received from new customers for connection to electricity networks. These advances will be recognised as income upon the provision of connection services.

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

24. Other current amounts payable and liabilities

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Administered PSO funds payable	15,238	-	15,474	-
Difference between PSO service funds collected and disbursed	116	-	274	-
Payable administered LNG Terminal funds	11,356	-	11,468	-
Accrued administered LNG Terminal funds*	2,924	-	3,696	-
Current portion of the amount payable for shares of LITGRID AB	-	-	12,222	12,222
Advance amounts received from connection of new consumers*	-	-	660	-
Employment-related liabilities	2,110	276	1,995	181
Accrued expenses relating to vacation reserve	1,622	60	1,381	30
VAT payable	2,110	-	1,866	-
Real estate tax payable	942	-	971	-
Dividends payable	520	-	522	-
Interest payable	335	276	495	436
Accrued other expenses	19,376	16	17,673	30
Accrued liabilities for electricity	-	-	1,125	-
Other payables and current liabilities	2,670	-	1,700	-
Carrying amount	59,319	628	71,522	12,898

* Accrued LNG terminal funds for administration are accounted for as soon as the natural gas system users are issued with a VAT invoice. Accrued LNG terminal funds for administration are allocated to the account of payable LNG terminal funds as soon as Klaipėdos Nafta AB and Litgas UAB issue a VAT invoice to Amber Grid AB for the additional natural gas supply security component to be included in the natural gas transmission price.

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

25. Revenue and expenses attributable to electricity and related services

Revenue from sale of electricity comprised as follows:

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

In 2017, revenue from electricity transmission services increased by 0.4% up to EUR 68.3 million compared to 2016. Revenue growth was caused by a higher volume of electricity transmitted, as the actual price for electricity transmission was 2.2% lower compared to 2016.

Revenue from sale of balancing/regulating electricity decreased 19.4% to EUR 17.8 million. This revenue declined mainly due to a 21.5% decrease in the volume of balancing/regulating electricity sold resulting from lower demand for balancing electricity suppliers as well as lower demand for ensurance of the allocated capacity (the electricity volume traded on the power exchange) of the new electricity interconnections with Sweden and Poland.

Revenue from system services grew by 25.4% to EUR 42.5 million. Such growth was mainly caused by a 23% higher tariff for system services from 1 January 2017, as established by the Commission.

Expenses attributable to electricity comprised as follows:

	Group	
	2017	2016
Electricity expenses for compensation of technological losses	15,674	15,409
Expenses for system services	40,391	36,900
Expenses for PSO services (balancing of generation using renewable energy sources)	8,409	7,006
Expenses for balancing/regulating electricity	12,714	16,678
Expenses for the participation in the ITC mechanism of the European Network of Transmission System Operators for Electricity (ENTSO-e)	1,448	1,184
Expenses for guaranteeing the availability of allocated capacities of the interconnections	1,445	3,438
Total	80,081	80,615

In 2017, electricity expenses decreased by 0.7% compared to 2016. Balancing (regulating) electricity costs decreased by 23.8% to EUR 12.7 million. The system service costs increased by 9.5% to EUR 40.4 million. Costs of compensating for electricity purchase technological losses in the transmission grid increased by 1.7% to EUR 15.7 million

26. Revenue from natural gas transmission and related services

	Group 2017	Company 2017	Group 2016	Company 2016
Income from natural gas transmission in the territory of Lithuania	57,012	-	59,878	-
Income from balancing services in the transmission system	6,964	-	6,612	-
Total	63,976	-	66,491	-

27. Other income

	Group 2017	Company 2017	Group 2016	Company 2016
Repairs and other services	15,906	-	15,404	-
Lease of assets	709	-	1,230	-
Engineering works	280	-	405	-
Grants recognised as income	42	-	51	-
LNG terminal administration funds	114	-	145	-
Other income	927	181	7,581	29
Total	17,978	181	24,816	29

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

28. Related-party transactions

The Company's/Group's related parties in 2017 and 2016 were as follows:

- the Ministry of Energy of the Republic of Lithuania (controlling shareholder of the Company);
- the Company's subsidiaries;
- the Company's associates and joint ventures;
- the Company's management.

Transactions with related parties are carried out on an arm's length basis in line with the tariffs approved under relevant legal acts or in accordance with the requirements of the Law on Public Procurement. As set in IFRSs, the Group/Company did not disclose information on transactions with other entities controlled by the state conducted in line with the tariffs approved under relevant legal acts or in accordance with the requirements of the Law on Public Procurement, except for Lietuvos Energija UAB with which the Group/Company has individually significant transactions.

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

Related party	Finance income	Finance costs	Amounts payable	Amounts receivable	Purchases	Sales
Lietuvos Energija UAB (controlled by the state)	-	1,336	170,132*	-	-	-
Total	-	1,336	170,132	-	-	-

* Payable incl. the estimated price premium.

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

Related party	Finance income	Finance costs	Amounts payable	Amounts receivable	Purchases	Sales
Lietuvos Energija UAB (controlled by the state)	-	2,653	206,229*	-	-	-
Associates of the Group	-	-	38	86	361	1,224
Total	-	2,653	206,267	86	361	1,224

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

Related party	Finance income	Finance costs	Amounts payable	Amounts receivable	Purchases	Sales
Lietuvos Energija UAB (controlled by the state)	-	1,336	170,132*	-	-	-
Subsidiaries of the Group	38,029	-	-	-	-	181
Total	38,029	1,336	174,811	-	-	181

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

Related party	Finance income	Finance costs	Amounts payable	Amounts receivable	Purchases	Sales
Lietuvos Energija UAB (controlled by the state)	-	2,653	206,229*	-	-	-
Subsidiaries of the Group	16,839	-	-	26	388	30
Total	16,839	2,653	206,229	26	388	30

Compensation to key management personnel

	Group 2017	Company 2017	Group 2016	Company 2016
Employment-related payments	1,726	378	1,552	294
<i>Whereof: Termination benefits</i>	55	24	33	-
Number of key management personnel (average annual)	27	5	24	5

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

29. Financial risk management

The Group and the Company are exposed to financial risks in their operations. In managing these risks, the Group companies seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance. The Company abides by the budget management policy and the financial risk management policy of the EPSO-G UAB group entities, as approved by the Board of EPSO-G UAB.

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

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Financial assets				
Trade receivables	29,150	-	25,964	26
Other receivables	86,200	-	86,860	-
Other financial assets	13,841	-	16,044	-
Cash and cash equivalents	8,075	13	16,718	1,328
Loans and receivables	137,266	13	145,586	1,354
Other financial assets				
Available-for-sale financial assets	2,693	-	2,693	-
Total financial assets	139,959	13	148,279	1,354

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Financial liabilities				
Liability for acquisition of LITGRID AB	169,856	169,856	205,794	205,794
Borrowings	253,084	12,561	279,162	12,800
Finance lease liabilities	1,263			
Trade payables	24,692	35	19,586	24
Other amounts payable and liabilities	36,872	76	55,189	473
Total	485,767	182,528	559,732	219,091

Credit risk

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

	Group As at 31 December 2017	Company As at 31 December 2017	Group As at 31 December 2016	Company As at 31 December 2016
Financial assets other than available-for-sale financial assets	137,266	13	145,586	1,354

The Group has a significant credit risk concentration, because exposure to credit risk is shared among 10 main customers, amounts receivables from which accounted for approximately 66% as at 31 December 2017 (31 December 2016: 61%) of the Group's total trade receivables (financial assets). As at 31 December 2017, amounts payable by the major customer, distribution network operator Energijos Skirstymo Operatorius AB, accounted for 30% (31 December 2016: 9%) of the Group's total receivables (financial assets). Receivable administered PSO and LNG Terminal funds from *Other amounts receivable* are not included in calculation of credit risk. If these funds were not collected, the Group would not incur any loss because the Group is not a beneficiary, but an administrator.

The Group and the Company invest their free liquid funds only in low risk money market and debt instruments, i.e. time deposits, bonds of creditworthy financial institutions, and government securities. When making investments the priority objective is to ensure the security of funds and in pursue of this objective to maximise return on investments. Investments are made only in debt financial instruments of financial institutions or governments with not lower than A- rating according to Fitch Rating agency (or equivalent rating of other rating agencies). The tables below provide the ratings of the banks where the Group and the Company hold their cash and cash equivalents (Note 12) and other financial assets (Note 11):

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

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

For ageing analysis of the Group's/Company's trade and other receivables see Notes 9 and 110.

Liquidity risk

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

The Group's cash flows from operating activities were positive in 2017, therefore its exposure to liquidity risk is not significant. As at 31 December 2017, the Group's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets - inventories) / total current liabilities) were 0.82 and 0.80, respectively (31 December 2016: 0.87 and 0.84, respectively). The Company's current and quick ratios as at 31 December 2017 were 0.01 and 0.01, respectively (31 December 2016: 0.1 and 0.1, respectively).

Liquidity risk is managed by making regular short-term and long-term cash flow forecasts of the Company. Liquidity is ensured with the help of solutions supporting the solvency of the Company – the dividends to be received. Liquidity risk of EPSO-G group is managed with the help of loan restructuring solutions.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments. This table has been prepared based on undiscounted cash flows of financial liabilities based on the

earliest date on which the Group and the Company can be required to pay. Balances with repayment terms up to 12 months are equal to their carrying amounts, because the impact of discounting is insignificant.

Group	Up to 3 months	Between 4 months and 1 year	Between year 2 and year 5	After 5 years
At 31 December 2017				
Trade and other amounts payable	39,398	1,492	178,947	-
Borrowings	2,877	61,834	114,515	70,920
At 31 December 2016				
Trade and other payables	72,105	6,111	43,832	167,261
Borrowings	8,746	19,611	159,015	87,990
Company	Up to 3 months	Between 4 months and 1 year	Between year 2 and year 5	After 5 years
At 31 December 2017				
Trade and other amounts payable	305	826	178,127	-
Borrowings	13	2,594	11,741	-
At 31 December 2016				
Trade and other amounts payable	877	6,111	43,832	167,261
Borrowings	17	58	118	-

Market risk

a) Interest rate risk

The Group's and the Company's income, expenses and cash flows from operating activities are substantially independent of changes in market interest rates. The Group has non-current and current borrowings and an overdraft that are subject to interest rate linked with EURIBOR. A +/- 0.1 p.p. shift in interest rate would result in EUR 460 thousand impact on the Group's profit before tax as at 31 December 2017 (2016: EUR 587 thousand).

b) Natural gas price risk

The Group is exposed to the risk related to changes in the natural gas purchase price. Changes are caused by various fluctuations in international markets. In 2017, the Company did not take any measures to mitigate the natural gas price risk.

30. 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 and other amounts receivable, time deposits, cash and cash equivalents, loans, trade and other amounts payable, and held-to-maturity investments.

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

- The carrying amount of current trade and other amounts receivable, time deposits, cash and cash equivalents, current borrowings, current trade and other amounts payable approximates their fair value (level 3).
- The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (level 3).
- The fair value of held-to-maturity investments is determined based on the value of bonds of similar risk level (level 3).

31. Deferred income

	Group	
	At 31 December 2017	At 31 December 2016
Deferred revenue at the beginning of the period	9,501	1,569
Congestion management revenue received during the period	10,206	11,405
Transferred to property, plant and equipment	(10,163)	-
Congestion management revenue recognised as income during the period	(1,445)	(3,439)
Utilised during the period (excl. congestion management revenue)	(34)	(34)
Deferred revenue at the end of the period	8,065	9,501

As disclosed in Note 2.21, deferred revenue mostly consists of congestion revenue. Deferred congestion revenue amounting to EUR 6,564 thousand as at 31 December 2017 will be used for investments in the interconnection in the upcoming periods.

Congestion revenue of EUR 1,445 thousand recognised in the statement of comprehensive income for 2017 (2016: EUR 3,439 thousand) are designated for the offsetting against expenses incurred in guaranteeing the availability of the allocated capacity. Deferred revenue also includes the funds related to customer connection to the gas system which totalled EUR 1,501 thousand (2016: EUR 1,535 thousand) (according to the accounting policy applied until 1 July 2009).

32. Contingent liabilities

Litigations

LITGRID AB group litigations

Disputes regarding default interest

On 26 January 2016, a claim was received from Tetas UAB with the request to recognise the Company's set-off of EUR 249,707.73 default interest in total charged against amounts payable to contractor Tetas UAB for delay in the implementation of the reconstruction works of 110/35/10 kV Mariai transformer substation as null and void and to award from the Company this amount owed, interest on late payment, procedural interest, litigation expenses amounting to EUR 12,734.10. Legal proceedings are pending. On 29 November 2016, an expert examination was assigned by the court in this legal case in order to determine the compliance of the operational project prepared by the claimant with the technical project. Based on the received conclusions of the expert examination LITGRID AB ungroundedly requested Tetas UAB to change the technical project resulting in delay to perform construction works. On 30 October 2017, the court of first instance rejected the claim and determined the charges conducted by LITGRID AB as lawful and grounded. On 30 November 2017, Tetas UAB appealed against the court ruling. The case is heard by the instance of appeal.

Predictions: Since the investigation of the case is still ongoing, the Company decided to retain the established provision of EUR 201,707.73.

On 6 March 2017, A.Žilinskis ir Ko UAB filed a claim against the Company for the recognition of the set-off of a homogeneous counter-claim as null and void and for the awarding of the payment for construction works and interest on late payment. The amount of the claim was EUR 1,021,804.16. The court of first instance satisfied the claim in its entirety. The court of first instance awarded for the benefit of A.Žilinskis ir Ko UAB an amount of EUR 953,175.53 for construction works, EUR 68,628.63 for interest on late payment, an annual procedural interest of 8% on the amount awarded from the date of initiation of court proceedings (9 March 2017) until the date of full execution of the court order, as well as litigation expenses of EUR 13,262.61. Litgrid AB appealed against the court ruling. The case is heard by the instance of appeal.

Predictions: Since the investigation of the case is still ongoing, the Company decided to retain the established provision of EUR 1,136,885.99.

Other disputes

On 3 September 2017, the Company filed a complaint to Vilnius Regional Administrative Court against the administrative acts the Public Procurement Office and the Lithuanian Business Support Agency adopted with regard to the purchase of the project *On the construction of the 110 kV electricity transmission line Kretinga-Benaičiai wind farm* that the Company was carrying out in 2014–2015 and that was partly funded through the EU investment funds. With the execution of the purchase agreement close to termination, the Public Procurement Office, commissioned by the Lithuanian Business Support Agency, carried out an evaluation and on 3 August 2017 presented an evaluation conclusion according to which LITGRID was found to have inappropriately considered the uncommonly low price of the successful supplier and violated the principles of rational use of funds, transparency, and equal treatment. Accordingly, following the afore-mentioned conclusion, on 24 August 2017, the Lithuanian Business Support Agency passed a decision thereby finding LITGRID to have violated the provisions on public procurement and imposing a financial sanction of 25% from total eligible project costs, i.e. EUR 486,927.25 (a reduction of EUR 243,463.62 on the amount of EU funds). The Company did not agree with the conclusion of the Public Procurement Office and the decision of the Lithuanian Business Support Agency and filed a complaint to the court with a request to annul them and terminate the validity thereof. The court accepted the complaint, however, it did not agree to take enforcement actions and did not terminate the validity of the administrative acts adopted in relation to the Company. The Lithuanian Business Support Agency and the Public Procurement Office did not agree with the claim and files their responses to the court. On 18 January 2018, Vilnius Regional Administrative Court passed a decision to reject the claim. An appeal is currently under preparation.

Predictions: Having regard to the fact that the decision adopted by the court of first instance was unfavourable to the Company, it is more likely that the settlement of the case will be unfavourable than favourable.

On 29 April 2015, Achema AB filed a claim against the Company and TETAS UAB, a company having performed contractual works on the basis of the agreement on contractual works signed with the Company, on the indemnification (solidarily) of losses in the amount of EUR 2,326,964.40 for disruptions in the electric power supply in the internal network of Achema AB on 29 April 2013. On 17 February 2017, a ruling was passed on the withdrawal of the claim in part concerning unearned revenue in the amount of

EUR 1,759,864.34. By the ruling of 9 March 2017, Vilnius Regional Court satisfied the request of Achema AB and assigned an expert examination to determine the reasons and outcomes of the incident. On 22 September 2017, the expert's report was received. The Company disagrees with the findings thereof. The Company filed a request for a second examination.

Predictions: Having regard to the fact that the conclusions of the expert examination assigned by the court were unfavourable to the Company, the Company established a provision of EUR 567,100.

On 22 April 2016, LITGRID AB filed a claim with Kaunas Regional Court for the payment of electricity transmission services provided by LITGRID AB. Under the agreement on the electricity transmission service No 432-2010-032E/305F/SUT-59-10 (a new version from 1 January 2013) concluded on 1 July 2010, Achema AB failed to make payments of EUR 86,323.72 (incl. VAT) for services provided in January-February 2016. By the ruling of 24 March 2017, the court satisfied the claim of the Company in its entirety by awarding for the benefit of LITGRID AB an amount of EUR 87,590.92 due from Achema AB, an annual procedural interest of 6% on the amount awarded from the date of initiation of court proceedings until the date of full execution of the court order, as well as litigation expenses of EUR 1,567. Achema AB appealed against the court ruling. The case is heard by the instance of appeal.

Predictions: Having regard to the fact that the decision adopted by the court of first instance was favourable to the Company, it is more likely that the decision of the court of appeals will also be favourable.

On 26 May 2017, A.Žilinskis ir Ko UAB filed a claim against the Company concerning the award of payment for additional contractual construction works. The amount of the claim was EUR 157,833.77. The claimant states that it had carried out additional contractual construction works the Company did not pay for. The court of first instance satisfied the claim in its entirety. The court of first instance awarded for the benefit of A.Žilinskis ir Ko UAB an amount of EUR 157,833.77 for additional contractual construction works carried out, an annual procedural interest of 8% on the amount awarded from the date of initiation of court proceedings (31 May 2017) until the date of full execution of the court order, stamp duty costs of EUR 2,503, as well as litigation expenses of EUR 6,833.11. The Company appealed against the court ruling. The case is heard by the instance of appeal.

Predictions: Since the investigation of the case is still ongoing, the Company decided to retain the established provision of EUR 157,833.77.

Amber Grid AB litigations

The Company had initiated two civil cases on the award of the additional natural gas supply security component to be included in the natural gas transmission price (hereinafter "LNG terminal funds") from Achema AB. Legal proceedings are currently held with respect to overdue amounts receivable. One case was adjourned until the enactment of the final ruling at the General Court of the European Union. Preparations are being made for the investigation of the other case, however, it is likely it might be adjourned as well. The resolution of the cases is not clear yet.

The Company acts only as the administrator of the LNG terminal funds and transfers LNG terminal funds to beneficiaries only when those funds are collected from buyers.

On 21 June 2017, Amber Grid AB filed a claim to Klaipėda City District Court whereby it requested to issue a court order in relation to the award of the debt amounting to EUR 106 thousand, interest on late payment equal to EUR 6 thousand, 6% annual interest on the awarded amount starting from the day of bringing the case before the court until the date of full fulfilment of the court's ruling, as well as litigation expenses totalling EUR 0.4 thousand from the debtor GEOTERMA UAB. On 22 June 2017, Klaipėda City District Court satisfied the claim of Amber Grid AB, awarded the stated amount, and passed a decision on the application of provisional remedies.

BALTPPOOL UAB litigations

Litigations ended in 2017 which might have impact on the Company's rights and obligations

In 2017, the Company was involved in the following legal proceedings, the resolutions of which, regardless of the absence of property claims presented towards the Company, might have indirect impact on the Company's rights and obligations, as well as financial position.

Kaunas District Court, having heard the claim of the creditor BALTPPOOL UAB on the award of the payment of PSO funds receivable in the amount of EUR 306,302.82, annual interest of 8%, and stamp-duty costs of EUR 893.00 from the debtor Dirbtinis Pluoštas UAB, on 30 May 2017 passed a court order in civil case No eL2-17935-921/2017 on the recovery of the aforementioned amounts from the debtor. Upon enactment of the court order, Ms Sonata Vaicekauskienė, a bailiff, on the basis of the court order initiated enforcement case No 0114/17/01021, which, under the bailiff's direction, was on 25 July 2017 adjourned until the separate request of the claimant BALTPPOOL UAB, with the debtor Dirbtinis Pluoštas UAB ensuring compliance with the obligations on the repayment of the debt awarded by the court order (by repaying the debt in parts (including the payment of interests on the amount of the debt)) and the obligations on the payment of the current PSO payments. On the basis of the court order, the amount of PSO funds payable by the debtor amounted to EUR 253,089.91 as at 31 December 2017.

The Court of Appeal of Lithuania completed the investigation of civil case No 2A-377-236/2017 on the basis of the appeal by the claimant Achema AB for the annulment of the ruling of Vilnius Regional Court of 1 September 2016 (civil case No 2-2587-656/2016), whereby the court rejected the claim of the claimant Achema AB against the defendant LITGRID AB (the procedural rights and obligations of the defendant were on 1 December 2016 taken over by BALTPPOOL UAB) on the recognition of the transaction (the electricity transmission service agreement of 1 July 2010, by which, *inter alia*, the claimant was obligated to pay PSO funds for the quantity of the electricity consumed) as null and void and the application of the restitution (the award of the PSO funds paid by Achema AB in the amount of EUR 889,619.56 for the benefit of the claimant) and for passing a new ruling (by satisfying the claim in its entirety). Under the ruling of the Lithuanian Court of Appeals dated 28 June 2017, the ruling of Vilnius Regional Court dated 1 September 2016 was left unchanged. It is noteworthy that, upon the enactment of the aforementioned ruling of Vilnius Regional Court of 1 September 2016, the investigation of civil case No 2-79-264/2017, initiated on the basis of the claim of LITGRID AB (the procedural rights and obligations of the claimant were on 3 July 2017 taken over by BALTPPOOL UAB) regarding the award of the payment of PSO funds receivable in the amount of EUR 657,758.53 (owed by Achema AB under, *inter alia*, the agreement which was involved in the rejected claim by Achema AB on the recognition thereof as null and void), interest of EUR 6,058.34 and procedural interest of 8.49%, as well as litigation expenses from the claimant Achema AB, was renewed by the resolution of Kaunas Regional Court of 3 July 2017.

The aforementioned ruling of the Lithuanian Court of Appeals on the basis of the claim of Achema AB is reviewed under the cassation procedure at the Supreme Court of Lithuania (case No 3K-3-78). The written proceedings at the court of cassation were conducted on 7 February 2018. By the ruling of 21 February 2018 passed on in the case, the court of cassation established that the case *a priori* contains grounds to apply to the Court of Justice of the European Union (the CJEU) for the adoption of a preliminary ruling, as the case concerns issues on the interpretations of the provisions of Article 107(1) of the Treaty on the Functioning of the European Union (TFEU) on the regulation of state aid, and decided to stay the proceedings at the Supreme Court of Lithuania until the Lithuanian Supreme Administrative Court examines administrative case No A-1465-525/2018 (as the Lithuanian Supreme Administrative Court has already applied to the CJEU in regards to the similar issue).

Other litigations in which the Company was involved during 2017

The Company's activities include the administration of PSO funds. In this respect, BALTPPOOL UAB is involved as a third party in ongoing administrative litigations arising from and/or related to the validity of legal acts that define the payment of PSO funds. In 2017, the Company was involved as a third party in the following administrative cases in which the claimants Achema AB, Lifosa AB, and Orlen Lietuva AB (hereinafter collectively "the Claimants") question the lawfulness of the respective resolutions of the Commission establishing PSO funds and prices for respective calendar years and request to repeal the respective points of these resolutions. The main reason behind the Claimants' claims is that, *inter alia*, the disputed resolutions of the Commission implement the PSO scheme, which, according to the Claimants, is to be considered as unlawful state aid. In these cases, BALTPPOOL UAB supports the position of the defendant – the Commission – and the third party – the Ministry of Energy. BALTPPOOL UAB is involved in the case as a third party, moreover, the claims do not involve issues on the indemnification for damages/award of losses, therefore, even in the event of an unfavourable court decision, the court decision would have no direct negative impact on the Company's rights, obligations and financial position. An unfavourable decision to the Commission might result in a negative impact on the budget of PSO funds.

The Lithuanian Supreme Administrative Court is under the appeal procedure investigating administrative case No A-1465-525/2018 on the basis of the Claimants' claims regarding the repealing of points 1.2-1.4, 1.7, 2, and 3 of the Commission's Resolution No 03-442 *On the establishment of PSO funds and prices for 2014* (with subsequent amendments and supplements) (hereinafter "PSO case of 2014") of 11 October 2013. The Company, which supports the positions of the defendant and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. Of all the cases on the repealing of the Commission's resolutions establishing PSO prices and funds for respective calendar years that are being investigated under the administrative procedure, this case is the most progressed in terms of legal proceedings, taking into account that it is being investigated under the appeals procedure (on 9 February 2016, Vilnius Regional Administrative Court rejected the Claimants' claims as unfounded), and that in this case the Lithuanian Supreme Administrative Court, by the resolution of 7 December 2017, applied to the CJEU with a request to pass a preliminary ruling on whether the system of measures related to the allocation of PSO funds and the funding (compensation) thereof (PSO scheme), which was valid in 2014, or a part of that system, as established in the respective legal acts of the Republic of Lithuania, is to be regarded as state aid (state aid scheme) for the purposes of the application of Article 107(1) of the TFEU. The administrative case has been adjourned until the preliminary ruling of the CJEU.

Vilnius Regional Administrative Court is investigating administrative case No ei-19-596/2018 on the basis of the Claimants' claims regarding the repealing of points 1-3 of the Commission's Resolution No 03-840 *On the establishment of PSO funds and prices for 2015* (with subsequent amendments and supplements) of 17 October 2014. The Company, which supports the positions of the defendant and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. The case has been adjourned

by Vilnius Regional Administrative Court until the enactment of final rulings in the PSO case of 2014 and the PSO case of 2013 (which BALTPPOOL UAB is not involved in).

Vilnius Regional Administrative Court is investigating administrative case No el-119-244/2018 on the basis of the Claimants' claims regarding the repealing of points of the Commission's Resolution No 03-347 *On the establishment of PSO funds and price for 2017* (with subsequent amendments and supplements) of 31 October 2016. The Company, which supports the positions of the defendant and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. By the ruling of Vilnius Regional Administrative Court of 6 September 2017, the case has been adjourned until the completion of the investigation of the PSO case of 2014.

Vilnius Regional Administrative Court is investigating administrative case No el-1032-535/2018 on the basis of the Claimants' claim regarding the repealing of points 1-3 of the Commission's Resolution No 03E-472 *On the establishment of PSO funds and price for 2018* (with subsequent amendments and supplements) of 30 October 2017. Responses were filed to the Claimants' claims. The Company, which supports the positions of the defendant and the third party in the case, i.e. the Ministry of Energy, does not agree with the claims. The case was scheduled for hearing on 27 February 2018, 10 o'clock. By the ruling of Vilnius Regional Administrative Court of 27 February 2018, the case has been adjourned until the enactment of the procedural ruling in the PSO case of 2014.

Vilnius Regional Administrative Court is investigating administrative case No I-144-815/2018 on the basis of the claim of Achema AB against the State of Lithuania (represented by the Ministry of Energy and the Commission) regarding the award of damages in the amount of EUR 2,702,912 (concerning the execution of obligations related to the payment of PSO funds) and procedural interest of 5% in 2011. BALTPPOOL UAB is involved in the case as the third party. BALTPPOOL UAB, which supports the position of the defendant in the case, does not agree with the claim. The case has been adjourned until the completion of the investigation of the PSO case of 2014. No property claims were presented towards the Company in this case.

As regards case No 3K-3-78-695/2018, heard by the Supreme Court of Lithuania on the basis of the appeal in cassation of Achema AB, the ruling of the Lithuanian Court of Appeals of 28 June 2017 is being reviewed under the cassation procedure (see point 2, paragraph 2).

BALTPPOOL UAB is also as a third party involved in administrative case No el-743-331/2018 heard at Vilnius Regional Administrative Court on the basis of the claim of Kauno Termofikacijos Elektrinė AB (hereinafter "KTE") regarding the Commission's Resolution No 03-442 *On the payment of PSO funds to Kauno Termofikacijos Elektrinė AB* of 29 September 2017, which, upon the non-planned inspection of the activities of KTE performed by the Commission, established that KTE was not eligible to receive PSO funds in the amounts of EUR 26,285 and EUR 718,704 and by which BALTPPOOL UAB was obligated to not transfer the mentioned amounts while carrying out the transactions to KTE for the PSO granted in 2015. The Company, which supports the position of the defendant in the case, i.e. the Commission, does not agree with the claim. No property claims were presented towards the Company in this case. The court's ruling will have no impact on the Company's financial position. In the event of a favourable decision to KTE, PSO funds would be paid to KTE from the budget of PSO funds.

Civil case No e2-142-545/2018 is investigated at Vilnius City District Court on the basis of the claim of Vilniaus Energija UAB against BALTPPOOL UAB regarding the recognition of the provisions of the PSO funds payment agreement as null and void *ab initio* and the obligation to pay PSO funds to ensure the coverage of minimal necessary costs. The Company does not agree with the claim. By the ruling of Vilnius City District Court of 23 February 2017, the case has been adjourned until the enactment of the procedural ruling of Vilnius Regional Administrative Court in administrative case No I-1531-789/2017 (concerning the repealing of the Commission's Resolution No 03-318 *On the establishment of the components of the thermal energy basic price for Vilniaus Energija UAB* (BALTPPOOL UAB is not involved in the case)). In the event of a favourable decision to Vilniaus Energija UAB, minimal necessary costs would be covered from the budget of PSO funds.

Vilnius City District Court is investigating civil case No e2-2792-595/2018 on the basis of the claim against defendants Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB on the award of interest on late payment (the claim amounts to EUR 9,745.66). The Company is involved in the case as the third party without independent claim. The Company does not agree with the claim. No property claims were presented towards the Company in this case. The case has been adjourned until the preliminary ruling of the CJEU in case No C-238/17. Case No C-238/17 was scheduled for oral hearing at the CJEU on 30 May 2018. The court's ruling will have no impact on the Company's financial position.

The aforementioned Claimants, i.e. Lifosa AB, Orlen Lietuva AB, and Achema AB, are taking an active part in administrative litigations, by contesting against the obligation of the Claimants to pay out PSO funds. Civil cases on the award of PSO funds payable from the Claimants, which were initiated in accordance with the case-law of ordinary courts established by the middle of 2017, have been adjourned until the completion of the investigation of respective cases at administrative courts.

Following the change in the provisions of legal acts, the function of collecting PSO funds from entities connected to the transmission network, which from 1 October 2015 to the middle of 2017 was carried out by LITGRID AB, was passed on to the Company. Respectively, the Company took over the rights and obligations of LITGRID AB towards the accumulated PSO funds amounts payable by entities connected to the transmission network and filed a request to the court on the replacement of the claimant, by transferring the claimant's rights and obligations, previously held by LITGRID AB, to the Company. The following civil cases have been adjourned until the completion of the investigation of the PSO case of 2014 under administrative procedure. The claims of BALTPPOOL UAB on the replacement of the claimant in the following cases will be heard by renewing the investigation of respective cases in substance:

1. Civil case No 2-217-203/2016, investigated at Kaunas Regional Court on the basis of the claim filed by LITGRID AB against the defendant Achema AB on the award of PSO funds amounts payable;
2. Civil case No 2-216-601/2016, investigated at Kaunas Regional Court on the basis of the claim filed by LITGRID AB against the defendant Lifosa AB on the award of PSO funds amounts payable;
3. Civil case No 2-107-440/2016, investigated at Šiauliai Regional Court on the basis of the claim filed by LITGRID AB against the defendant Orlen Lietuva AB on the award of PSO funds amounts payable.

33. Events after the end of the reporting period

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

In January 2018, Amber Grid AB made an early repayment of a part (EUR 6,444 thousand) of the loan received from Swedbank AB.

34. Services rendered by the audit firm

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

Type of service	Group	Company
Audit of the financial statements under the agreements	55	8
Assurance and other related services	5	-
Business consultation services	35	8
Tax consultation services	-	-
Total	95	16

CONSOLIDATED ANNUAL REPORT OF "EPSO-G", UAB

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear colleagues,

The year 2017 for EPSO-G group was a period of significant and purposeful changes with a view to building a sustainable foundation for the implementation of strategic objectives, by ensuring that all projects are implemented in a timely manner, the regional energy markets will be formed, and the Group will be managed in a transparent and effective manner based on the best international governance practices.

The previous year 2017 showed that we have a highly developed ability to further strengthen the governance of EPSO-G group, to increase management efficiency and to achieve the aim pursued. We managed to achieve this because we all knew and understood the Group's vision and mission, and because our daily activities were and are guided by our values such as professionalism, cooperation and progress.

2017 became the year of the creation of a uniform foundation for advanced governance in the organization. We did a significant work in this field: 16 essential policies defining the governance of the Group's companies have been developed and approved. It is extremely important that these documents that govern a uniform financial and non-financial accountability, risk management and socially responsible practices have been made available publicly. This helps us create trust-based relationships with all stakeholders.

I find the operating results of the Group's companies as impressive. This is reflected in lower electricity and gas transmission and trading tariffs for biofuel which have a positive impact on the competitiveness of the national economy and on the growth of the welfare of the population. The indicator of Return on Equity has been reached at the same time without a one-off effect of revaluation of the asset of the subsidiary "Amber Grid" on the operating result (11.3 %). It is 1.27 time higher than the established one, even considering the fact that the Group's financial liabilities (indebtedness) were reduced faster than planned. This phenomenon is extremely pleasing when we see that a significant proportion of the state-owned enterprises still cannot reach the established indicators of return.

Very significant achievements in the regional and international space: the development of an efficient regional gas market, the launch of the energy resources trading platform in Denmark. These are just some examples of the achievements. Synchronization of the Baltic states with European Electricity Grids represents one of the most important projects in the background of strengthening the energy security in the region and with a view to a functioning and integrated internal energy market of the European Union. We have also done substantial works in this part as we undertook the necessary studies and by entering into important international contacts.

In my view 2018 could be called the year of strengthening of the Group's activities. We have created a solid foundation for the effective management. Accordingly, this year will be very important in terms of work according to the uniform principles and guidelines. This will require the attention and efforts of each employee to work in efficient, advanced, responsible and transparent manner. In the course of the year we plan to assess how we are successful in implementing the objectives set out in the shareholder's letter, and, if necessary, make the necessary adjustments.

The development of the regional gas market and synchronization of the Baltic states with European Electricity Grids will remain our core works. The success of these projects depends on proper preparation. Therefore, we will pay a special attention to this important activity. Having made the first successful steps in exporting the competencies we have created we will continue implementing the energy resources trading platform in other countries. Having completed works of the improvement of electricity link with Sweden we will seek to increase the credibility of electricity import from the Nordic countries.

Taking account of the recommendations of Organization for Economic Cooperation and Development (OECD), the Seimas has adopted amendments to the Law on Companies which will have a direct impact on the corporate governance framework of EPSO-G group.

The search for an optimal solution is already underway. This represents a great opportunity to measure effectiveness and structure of the governance system, and the role of collegiate bodies in the responsible and accountable management of all companies of the Group.

I am convinced that we will be just as proud of the operating results of the Group's companies at the end of the year as we do now, because, as 2017 showed, we achieve our goals through the efficient and responsible work of each of us and the smooth cooperation of the whole Group.

Sincerely yours,

Rytis Ambrazevičius, the Chairman of the Board

STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Dear shareholders, partners, employees and stakeholders,

2017 is another successful year of general purpose-oriented activities.

In continuation of the preparatory works of the strategic projects we increased the volume of the services provided, we have been providing cheaper services to the residents of Lithuania and business cheaper and been purposefully improving our good governance practice that helps ensuring sustainable, accountable and socially responsible activities of companies of the group.

Reduction of prices of electricity and gas transmission services since the beginning of the year (by 2.75% and 7.8%, respectively) resulted in a 4.1% lower consolidated income of the group in 2017, and Return on Equity (ROE), besides a one-off effect of revaluation of the asset of subsidiary "Amber Grid" on the company's result, accounted for 11.3 %. It is significantly more compared to the target of 8.8% that is set out for us by the Government of the Republic of Lithuania. At the same time we have reduced our liabilities for the shares of "Litgrid" by 35.4 million Euros, seven times more than provided for in the contract.

In the situation of increase in quantity of electricity and gas transferred we manage to use an infrastructure of energy transmission in a more efficient manner. Therefore, the price of the services are falling for the second year in a row. The prices of energy transportation services have been reduced over two years by the colleagues of "Litgrid" and "Amber Grid" respective by more than 10 and 40 percent.

The credibility of the interconnections allowing imports of cheaper electricity from the Nordic countries and increase of the competitiveness of domestic exporters has also improved: the interconnection with Poland operated almost without interruption, while the availability to the market of "NordBalt" has increased to 84 percent. The replacement of couplings of interconnection with Sweden is scheduled for this year. This will help reduce fluctuations in prices and a risk of disruptions of energy supply in the long run.

The model of indirect cross-border capacity allocation that has been introduced by the colleagues of "Amber Grid" together with other operators of the Baltic states encouraged creation of a regional natural gas market. During the second half of 2017 alone 95.7 % of a whole turnover of 2017 of the Natural Gas Exchange has been achieved. Compared to 2016 the turnover has grown by almost 50 percent.

Advantages of "Baltpool" energy resource trading platform have been recognized not only by Lithuanian and Latvian but also by Danish participants of the bio-fuel market. In this year we will institute the trading system that is based on the same principles of transparency in the state wood market. We strive to create an opportunity for all market players to trade under conditions of competition thus ensuring the maximum return for the state. After the enhancement of management and competencies we can see positive changes in the contract work company belonging to EPSO-G group.

We can ascertain – the portfolio of the company's services for 2018 has already been formed. It is now important to carry out the planned work effectively and in a profitable manner.

2017 has become for us a stage of improvement of sustainable and responsible activities on the way from the group's companies to a group of companies.

In order to increase transparency and accountability of activities we started applying the principles of a uniform accounting, reward, dividends, prevention of corruption, interests and risk management, disclosure of financial and non-financial information in all companies of the group. This allows the stakeholders to assess our behaviour in the market, environmental impact, relations with the employees and the society.

Taking into account the uniform principles of the accounting of non-current asset applicable in EPSO-G group, the evaluation of the non-current asset of "Amber Grid" company was carried out. We have ensured that the asset would be carried at its fair value, which is as close as possible to the regulatory accounting. This had the most significant influence on the consolidated pre-tax and net profit of the company and EPSO-G group.

And, the most important, the properly done home works in preparation for synchronization and Baltic Gas Market Integration with European power grids have turned words into works. Therefore, by expressing my heartfelt appreciation to each employee, shareholders, the members of the Supervisory Board and the Board for cooperation I say - we need to mobilise our efforts in this year in order we could be proud at the end of the year that we have achieved a major breakthrough in the implementation of the goals set in the strategy.

Rolandas Zukas, the Director General of EPSO-G

EPSO-G IN BRIEF

7 029 km - This is the overall length of the high-voltage electricity transmission lines maintained by "Litgrid".

2 115 km - This is the overall length of the pipelines operated by "Amber Grid".

10 TWh - This is the amount of electricity transmitted to the residents of Lithuania and business entities thereof.

24 TWh - This the amount of natural gas transmitted to the residents of Lithuania and business entities thereof.

4,6 TWh - This is the amount of biofuel sold in "Baltpool" energy exchange.

8 % - The price for the services of electricity transmission to be paid by Lithuania's consumers in 2018 is 8 percent lower compared to the previous year.

37 % - The price for the services of natural gas transmission to be paid by Lithuania's consumers in 2018 is 37 percent lower compared to the previous year.

97 % - This is the total amount of biofuel acquired in "Baltpool" energy exchange and consumed for the country-wide generation of heat in the system of district heating.

99 % - The availability of "Litpol Link" interconnection to Lithuania's consumers expressed as a percentage.

84 % - The availability of "NordBalt" interconnection to Lithuania's consumers expressed as a percentage.

100 % - The total time (duration) of supply of natural gas to users of the system expressed as a percentage.

Key performance indicators of EPSO-G group:

	2017	2016	Change	
			+/-	%
Income, thousand EUR	225 246	234 522	-9 276	-4,0%
EBITDA, thousand EUR	77 213	89 509	-12 296	-13,7%
Normalized earnings ¹ , thousand EUR	26 888	34 893	-8 005	-22,9%
Normalized Return on Equity (ROE) ² , %	11,3%	15,8%		
Number of employees	1014	1071	-57	-5,3%
Total electricity transmitted, GWh	9 992	9 729	263	2,7%
Total gas transported, GWh	52 552	47 321	5 231	11,1%
Amount of biofuel sold in the Energy Exchange, tne	394 047	373 382	20 665	5,5%

1) Normalized net earnings = Net profit - Amber Grid asset revaluation result - Change of deferred income tax due to Amber Grid asset revaluation

2) Normalized Return on Equity = Normalized net earnings / (Equity at the beginning of the period + Equity at the end of the period) / 2

CONSOLIDATED ANNUAL REPORT OF EPSO-G, UAB, GROUP OF COMPANIES FOR THE FULL YEAR 2017

The Consolidated Annual Report has been prepared for the period from 1 January 2017 to 31 December 2017.

1. General information about EPSO-G group of companies

Company name	UAB "EPSO-G"
Legal form	Private limited company
Date and place of incorporation	25 July 2012, the Register of Legal Entities of the Republic of Lithuania
Company code	302826889
Registered office address	A. Juozapavičiaus str. 13, LT-09311 Vilnius
Mail address	Gedimino ave. 20, LT-01103 Vilnius
Telephone	+370 665 20038
E-mail	info@epsog.lt
Website	www.epsog.lt
Authorised capital	22 482 695 EUR
Sole shareholder	Republic of Lithuania whose property and non-property rights are implemented by the Ministry of Energy of the Republic of Lithuania

EPSO-G is a state-owned group of energy transmission and exchange companies. The rights and obligations of EPSO-G holding shareholder are implemented by the Ministry of Energy of the Republic of Lithuania.

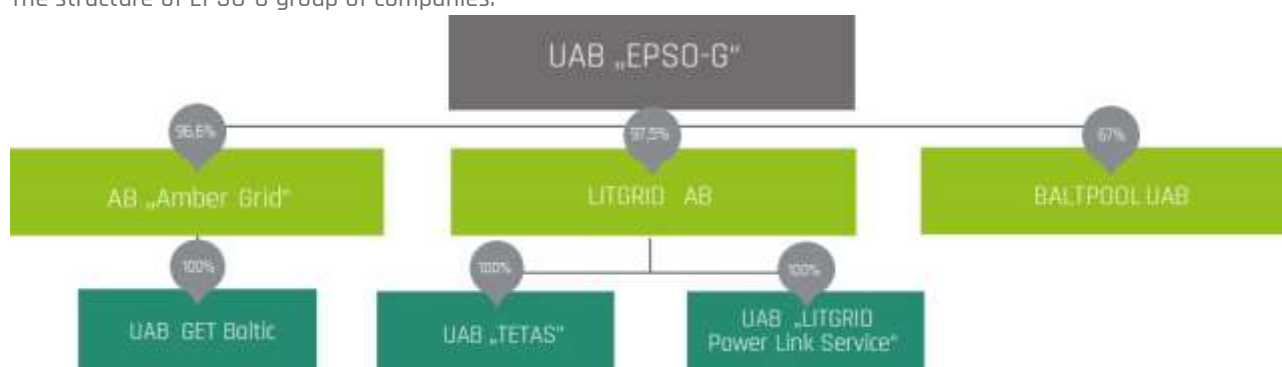
EPSO-G group consists of holding company, the transmission system operators managing the infrastructures of electricity and natural gas transmission, the market operators managing natural gas, biofuels and wood exchanges, as well as the companies providing the infrastructure maintenance services.

The main activity of EPSO-G group with more than 1,000 qualified employees is to ensure uninterrupted, stable electricity transmission through high voltage grids and natural gas transportation through high pressure pipelines and efficient management, maintenance and development of these transmission systems. The Group also manages and develops the biofuels, natural gas and wood trade platforms designed to ensure competition in the market of energy resources and roundwood.

All the companies belonging to EPSO-G group are responsible for effective and timely implementation of the projects of energy transmission and exchange infrastructure development that are important for the state by contributing to the implementation of the goals set in the National Energy Strategy thus creating a sustainable long-term value for the shareholder – the State of Lithuania, people and the economy of the country.

On 31 December 2017 “EPSO-G group” (hereinafter referred to as EPSO-G group or the Group) consisted of the holding company “EPSO-G”, UAB (hereinafter referred to as EPSO-G or the Company), three directly controlled companies of the group (“LITGRID” AB (hereinafter referred to as “Litgrid”), “Amber Grid”, AB (hereinafter referred to as “Amber Grid”) and BALTPOOL UAB (hereinafter referred to as “Baltpool”) and three indirectly controlled companies (“TETAS” UAB (hereinafter referred to as Tetas), “LITGRID” Power Link Service”, UAB (hereinafter referred to as Litgrid PLS) and GET Baltic, UAB (hereinafter referred to as GET Baltic)).

The structure of EPSO-G group of companies:



Name	LITGRID AB	AB "Amber Grid"	BALTPPOOL UAB	UAB "LITGRID Power Link Service"	UAB "TETAS"	UAB GET Baltic
Legal form	Public limited company	Public limited company	Private limited company	Private limited company	Private limited company	Private limited company
Date and place of incorporation	16 November 2010, the Register of Legal Entities of the Republic of Lithuania	11 June 2013, the Register of Legal Entities of the Republic of Lithuania	10 December 2009, the Register of Legal Entities of the Republic of Lithuania	24 February 2014, the Register of Legal Entities of the Republic of Lithuania	8 December 2005, the Register of Legal Entities of the Republic of Lithuania	13 September 2012, the Register of Legal Entities of the Republic of Lithuania
Company code	302564383	303090867	302464881	303249180	300513148	302861178
Registered office address	A. Juozapavičiaus str. 13, LT-09311 Vilnius	Savanorių ave. 28, LT-03116 Vilnius	A. Juozapavičiaus str. 9-3, LT-09311, Vilnius	A. Juozapavičiaus str. 13, LT-09311, Vilnius	Senamiesčio str. 102B, LT-35116, Panevėžys	Savanorių ave. 28, LT-03116 Vilnius
Telephone	+370 5 278 2777	+370 5 236 0855	+370 5 278 2762	+370 5 278 2766	+370 45 504 670	+370 5 236 0000
Fax	+370 5 272 3986	+370 5 236 0850	+370 5 278 2707	+370 5 272 3986	+370 45 504 684	+370 5 236 0001
E-mail	info@litgrid.eu	info@ambergrid.lt	info@baltpool.lt	info@litgrid.eu	info@tetas.lt	info@getbaltic.lt
Website	www.litgrid.eu	www.ambergrid.lt	www.baltpool.lt	www.litgrid.eu	www.tetas.lt	www.getbaltic.lt
Nature of the activity	Electricity Transmission System Operator	Natural Gas Transmission System Operator	Energy exchange operator, administrator of the funds of services of public interest	Management and operation of electrical connections	Specialised services of maintenance, repair and installation of transformer substations and distribution points	Operator of Natural Gas Exchange
Shares held by EPSO-G	97.5 %	96.6 %	67,0 %	97,5 %	97,5 %	96,6 %

1.1. History of EPSO-G

EPSO-G, the holding company of a group of Energy Transmission and Exchange Companies, was established on 25 July 2012 as a result of the implementing of the mandatory requirements of the III Energy Package regarding the separation of energy generation and distribution as well as transmission activities that arise in respect of the Republic of Lithuania from the Law of the European Union. Originally the Company operated as a financial holding whose main function was consolidation of the financial results of the group's companies.

As Lithuania aimed to become the member of the Organization for Economic Co-operation and Development (OECD), it was decided by means of the decisions of the Government and the direct shareholder (the Ministry of Energy of the Republic of Lithuania) in 2015-2016 to carry out a major restructuring of EPSO-G into an active management company directly participating in the management of the subsidiaries, carrying out supervision and control of their activities, performing other independent functions related to the integrated management of the Group.

In accordance with the decisions of the Government of the Republic of Lithuania and the Ministry of Energy of the Republic of Lithuania "The Guidelines for the corporate governance of the group of the state-owned companies of energy sector" (hereinafter referred to as the Guidelines for the corporate governance) have been approved by the Order No 1-212 of the Minister of Energy of the Republic of Lithuania of 7 September 2015. The Guidelines have consolidated the new corporate governance model and core functions of the Group.

After the implementation of these decisions there are two full-fledged holding companies in Lithuania's energy sector that manage the separated activities and are proportional to the size of their group of companies: EPSO-G, the parent company that controls the activities of energy transmission and exchanges, and "Lietuvos energija", the company that controls distribution and production activities. After the implementation of the requirements posed the European Union in such the way, this restructuring of the energy sector is recognized as one of the best examples of separation of activities in the energy sector in the European Union.

1.2. EPSO-G group

EPSO-G

EPSO-G, UAB is a state-owned holding company whose target is to create an advanced, efficiently managed group of energy transmission system and exchange operators providing a long-term benefit to the shareholders and ensuring the implementation of the strategic Lithuanian energy interests as well as contributing to the increase of the country's competitiveness and building public welfare.

When implementing the rights and obligations of the shareholder the holding company sets strategic goals and objectives, supervises their implementation, analyses and improves the efficiency of the activities of the companies which are part of the Group. The company also lays down the operating rules that are in line with a good business practice and coordinates the activities of the companies which are part of the Group in the fields of human resources, risk management, audit, social responsibility, communication and in other fields increasing operational transparency and accountability in order to increase by means of socially responsible work a long-term value for Lithuania's people, business and shareholders.



The tactical objectives of the Company are:

- consolidation of the finances of the companies that are part of the group;
- tax and financial information management;
- ensuring consistent corporate governance and corporate control at the group's level - implementation of the general operational policies, guidelines, other rules of conduct of advisory nature in the group of companies;
- increasing the group's integrity level;
- coordinated management of supplies and resources.

The object of EPSO-G activities is:

- implementation of the shareholder's rights and obligations;
- formation and laying down of the strategy of operation of the group of companies, operational guidelines, rules of conduct of advisory nature as well as the policies of the specific fields;
- regional and international cooperation by integrating energy infrastructure and markets;
- coordination and control of the activities of the companies of the group of companies, their expansion and development;
- management of finances and treasury of the group of companies;
- provision of services to the companies of the group of companies;
- representation of the group of companies.

LITGRID

"Litgrid", the electricity transmission system operator which is part of EPSO-G group, ensures a reliable transmission of electricity and electricity balance, manages and operates a high-voltage electricity transmission grid as well as DC connections "LitPol" and "NordBalt". The company takes care of the development of the transmission grid and electricity market, coordinates electricity flows and maintains a stable functioning of the country's power grid.



"Litgrid" implements strategic energy projects - synchronous interconnection with Continental Europe grids and prepares for asynchronous operation with a single integrated electricity synchronous area IPS / UPS (Interconnected Power System / Unified Power System), i.e. an area where the Lithuanian power grid currently operates.

The mission of the company: a reliable transmission of high quality electricity in the European market creating a value for the society.

In Lithuania "Litgrid" is responsible for the maintenance of 7 029 kilometers of high voltage (330 kV and 110 kV grids) lines and of 236 transformer substations and switchgears.

The services provided by "Litgrid":

- Electricity transmission through high voltage (110 and 330 kV) electricity equipment.
- System services to maintain reliable system functioning.
- Trade of electric energy to ensure generation and consumption balance.
- Services of public interest ensuring and increasing the national energy security.
- Maintenance and repair of electricity network.

Customers of Electricity Transmission System Operator:

- operator of distribution grids ESO AB;

- electricity consumers whose electrical equipment is connected to an electricity transmission grid and who buy electricity for consumption;
- electricity generating entities connected to the transmission grid.

Balancing and regulating electricity suppliers - electricity generating and supplying entities.

The most important financial indicators of "Litgrid" group:

	2017	2016	Change	
			+/-	Proc.
Income, thousand EUR	160 188	167 055	-6 867	-4,1%
EBITDA, thousand EUR	40 525	49 302	-8 777	-17,8%
Net profit, thousand EUR	9 585	17 857	-8 272	-46,3%
Asset, thousand EUR	439 210	462 364	-23 154	-5,0%
Number of employees	633	685	-52	-7,6%

AMBER GRID

"Amber Grid", the natural gas transmission system operator which is part of EPSO-G group, is responsible for the natural gas transmission and operation of trunk gas pipelines, secure and reliable operation and development of gas transmission system.

The mission of the company: to ensure the strategic interests of the country, to develop efficiently the transmission system, to execute the gas transmission in a reliable manner, to contribute actively to the development of an integrated European gas transmission system and to enable a competitive gas market.

The transmission system managed by "Amber Grid" consists of trunk gas pipelines, gas compressor stations, gas distribution stations, gas accounting stations, anti-corrosion equipment for gas pipelines, data transmission and communication systems and other asset attributed to the transmission system.



The Lithuanian gas transmission system is connected to the Latvian, Belarusian natural gas transmission systems and those of Kaliningrad Region of the Russian Federation, Klaipėda LNG floating storage and regasification unit terminal, the distribution systems of Lithuanian distribution system operators and to the consumer systems directly connected to the transmission system.

The company operates 65 (in 2016 - 67) gas distribution stations (GDS) and 2 gas compressor stations (GCS). The length of the pipelines operated is 2 115 km (in 2016 - 2 115 km).

Renders natural gas transmission services to the users of "Amber Grid" system, other operators, the participants of the gas market in the territory of Lithuania; transmits gas to Lithuanian consumers, also transports natural gas to Latvia and Kaliningrad

Region of the Russian Federation.

SYSTEM OF NATURAL GAS TRANSMISSION IN LITHUANIA.

Services

The company renders these services to the system users, other operators, the participants of the gas market:

- natural gas transmission in the territory of Lithuania;
- natural gas flow balancing in the transmission system;
- Administration of the funds intended for the installation of the liquefied natural gas (LNG) floating storage and regasification unit terminal, its infrastructure and connections, and for the constant operating costs, and for the compensation of the reasonable costs of supply of the necessary amount of liquefied natural gas of the supplier appointed in 2016.

Customers

The customers of the company are the major Lithuanian companies of electricity, district heating generation as well as industrial companies, and the medium-sized Lithuanian business companies. Including the energy and natural gas supply companies of the Baltic states and the third countries to which the services of natural gas transmission are rendered. 100 system users used the services of "Amber Grid" in 2017 (in 2016 – 95 system users).

On 1 July 2017 the Natural Gas Transmission System Operators of the Baltic states "Amber Grid", "Connexus Baltic Grid" AS (Latvia), "Elering" AS (Estonia) started using the Indirect Transmission Capacity Allocation Model in order to allocate in a more efficient manner the short-term natural gas transmission capacities in the connection points between the Baltic states. The allocation of capacities is related to the gas trading in the GET Baltic natural gas exchange. The trading sites of the GET Baltic natural gas exchange which are patronized by "Amber Grid" also started operating at the same time in Latvia and Estonia. The GET Baltic exchange also has become the regional exchange.

The most important financial indicators of "Amber Grid" group:

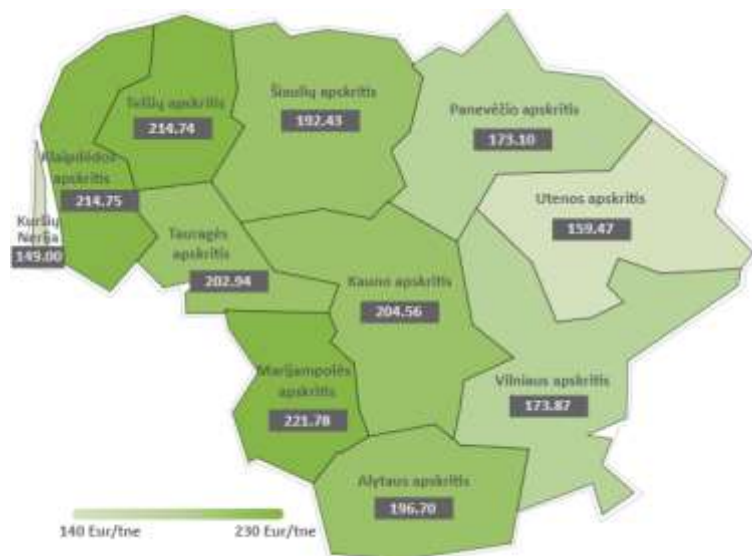
	2017	2016	Change	
			+/-	%
Income, thousand EUR	64 322	66 742	-2 420	-3,6%
EBITDA, thousand EUR	38 252	41 765	-3 513	-8,4%
Normalized net earnings ¹ , thousand EUR	20 320	20 928	-608	-2,9%
Asset, thousand EUR	280 198	328 382	-48 184	-14,7%
Number of employees	345	357	-12	-3,4%

1) Normalized net earnings = Net profit – Amber Grid asset revaluation result – Change of deferred income tax due to Amber Grid asset revaluation

BALTPOOL

"Baltpool", the operator of the Exchange for the energy resources and trading wood, organises trade, i.e. creates a level playing field for all market players to acquire biofuel and wood under competitive conditions and thus ensure the maximum benefit to the consumers and return to the state.

The company is the administrator of the funds of the services of public interest (hereinafter referred to as SPI) performing the functions of collecting, pay-out and administration of SPI funds (appointed to act as the administrator of SPI funds by the Resolution No 1338 of the Government of 7 November 2012).



By the Resolution No 1092 of the Government of the Republic of Lithuania of 20 December 2017 "Baltpool" UAB was appointed to perform from 1 January 2018 the functions of the administrator of the electronic wood sale system (hereinafter referred to as the operator of wood auctions).

The main customers of the company as per the activities performed:

- The key customers in the activity of the biofuel exchange are the biofuel buyers (district heating companies, independent heat generating entities and other companies using in their activity the biofuel products traded in the exchange) and biofuel suppliers (manufacturers and suppliers of wood pellets and chips);
- The customers in the activity of administration of the SPI funds are the electricity consumers which as per the valid legal regulation must pay the SPI funds for the electricity consumed by them. The SPI funds are collected from the electricity consumers connected to the distribution grid through the distribution grid operator. The consumers connected to the grids managed by the transmission system operator transfer the SPI funds directly to the administrator. The energy companies which in accordance with the legal acts render the services of public interest also are the customers of the company, i.e. the services such as generation of electricity from renewable energy sources, the services of electricity generation which is necessary for the ensuring security of electricity supply, and other services stipulated in the description of the procedure of rendering the services of public interest in the electricity sector.
- Wood sellers, specifically the Directorate of State Forests and its territorial subdivisions, are the key customers in the activity of wood auction organising. Wood buyers are the companies using wood products in their activity: from wood processing companies to biofuel supply companies.

The most important indicators of "Baltpool" performance:

	2017	2016	Change	
			+/-	%
Income, thousand EUR	736	726	10	1,4%
EBITDA, thousand EUR	200	269	-69	-25,7%
Net profit, thousand EUR	157	230	-73	-31,7%
Asset, thousand EUR	51 577	48 428	3 149	6,5%
Number of employees	11	10	1	10,0%

1.3. Mission, vision, values

In the course of the implementation of the objectives posed for the EPSO-G management company by the shareholder we create an advanced, transparent, effectively managed group of future energy companies providing long-term benefits to shareholders and ensuring security and credibility of energy supply, efficient operation of energy transmission systems and market platforms, and enabling the regional consumers to freely exchange energy and get it at a competitive price whenever it is needed.

The value created by EPSO-G group – a secure, sustainable and competitive energy market.

Secure – energy is transmitted in a secure and reliable manner.

Sustainable – an opportunity to freely exchange energy and get it at a competitive price whenever it is needed.

Competitive – open to the market player and allowing them to choose.



EPSO-G vision – a group of future energy efficiently operating in the international space.

EPSO-G mission – to ensure and create a secure, sustainable and open energy market enhancing the competitiveness of the national economy and the welfare of the population.

Implementation of the mission, pursuit of the vision and all activities of EPSO-G group are based on the fundamental human and professional values: professionalism, cooperation and advancement.

EPSO-G values:

Professionalism – we strive for every employee in the group to be recognized and be able to grow as a professional in their field of activity. We understand what an important role play professional knowledge, hands-on experience and continuous learning in terms of the results of the group and ensuring continuity of activity.

Cooperation – we emphasize sincere and constructive cooperation with each other which makes it possible to pursue the goals set in a coherent manner.

Advancement – openness to new business practices and ideas encourages the creation, renewal, implementation of meaningful changes and leads us forward.

2. OPERATING AND REGULATORY ENVIRONMENT

2.1 Operating environment and forecasts

The activity of EPSO-G group of companies is significantly influenced by the general trends of the country's economy. As the Lithuanian economy grows, demand for electricity and gas transmission services is increasing. This makes it possible to exploit the energy transmission infrastructure more efficiently.

In 2017 the Lithuanian business and population could feel the recovery in the entire euro area, and the trend of sustainable growth continued in the country's economy. The increasing productivity, investment and export growth had a positive impact on the future expectations of the population and business, and hence on the energy sector.

In the context of the growing economy of the country the peaking electricity consumption, i.e. the highest since 1992, in Lithuania was observed in 2017. Consumption of electricity in Lithuania was increasing in all sectors, except transport. The agricultural sector has consumed 4.4% more compared to 2016, the industrial companies have consumed 3.9 % more, the residents – 2 % more, while the sector of services has consumed 1.8 % more. Consumption of the transport sector remained almost stable (0.1 % less amount of electricity was consumed).

It is forecasted that the annual electricity consumption in Lithuania will grow by 1%, and in 2026 can amount from 12 to 13.4 TWh. The market conditions ensure that we are importing the missing portion of 500 megawatts of power. However, based on the assessment of "Litgrid", since 2025 there can emerge the deficit of powers of generated by the local power plants for the system services. Therefore, investment in new power plants is necessary in order for the electricity supply system to be ready for increasing electricity consumption.

Positive trends were also observed in the natural gas sector where gas consumption has stabilized after several years of falling, and the amount of natural gas that was transmitted during 2017 has increased by 4.1%. The biggest growth of energy consumption was observed in the fertilizer production sector.

It is forecasted by the Ministry of Finance that the growth of Lithuanian economy during the period from 2018 to 2020 will slow down moderately (from 2.9 to 2.4 %). It is likely that this will affect the dynamics of electricity and natural gas consumption and the scope of the services of the operators of the transmission system and the level of their income. It is likely that electricity and natural gas consumption will be influenced by the energy efficiency measures being introduced. From the beginning of 2018 the energy suppliers having more than 1 thousand customers will be obliged to inform their customers of the ways to increase their energy consumption efficiency.

Even though activity of manpower will partially offset the demographic losses, based on the data of the Ministry of Finance the tension in the labour marker regarding the clearance of vacancies will grow over the medium term. It is forecasted that the unemployment rate will decrease from 7% in 2017 to 5.4 % in 2020. This is likely to put pressure on the level of wages.

The Seimas of the Republic of Lithuania plans to consider in 2018 the updated National Energy Independence Strategy (hereinafter referred to as the NEIS). The draft document stipulating the strategic strands of the country's energy policy emphasizes the importance of the strategic projects implemented by EPSO-G group, namely synchronization of Lithuanian electricity system with the Continental European grids and the project of interconnection of Lithuanian and Polish gas pipelines that is planned to be implemented until 2021, for the ensuring energetic credibility and security of the country.

The EU support is crucial for the implementation of strategic projects. Until 2020 the companies of EPSO-G group can qualify for support under the measure of European infrastructure grids. The continuity of this measure is not defined in the other financial perspective (after 2020). It is likely that after 2020 the Structural EU support for Lithuania will decrease and this may have an impact on the co-financing of the projects of the Group's companies.

In order to increase Lithuania's competitiveness, the country's energy infrastructure stipulated in the National Energy Independence Strategy (NEIS) must be used in an efficient manner and would contribute to the goal of ensuring the decreasing part of the residents' expenses for energy by means of the tariff structure, and that the final prices of electricity and natural gas applicable for the industry wouldn't be higher than those in the countries of the region.

In the second half of 2017 the electricity prices for the domestic and commercial consumers in Lithuania were the lowest among the Baltic states. During the aforementioned period the domestic consumers of natural gas paid the lowest price in the region of the Baltic states, but the commercial consumers in Lithuania paid, respectively, 9.5 % and 4 % more than in Latvia and Estonia. Having assessed the trends of consumption of natural gas in the sector of energy generation and the increasing average costs of maintenance of natural gas infrastructure and ensuring the security of supply resulting from this, the pressure on the energy transmission operators to continue to optimize their activities will increase during the period of the implementation of the updated NEIS.

The price level of electricity was influenced by the NordBalt interconnection with Sweden. It has created the opportunities to import a bigger quantity of cheaper electricity from the Nordic countries. Thereby the electricity price in the Baltic states has been approximated to the price in Scandinavia. Works of repair are scheduled to be performed in the second half of 2018 in order to ensure credibility of operation of "NordBalt" interconnection in the long run. A more stable interconnection in the long run will lead to lower price fluctuations in the market and a lower risk of electricity supply.

The preconditions for larger cross-border gas flows were created after the liberalization of the natural gas market in Latvia in 2017. Furthermore, the compensation for the Russian gas has come to an end in the gas market of the country in the second half of the year. Therefore, the independent gas suppliers started to operate actively. This created more opportunities for the gas consuming companies to choose between several independent gas suppliers applying a different pricing. A greater competition will likely have a positive impact on the price dynamics in the future.

Based on the latest data of the Statistical Office of the European Union (Eurostat), the share of electricity, natural gas and heat costs of the residents of Lithuania is consistently decreasing from 2011 and amounted to 5 % in 2016 of all costs of the residents. In Latvia these costs accounted for 5.2% respectively, in Estonia – 4 % of all costs of the residents.

2.2 Regulatory environment

Electricity and natural gas transmission activities carried out by the companies of EPSO-G group and the activities of the operators of energy resources and gas markets are licensed. The licenses grant exclusive rights to render the services of transmission and market operators in the territory of the Republic of Lithuania.

The operators of electricity and natural gas transmission systems which are part of EPSO-G group of companies are the only ones in Lithuania entitled to provide these services. They operate under the conditions of a natural monopoly and therefore their activities are state-regulated services.

The National Commission for Energy Control and Prices (hereinafter referred to as the Commission) performs the regulatory function and the supervision of the performance of the licensed activity.

The prices of the transmission of electricity and natural gas are regulated by establishing the price ceilings. The permitted level of income consists of the reasonable required costs, including a return on investment that meets the criterion of reasonableness. The specific service prices that are within the established ceilings are set by the service providers. The rates of trade in the exchanges established by the operators of energy resources and gas market which are part of EPSO-G group are coordinated with the Commission.

The prices of electricity transmission for the next year are established until the 31st of October, the prices of the transportation of natural gas – until the 30th of November.

From 1 January 2017 the average price of electricity transmission decreased by 2.75% to 0.672 ct per kilowatt-hour, and the average price of natural gas transmission decreased by 7.8%, to 1.78 EUR per megawatt-hour.

Due to the increasing demand for energy transmission services and efficient activities of the group from 1 January 2018 the services of the companies of EPSO-G group are rendered to the Lithuanian consumers at a lower price – the average price of electricity transmission decreases by 7.9 % to 0.619 ct per kilowatt-hour, and the average price of natural gas transmission decreases by 36.5 % to 1.13 EUR per megawatt-hour. The trading rate of biofuel for the participants of the energy resource exchange has also decreased by 12.9 % to 0.61 EUR/tne from 11 December 2017. For this reason, the consumers of Lithuanian energy transmission and exchange systems will spend approximately 15 million euros less in 2018.

3. STRATEGIC OBJECTIVES

3.1. Strategies

EPSO-G that manages the infrastructure of energy transmission and exchange has prepared and presented in 2017 to the stakeholders the first five-year activity strategy defining the most important operational activities until 2022, provides the financial objectives and tasks. The individual elements of the strategy are interconnected by the topic of energy evolution - transformation of a qualitative sector that is based on operational efficiency, security of energy supply, the functioning internal energy market, solidarity between the EU states, sustainability and competitiveness.

The strategy identifies the four key operational activities at which we will concentrate our efforts, i.e. the development of regional activities and ensuring of the success of strategic projects, a sustainable growth of the group of companies and a long-term benefit for the shareholders; efficient activities as well as the establishment of the creating and advanced organisation.

Strategic directions:

- The development of regional activities and ensuring of the success of strategic projects – the objective is to integrate into European power grids, to expand geography of the markets and to create preconditions for the formation of competitive energy prices.
- A sustainable growth of the group of companies and a long-term benefit for the shareholders – a common pursuit that combines the other strands to implement the strategic projects in a timely manner, to operate in efficient manner and to ensure a long-term benefit for the shareholders.
- Efficient activities – the strand providing a continuous making of activities more efficient which will allow optimal allocation of available resources, to improve the quality of the services rendered (products sold), to ensure a high-quality management of processes and to reduce operating costs, to create added value for energy consumers and to create additional benefit for the shareholders. This field also includes the implementation of the objectives related to the increase of efficiency of energy use that at the level of the European Union are posed for Lithuania and at the national level are posed for the companies of the group by choosing the most appropriate structure and means.
- Creating an advanced organisation – to create an efficient, competent organisation where the activity is based on the common values, the strengths of the individual companies of the group are concentrated, the synchronous activities are carried out in the group creating a harmonious working environment. Our aim is as follows: to ensure that the internal environment of the group would encourage engagement of the employees and targeted activity, that the companies would operate in a flexible manner and the decisions are taken by quickly responding to the changing situation.

3.2. Objectives of the strategy and their implementation

The objectives formulated in the Shareholder's Letter of Expectations are posed for the implementation of the EPSO-G strategies. The letter contains the indicators of the evaluation of the activities of the group of companies, accountability and other tasks that are important for the shareholder. The Shareholder's Letter of Expectations is published on the EPSO-G website, in the column "Objectives and accountability".

The map of the objectives of EPSO-G is compiled using the methodology of balanced performance indicators, evaluating the main areas of activity that are relevant to each company, i.e. finances, stakeholders, internal processes, training and growth.

The following objectives are being implemented in the course of the development of the regional activities and in order to ensure the success of the regional projects:

- a high-quality implementation of the strategic projects, namely preparation of the electricity system for a synchronous operation with the Continental European grids and the construction of gas pipeline interconnection between Lithuania and Poland in the territory of Lithuania at the scheduled time, is being ensured;
- the regional gas market is being created, the geography of gas and biofuels trading platforms is being expanded and the integration of the electricity market is being developed;
- efficient and high-quality services of the operators of transmission systems are rendered in order to maximize the benefits to stakeholders.

Strategic projects

Strategic energy projects are being implemented in the electricity and natural gas sector on the success of which the perspective of the energy of Lithuania and the Baltic region and business competitiveness depends.

The international connections “NordBalt” and “LitPol Link”, the operation of which was started in the energy sector, have increased the supply security, have substantially expanded the opportunities of participation in the market and have brought the region closer to the vision of the Energy Union. Synchronization of the Baltic states with the grids of the continental Europe is the step which must be taken in order to achieve the objective, because the historical dependence to the IPS / UPS system (operation in a synchronous mode) and the technological peculiarities of system control also mean a remaining significant political, social and economic influence of the third country on the electricity system of Lithuania. Therefore, the integration to the European power grids is an important priority.

In the course of achieving this strategic objective, i.e. the objective of ensuring synchronous operating of the electricity system with the grids of continental Europe until the end of 2025, the important agreements between Lithuania, Latvia, Estonia, Polish PSO and ENTSO-E have been signed in 2017 for the preparation of the dynamic Baltic frequency stability study, and the Synchronization project (as the General project) has been included in the list of the General interest projects approved by the European Commission. The Memorandum of Understanding (MoU) regarding synchronization with the Continental European grids is planned to be signed in June 2018.

The Baltic states have the common natural gas connections (Estonia has the interconnection with Latvia and Latvia with Lithuania). However, the natural gas markets of the countries are not connected to a common European natural gas network, and effective gas exchange is limited by different regulatory and technological regimes.

In the course of the integration to a common European gas market there are plans to construct together with the Polish gas transmission system operator GAZ-SYSTEM S.A. until the end of 2021 the Lithuanian and Polish gas transmission systems and a gas pipeline that will interconnect the markets. In order to ensure adequate functioning of this gas pipeline and a cross-border connection, the agreements necessary for the operation of the interconnection will be signed between the Lithuanian and Polish transmission system operators before the start of the gas pipeline operation.

With the view of successful implementation of this project, all attention in 2017 was focused on the preparation and harmonization of the required contracts. The amendments of the three-partite contracts of CEF financial support of the preparatory works and construction works of the gas interconnection Poland-Lithuania (GIPL) have been signed with INEA at the beginning of the year after the technological solution has changed in the territory of Poland. The draft contract for the implementation of the ACER decision regarding cost sharing which is relevant for the Lithuanian, Polish, Estonian and Latvian transmission system operators, and the draft contract for GIPL interconnection between “Amber Grid” and GAZ-SYSTEM S.A. are being prepared and coordinated with the stakeholders. The contracts are planned to be entered into in the first quarter of 2018.

Development of markets

The common gas market of the Baltic states is a strategic interest of Lithuania. It is an important objective in reducing the risk related to a declining level of the infrastructure use that has been observed so far. In order to create a unified regional gas market, the Political Declaration on the Development of the Regional Market of the Eastern Baltic states has been signed in Riga by the Prime Ministers of the Baltic states on 9 December 2016 in cooperation with the gas transmission system operators and the public institutions of the region. The agreement regarding the action plan under which the transmission system operators and the public institutions of the region will implement the actions needed to create a unified gas market until the end of 2019 was also reached.

In the course of creating of a unified regional gas market, as the cooperation between the transmission system operators, public institutions of the region becomes more and more intensive, after the expiration of the exceptions from the Third energy package in Latvia, Estonia and Finland this opened up the opportunities to expand the platform of the natural gas exchange GET Baltic using the accumulated knowledge and experience as well as improving the functionality in accordance with the needs of regional markets.

In the second quarter of 2017 GET Baltic, which is the subsidiary of “Amber Grid”, has won the tender organized by the gas transmission operators of the Baltic states regarding the service of the indirect allocation of natural gas

transmission capacities in the connecting points of the systems between Lithuania, Latvia and Estonia in the natural gas exchange and has taken the first step in expanding activities in the Baltic states.

This service was first launched on 1 July 2017. A short-term trading in the natural gas exchange has become integrated through application of the Indirect Transmission Capacity Allocation Model. The orders to buy or sell gas made in one country on the next day automatically appear in the trading sites of other Baltic states accompanied with the prices of transportation between the Baltic states. When the transaction occurs between different trading sites there is no longer need to take care for gas transportation since the GET Baltic trading system has interfaces with the information systems of transmission operators and automatically allocates the transmission capacities for the quantity acquired.

In 2017 "Baltpool" has become Lithuanian biofuel trading centre ensuring stability of biofuel supply at a competitive price, involving small biofuel suppliers in the supply chain and thus promoting a sustainable development of the biofuel market. The market platform adapted to the needs of a specific country begins to gain ground on the regional market.

Activities were started in Latvia in 2017. A trading site was created, the documents that regulate trade and market relations were prepared, registrations have been received from 11 participants in the Latvian market (9 sellers, 3 buyers (1 participant acts as a buyer and a seller simultaneously)). A business model that meets the needs of the Danish market has also been developed in order to achieve the goal of geographical development. A cooperation contract has been signed at the end of 2017 in the course of establishing the biofuel exchange in Denmark, and a licensing contract with BiomassPool ApS (Denmark) for the trading system rental. This exchange started its operation on 2 February 2018.

The improvement of the electricity market integration is associated with the common creation of a Baltic balancing market. This objective is stipulated in the BEMIP plan when continuing the integration of the Baltic electricity markets. A functioning common market of balancing and system services will allow optimizing the need of reservation and regulatory sources and reducing the costs of consumer system services, and Lithuanian electricity generating entities will be able to render their services in the increased market of system services at the regional level.

An environment for the coordinated management of the imbalance of the electricity transmission system operators of the Baltic states from the beginning of 2018 has been prepared in 2017 after the confirmation of the agreements of the transmission system operators of the Baltic states regarding the common coordinated/centralized balancing of the Baltic imbalance, after the harmonization of the pricing rules and other documents regarding the application of the harmonized model of the Baltic imbalance.

The functioning of the efficient and competitive electricity market is only possible under non-discriminatory conditions of the trading of electricity within the EU. Thus, the eliminating of the effect of electricity generated by unsafe nuclear power plants of the third countries that will allow ensuring the full functioning of the single EU internal market is an important aspect.

This requires the establishment of clear and transparent rules of the third countries electricity trading in the EU internal market and the implementation of the technical measures restricting threats from unsafe nuclear power plants.

The action plan of the implementation of the necessary measures to protect against the unsafe nuclear power plant being build in the Republic of Belarus and which has been deemed to be a threat to the national security, environment and public health of the Republic of Lithuania and containing the specific measures that are stipulated to be implemented and which are within the competence of "Litgrid", a company of the Group, has been approved by the resolution No 739 of the Government of the Republic of Lithuania of 13 September 2017.

Effective and high quality services

Lithuanian energy consumers get the most benefit from the favourable conditions created by the energy transmission system operators for energy transmission to the market from various sources. The creation of the proper infrastructure opens up an opportunity for the consumers to exchange energy in a simple and comfortable manner.

In that context the aim here is to create operating harmonized conditions for the use of natural gas transmission system in the Baltic states in 2020, to ensure availability of interconnections in the electricity sector (without the third-country influence) in 2017-2021 ≥ 90 % and to shorten the time terms for connecting consumers to the electricity transmission grid.

In the course of the implementation of the plan of creating a single gas market, at the end of 2017 a Regional Gas Market Coordination Working Group agreed to the conceptions of the model of a common balancing area and of the trading model prepared by the transmission system operators of the Baltic region in order to create the operating harmonized conditions of use of natural gas transmission system in the Baltic states. The conceptions will be used in further phases when creating the balancing rules of the common area and the Common Grid Code.

The agreements of "Litgrid", Svenska Kraftnat and ABB regarding the replacement of all couplings of a land cable in the continental part of Lithuania and Sweden have been signed in April 2017 in order to increase the availability of "NordBalt" interconnection to the market. Works will be carried out in 2018 after completion of tests for new design couplings. A stable interconnection in the long run will lead to lower price fluctuations in the market and a reduced electricity supply risk.

Sustainable growth and long-term benefit

The strand of a sustainable growth of the group of companies and a long-term benefit for the shareholders stipulates a financial objective – an indicator of return on equity (ROE). It shows how effectively the capital invested by the shareholders is used in the activities of EPSO-G group.

The financial objective of EPSO-G group in 2017-2021 has been formed given that the group's activities are directly dependent on the regulatory principles and the implementation of the strategic infrastructure projects ensuring the interests of the state.

The goal is to have the average EPSO-G return on equity which is higher than the target set out by the Government of the Republic of Lithuania. The target of return on equity of 8.8 % has been established for the period 2016-2018, and this target is the highest for the state-owned companies.

The objectives being implemented in the strand of efficient activities:

- Improvement of activities management and process efficiency
- Efficient and secure management of technological asset and investments based on the principle of cost-benefit analysis.

Efficient management of activities and processes

The uniform systems of activities and finance management are being introduced in the companies of EPSO-G group. An uniform system of integrated planning, definition and supervision of indicators is applied in the companies of the group. The uniform requirements of time terms, forms and supervision of the preparation of the documents of activities planning are set for the companies. The integrated risk management system ensuring a uniform risk management practice in all the companies of the Group is being introduced.

The project management system based on the uniform principles is used for the purpose of effective project management across the group.

In the course of the creating of the good governance system the corporate governance policy of the Group has been approved in the first half of 2017. It is one of the most important documents of the group that entrenches the common practice of good governance based on cooperation as well as on the clarity and transparency of decision-making processes.

In the course of the improvement of the finance management of EPSO-G group the forms of the activity and financial indicator reports have been unified, the uniform accounting policy of the group has been prepared in the first half of

2017. It is expected that from 2018 the uniform principles of activity and finance management will be applied in all companies of the Group.

The documents outlining the main principles of the integrated management of activity and finances in the group of companies have been approved in 2017, or their summaries are published in the EPSO-G website: www.epsog.lt, in the column of the Operating policy.

In order to increase the operational efficiency, the analysis of auxiliary business processes (public procurement, personnel management, law and regulation, financial management, physical and cyber security, information technology, telecommunications and communication and project management) has been carried out in 2017 as per the plan drawn up and the opportunities of changes in performance and its optimization have been identified. The analysis of key activities is initiated in 2018. Synergy will make it possible to more effectively utilize the group's human, organizational and financial resources by refining and standardizing the auxiliary activities of the companies of the group.

In order to fulfil in efficient and sustainable manner the new objectives of increasing energy efficiency in Lithuania arising for the group out of the Law on Energy Efficiency, in October 2017 the companies of EPSO-G group and the Ministry of Energy have signed the agreement for the actions and measures that will help the consumers of the country to save 269 GWh (0,27 TWh) of energy until the end of 2020. The structure of carrying out this activity in the group is being further analysed: the aspects of funding, allocation of the existing and new functions and responsibilities among the companies of the group, involvement of other persons are assessed. The measures to increase energy efficiency by the companies of the group in the most efficient manner are selected responsibly.

Efficient and safe management of technological asset and investments

The objective of EPSO-G group: to manage technology asset and investments in efficient and rational manner. The reasonable solutions on the investments planned in the companies of EPSO-G group will be ensured through introduction of integrated system of investment efficiency assessment establishing the principles of investment assessment that cover technical requirements, financial and economic justification, the analysis of cost-benefit and synergy with other infrastructure.

The policy for the development and exploitation of technology asset that allows management of asset in the companies of the group according to the generally agreed and understandable principles has been prepared and approved in 2017. The policy also establishes the principles of investment assessing and provides that the justifications based on the cost benefit analysis must be prepared for all investment projects. Furthermore, for the sake of efficiency and the benefit for the customers resulting from efficiency it is important to ensure close cooperation and to search for a potential synergy with the distribution system operator, especially in the course of planning of the development and reconstruction as well as restoration of the internal network.

The objectives being implemented in the strategic strand of the creating and advanced organisation:

- To become a group of companies quickly responding to the changing environment and the centre of energy competence.
- To be a transparent, reliable organisation that follows the principles of sustainable development.

A group of companies quickly responding to the changing environment and the centre of energy competence

Fast, high-quality decision making and responsiveness to the changing environment. These are the factors that will determine the success of the implementation of the strategic objectives pursued. The expertise and knowledge of the group and its companies are intended to be used for the anticipation of future trends. It is necessary to create the effectively interacting and cooperating structures with the leaders who promote the emergence of bottom-up innovations and make the quick decisions that are necessary in order to ensure changes.

The companies of EPSO-G group employ highly qualified staff, the companies have the practical experience of implementing international projects. There is an aim to become a recognized regional center of excellence through

combination of knowledge and skills of the staff members of the separate companies and through exploitation of the potential of the activities of the companies.

The strategy of the management of human resources in EPSO-G group focuses on maintaining and developing of competencies and attracting of new ones. Employee involvement, education, promotion and attracting the best professionals in their field are the main priorities of this field. The effective remuneration and performance evaluation policies that are based on the general principles have been created at the group's level, the group is aimed at creating the systems of competence and leadership development. The group is aimed at becoming a modernly managed group of companies able to achieve ambitious objectives as well as an attractive employer for the existing and future employees.

A transparent, reliable organisation that follows up the principles of sustainable development

Compliance with the highest standards of professional ethics, continuous raising of public awareness of the strategic projects being carried out, market trends, services rendered, financial results – these are the indicators showing that the organisation is a responsible, open and reliable organisation. For this purpose a transparency and communication strategy of the companies of EPSO-G group that emphasizes accountability to the stakeholders has been prepared. The responsibilities have been shared and the periodicity of the communication of separate topics as well as the responsible persons have been provided for in the communication strategy of the group.

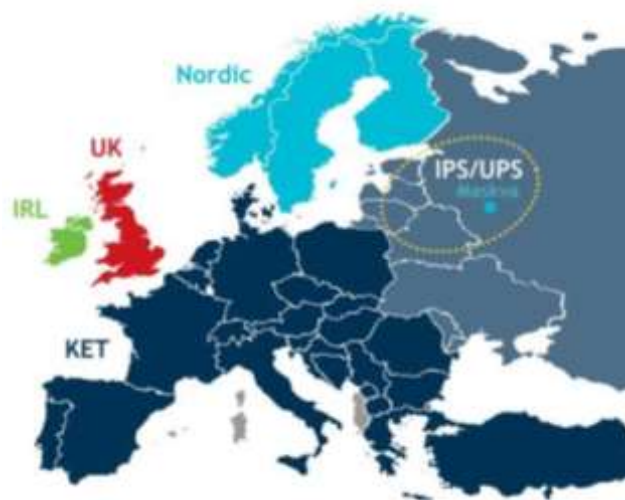
EPSO-G is a group of energy companies. Thus, responsibility to the public and the environment in which it operates is of great significance. Therefore, it is important to assess on a continuous basis the environmental impact of the activities carried out, to apply effective pollution prevention, not only use the essential material resources in a rational manner and develop employee competences and responsible attitude towards their work and environmental protection, but also share experience accumulated. The Social Responsibility Policy based on which the Social Responsibility Progress Reports of the Group will be prepared on a periodic basis has been approved at the end of 2017.

3.3 Important infrastructure projects

Preparation of the power grid for a synchronous operation with the grids of continental Europe

A strategic objective to reorient the power grid of the country for a synchronous operation with the grids of continental Europe has been posed by the law adopted in 2012 by the Seimas of the Republic of Lithuania. A full integration of the power grid of Lithuania to the electricity infrastructure of Europe and the common electricity market by ensuring

the system management autonomy is one of the most important objectives of the subsidiary "Litgrid". Understanding, harmonization and coordination of national and international interests are especially important for its implementation.



The Joint Research Center of the European Commission has carried out a study of the comparison of the scenarios of synchronization of the Baltic states with the grids of the European Union countries. The results of the study have been confirmed in April 2017 during the meeting of the Energy Ministers of the Baltic Sea Region in Brussels. In

During the period May to September the electricity transmission system operators of the Baltic states, ENTSO-E and the European Commission have initiated the

last two necessary technical dynamic and system frequency stability studies that are planned to be completed during

the first half of 2018. On 18 December 2017 the European Commission has expressed a political commitment to synchronize the power grids of the Baltic states and continental Western Europe.

Following the adoption of the final decision on synchronization the European Association of Transmission System Operators for Electricity ENTSO-E will issue the technical connecting conditions after implementation of which the Baltic states would be able to synchronize their grids with Western Europe until 2025. The value of the project can vary from 435 to 1 071 million EUR for the Baltic states depending on the scenario. This project is included in the European Commission's third list of projects of common interest.

The reconstruction of two important electricity transmission units in Vilnius and Northeast Lithuania has been further carried out in 2017. In parallel, the authorities are getting ready to carry out a test of independent operation of the Baltic power grids. In order to assess the technical possibilities and costs of isolated operation of the Baltic states, a study of isolated operation of the Baltic states has been carried out in 2017, and in 2019 the power grids of all three Baltic states will take one of the most important steps towards synchronization, i.e. having interrupted interconnection with the neighbouring power grids for a short time during the test all three Baltic states will operate as autonomous power grid.

Gas interconnection Poland-Lithuania

The project is intended for integration of the gas markets of the Baltic states into the common EU gas market, to diversify the gas supply sources and increase gas supply security. "Amber Grid" implements a part of the gas project in the territory of the Republic of Lithuania, and a part thereof in the territory of the Republic of Poland is implemented by the Polish gas transmission system operator GAZ-SYSTEM S.A.

The territory planning documents of the GIPL project have been approved, the technical project has been prepared and the construction permitting documents have been issued in 2016, contracts with land plot owners regarding the establishment of servitudes are being entered into. Market consultations on the terms of purchase were being carried out too.

Amendment of the project support contract has been concluded in January 2017 according to the CEF financial support contract entered into on 13 May 2015 between "Amber Grid", GAZ-SYSTEM S.A. and INEA whereby the partial EU funds for the implementation of the project are granted.

The project will create gas transmission capacities that will allow transporting to the Baltic states around 2,4 billion m³ of gas per year to, to the Polish side - around 2 billion m³ of gas. The EU financial support is used for the implementation of the project. According to the cross-border cost allocation decision of the European Agency for the Cooperation of Regulators a part of the costs of the project infrastructure in the territory of Poland will be covered by the Lithuanian, Latvian and Estonian transmission system operators. The remaining part of the project in the territories of Lithuania and Poland will be funded using the funds of, respectively, "Amber Grid" and GAZ-SYSTEM S.A. Taking into account the postponement of the deadline of the project implemented in the territory of Poland, the Government of the Republic of Lithuania has established the deadline for the project implementation until 31 December 2021.



Indirect Transmission Capacity Allocation Model at cross-border interconnection points in the Baltic states the implementation of which has been approved by the national regulatory authorities. This model is a measure of gas

integration of the Baltic states of transitional period in order to enhance competitiveness of the gas markets and to promote a cross-border gas trading.

Increase of capacities of gas interconnection Latvia-Lithuania

The project is intended for the enhancement of capacities of the gas interconnection between Latvia and Lithuania, ensuring security and reliability of natural gas supply, more efficient use of the infrastructure and a better integration of the gas markets of the Baltic states. The better conditions for the use of the Latvian Inčukalns Underground Gas Storage will be also created.



Together with the Latvian natural gas transmission system operator AS "Conexus Baltic Grid" the Company has submitted a single application for the funding of the feasibility study as per the EU Connecting Europe Facility (CEF).

Calls for tender for the purchase of the services of carrying out the feasibility study and cost-benefit analysis of the gas interconnection Latvia-Lithuania have been launched in November 2017.

After completion of the feasibility study it will become clear in the 3rd quarter of 2018 to what extent and until what deadlines the project must be implemented.

Project operators – AS „Conexus Baltic Grid“ and “Amber Grid“.

4. PERFORMANCEREVIEW

4.1 Important events IN the reporting period

January

On 12 January 2017 Audrius Misevičius who represented the interests of the state has relinquished his office of the member of EPSO-G Supervisory Board and Audit Committee after he took up office at the National Audit Office.

On 17 January 2017 the EU support contracts of gas interconnection Poland-Lithuania whereby the maximum EU financial support granted to “Amber Grid” for works of construction of the interconnection was increased from 55 to 58 million EUR and the deadline of the project implementation was extended until 31 December 2021 have been amended. The maximum amount of support granted for the preparatory works of the project remained unchanged, i.e. 2.5 million EUR.

Formation of the Board has been completed during the Extraordinary General Meeting of Shareholders of “Baltpool” that was held on 20 January 2017 after Viktoras Baltuškonis has been elected as an independent member.

On 23 January 2017 the natural gas operators of the Baltic states “Amber Grid”, AS „Connexus Baltic Grid“, Elering AS have signed the cooperation agreement for the implementation of the Indirect Capacity Allocation Model. The application of such model is a concrete step in the course of the integration of the gas market of the Baltic states.

February

On 3 February 2017 as result of lost confidence the Director General of Tetas has been revoked during the Board Meeting of the company. Edvardas Tarasevičius, the Director General of “Litgrid PLS”, has been appointed to hold office of the temporary head of the company.

Nemunas Biknius, the Strategy and Development Director of EPSO-G, was elected during the Meeting of the Board of “Baltpool” that was held on 6 February 2017 to hold office of the Chairman of the Board of the company.

March

The loan contract with AB SEB bank whereby EPSO-G has an opportunity to borrow up to 4 000 thousand EUR for ensuring more effective treasury management entered into force on 1 March 2017.

The operating strategy of EPSO-G group for the period 2017-2021 has been presented on 7 March 2017. The strategy identifies four most important strands of the activity group of the companies, namely sustainable growth of the group of companies and long-term benefit for the shareholders, the development of regional activities and the implementation of strategic projects.

Inga Černiuk, the member of the Supervisory Board and the Chancellor of the Ministry of Transport of the Republic of Lithuania, has been elected on 23 March 2017 as the member of the Remuneration and Appointment Committee of EPSO-G after Agnė Amelija Kairytė, the member of the Supervisory board of the Company, has been revoked from the members of the aforementioned committee.

On 31 March 2017 the Board of Tetas has appointed Edvardas Tarasevičius to hold office of the Director General of the company.

April

On 6 April 2017 the Lithuanian, Polish and Swedish electricity transmission system operators have agreed regarding a virtual trading area between the Polish, Lithuanian and Swedish fourth trading areas. This virtual trading area ensures that, even with limited possibilities of electricity supply with Poland, electricity could be imported from Sweden in transit through Poland using Poland-Sweden interconnection "SwePol" and Lithuania-Poland interconnection "LitPol Link". The virtual trading area started operating on the 1st of July.

The profit distribution project for 2016 of "Amber Grid" providing pay-out of 20 928 thousand euros of dividends has been approved during the Ordinary General Meeting of Shareholders of the company that was held on 25 April 2017.

The profit distribution project for 2016 of "Litgrid" providing pay-out of 18 156 thousand euros of dividends has been approved during the Ordinary General Meeting of Shareholders of the company that was held on 25 April 2017.

The profit distribution project for 2016 of "Baltpool" providing pay-out of 171 thousand euros of dividends has been approved during the Ordinary General Meeting of Shareholders of the company that was held on 25 April 2017.

On 26 April 2017 the natural gas transmission system operators of the Baltic states "Amber Grid", "Connexus Baltic Grid" AS (Latvia) and "Elering" AS (Estonia) have signed the contracts for the introduction of the Indirect Transmission Capacity Allocation Model in the connection points between all three Baltic states. Rendering of allocation services in the cross-border connection points has been started from the 1st of July.

Agnė Amelija Kairytė, the member of the Supervisory Board of EPSO-G and the Chancellor of the Ministry of Energy of the Republic of Lithuania, has been elected on 28 April 2017 by the General Meeting of Shareholders as a member of EPSO-G Audit Committee. She replaced Audrius Misevičius who relinquished his office on 12 January 2017.

On 28 April 2017 Lithuanian and Swedish electricity transmission system operators and a global technology company ABB that has designed, manufactured and installed the cable and couplings of "NordBalt" interconnection have signed the agreement for the change of underground connecting couplings of "NordBalt" cables. It is planned that the couplings will be changed in 2018. The start and end date of the repair as soon as it is known will be published in the notification system of the electricity exchange "Nord Pool".

The profit distribution project for 2016 providing pay-out of 508 thousand euros of dividends has been approved during the Ordinary General Meeting of Shareholders of the EPSO-G that was held on 28 April 2017. Such the amount of dividends representing 0.5 % of the company's distributed profit has been paid out in accordance with the Resolution No 1116 of the Government of the Republic of Lithuania of 9 November 2016 "Regarding the dividends paid by EPSO-G UAB for the state-owned shares", regarding the liabilities of the company to "Lietuvos energija", UAB, for the shares of "Litgrid" acquired in 2012.

May

On 15 May 2017 "Litgrid" has sold 1000 pcs of the ordinary registered shares of "Technologijų ir inovacijų centras", UAB constituting 0.004 % of all shares to "Lietuvos energija", UAB, for 847 EUR.

Registrations of the first buyers from Latvia SIA „Fortum Latvia“, a company of FORTUM group, and SIA "Sveaskog Baltfor" have been received in "Baltpool" energy resources exchange on 23 May 2017.

On 30 May 2017 "Litgrid" has prepared and coordinated with the responsible institutions and the public the report of the environmental impact of the reconstruction of 330 kV electricity transmission aerial line from Lithuanian Power Plant to Vilnius. The report estimates that the environmental impact of the reconstruction will be minimal because the existing engineering infrastructure will be exploited and the current protection zones of the aerial line will remain unchanged.

On 30 May 2017 "Amber Grid" has signed the contract with Public Institution Lithuanian Business Support Agency for the EU financial support for the purchasing a mobile natural gas compressor. In the course of the execution of this project a mobile gas compressor will be acquired. With help of the compressor it will be possible to pump natural gas from one section of the main pipeline to another at a time when a pipeline of the gas transmission system will be constructed or reconstructed. 50 % of the EU financial support has been granted for the implementation of the project and the envisaged total investments of the project will amount to 136 450 euros.

On 31 May 2017 EPSO-G has announced that it earned 61.26 million euros of income in the first three months of this year, or 2.1 % more compared to the same period of last year when the income amounted to 59.98 million euros. The consolidated

The consolidated earnings of the group's activity before interest, taxes, depreciation and amortisation (EBITDA) amounted to 25.7 million euros.

On 31 May 2017 as result of successful performance EPSO-G has transferred 31.14 million euros from the profit earned in 2016 for the shares of the subsidiary "Litgrid" to the state-owned company "Lietuvos energija" which based on the agreement between the Ministry of Energy and the Ministry of Finance is obliged to allocate these funds to the Lithuanian budget.

June

The international call for tender for the project of the Northeast Lithuania electricity transmission grid optimization was launched on 26 June 2017. According to the terms of the public procurement procedure the contractors will have to carry out works of reconstructions design and contract of Utena and Ignalina nuclear power plant substations. It is planned that the works will be completed until the beginning of 2021. This project is one of the most important phases in preparing for synchronization with the grids of continental Europe. After the reconstruction it will be possible to separately control the Lithuanian, Latvian and Belarusian lines that reach Ignalina nuclear power plant substation. The project of the Northeast Lithuania electricity transmission grid optimization has been recognized as a project of great importance for the state.

July

On 1 July 2017 the natural gas transmission system operators of the Baltic states "Amber Grid", "Connexus Baltic Grid" AS (Latvia) and "Elering" AS (Estonia) started using the Indirect Transmission Capacity Allocation Model in order to allocate in a more efficient manner the short-term natural gas transmission capacities in the connection points between the Baltic states. The allocation of capacities is related to the gas trading in the GET Baltic natural gas exchange. The trading sites of the GET Baltic natural gas exchange started operating at the same time in Latvia and Estonia. The GET Baltic exchange has become the regional exchange. Thus another important phase of the creation of the common natural gas market of the Baltic states has been reached.

On 14 July 2017 the Board of EPSO-G has approved the policy of the dividend value determination, pay-out and publication thereof. The new provisions of the dividend pay-out have entered into force in the companies of the group

after they have been approved during the Ordinary Board Meetings. They will be valid when paying dividends for the results of the financial year 2017.

August

On 7 August 2017 "Lietuvos energija" and "Litgrid", both the shareholders of "Duomenų logistikos centras", UAB, have signed a contract for the purchase and sale of the company shares with "Telia Lietuva". "Lietuvos Energija" owns 79.64 % and "Litgrid" owns 20.36 % in the company. The sale process of "Duomenų logistikos centras" that has been initiated in November 2016 should be fully completed at the beginning of 2018 upon receipt of the authorization of concentration from the Competition Council. Until that time the transaction amount will not be published.

On 9 August 2017 "Litgrid" has informed that in view of the official letter of the Public Procurement Office that has been received in the company on 3 August 2017, a commission has been formed in the company with the role of analysing the conclusions provided by the Office regarding the Public Procurement Procedure of the construction of the substation of the transformers of the wind farms of the 110 kV transmission line Kretinga-Benaičiai.

On 18 August 2017 the Board of "Litgrid" has adopted a decision to apply in full the dividend policy of the group of companies of EPSO-G, UAB, approved by the decision of the Board of EPSO-G of 14 July 2017.

On 22 August 2017 the Board of "Amber Grid", AB, has adopted a decision to join the dividend policy of the group of companies of EPSO-G and to apply it directly in its entirety in "Amber Grid", AB.

On 24 August 2017 the subsidiaries "Litgrid" and "Amber Grid" have announced the unaudited performance results of the first half of 2017 prepared in accordance with the International Financial Reporting Standards.

On 24 August 2017 the subsidiary "Litgrid" has informed that after the completion of the internal investigation the company called on the court regarding the conclusions provided by the Public Procurement Office (PPO) regarding the Public Procurement Procedure of the construction of the substation of the transformers of the wind farms of the 110 kV transmission line Kretinga-Benaičiai and the decision of Public Institution Lithuanian Business Support Agency (LBSA) to apply a financial correction of 243.4 thousand EUR on the ongoing project.

On 30 August 2017 the parent company EPSO-G has announced the consolidated unaudited performance results of the first half of 2017 prepared in accordance with the International Financial Reporting Standards and the interim report.

September

On 8 September 2017 "Litgrid" has signed the Purchase-sale contract of the securities accountancy services, payment of dividends to the shareholders and the related services with AB SEB bank. Until then the said service was provided by Swedbank AB.

October

On 2 October 2017 the National Commission for Energy Control and Prices has approved the price ceiling for the service of transmission of electricity through high voltage grid. From 1 January 2018 the average price of electricity transmission will decrease by 7.9 % to 0.619 ct per kilowatt hour.

On 2 October 2017 the Board of "LITGRID" in accordance with clause 7.12.2.15 of the Articles of Association of the company on 16 October 2017 decided to grant a loan of 1.6 million EUR to the subsidiary "TETAS", UAB. It has been announced that a three-year loan will be granted for cash flow balancing.

On 9 October 2017 the Minister of Energy Žygimantas Vaičiūnas and the companies of EPSO-G, which is the state-owned group of energy transmission and exchange companies have signed the agreement for the actions and measures that will help the uses of the country to save 269 GWh (0.27 TWh) of energy until the end of 2020. The electricity transmission company "Litgrid" has committed to save almost 146.6 GWh (0.146 TWh), whereas the gas transmission operator "Amber Grid" – 122.54 GWh (0.122 TWh) of energy at the end users. EPSO-G will cooperate and coordinate the achievement of saving objectives by "Litgrid" and "Amber Grid", and will initiate the implementation of the measures of increasing energy efficiency.

On 30 October 2017 the National Commission for Energy Control and Prices decided to publish the prices for electricity transmission services approved by the decision of the Board of "Litgrid" of 23 October 2017 and the procedure of application thereof in the Register of Legal Acts. From 1 January 2018 the approved average price for electricity transmission service is 0.619 ct/kWh, the price of system services is 0.529 ct/kWh. The National Commission for Energy Control and Prices has also set the price for the use of interconnection services which is 5.72 Eur/MWh and will be applied from 1 January 2018.

On 31 October 2017 the National Commission for Energy Control and Prices has established the adjusted price ceiling of "Amber Grid", AB, for the transmission of natural gas that will be valid from 1 January 2018. The average natural gas transmission price will decrease by 36.5 % to 1.13 euro for megawatt hour.

November

On 10 November 2017 in agreement with the National Commission for Energy Control and Prices the trading tariff for the market players who are active in the sale of biofuel applied for the participants of the energy exchange "Baltpool" has been decreased. The new tariff which is applicable as from 11 December 2017 is 0.61 EUR/tne.

On 11 November 2017 "Amber Grid" has signed the contract with Public Institution Lithuanian Business Support Agency (LBSA) regarding the EU financial support for the modernization of the natural gas transmission system. As per this investment project "The reconstruction of the separate sections of the trunk gas pipeline Vilnius-Panevėžys-Riga" several sections of the trunk gas pipeline Vilnius-Panevėžys-Riga (the total of 13.9 km) where corrosive damages have been noticed during the internal diagnostics will be reconstructed. The project is planned to be completed in the 1st quarter of 2020. 50 % of the EU financial support have been granted for the project implementation, and the envisaged total project investments amount to 6.87 million euros.

In order to enhance the competencies of project and performance management Mantas Gudas, Andrius Dagys and Žydrūnas Augutis have been elected during the Extraordinary General Meeting of Shareholders of "TETAS", UAB, that was held on 15 November 2017 as the new members of the Board of the company. From 15 November 2017 the Board of the company will consist of five members: Mantas Guda, the independent member of the Board and the Director General of "Metalistas", UAB; Andrius Dagys, the Technical Director of "Amber Grid"; Žydrūnas Augutis, the Head of Accounting Department of "Litgrid"; Mindaugas Vinkus, the Head of Organizational Development of EPSO-G; Tomas Urmanavičius, the Head of Finance Control of EPSO-G.

On 21 November 2017 the National Commission for Energy Control and Prices has approved the prices for the services of natural gas transmission that have been set by the protocol No 16 of the Board of "Amber Grid" of 14 November 2017 that will enter into force from 1 January 2018. The new prices for the services of natural gas transmission have been published on the website of "Amber Grid" www.ambergrid.lt.

On 23 November 2017 "Litgrid" and "Amber Grid", both the subsidiaries of EPSO-G, have announced the unaudited performance results of 9 months of 2017 prepared in accordance with the International Financial Reporting Standards.

On 23 November 2017 "Baltpool", the operator of energy exchange has signed the cooperation contract with the Danish partner for the purpose of creating e-commerce platform to be used for biofuel trading in the Kingdom of Denmark.

December

On 1 December 2017 "Litgrid" and "Amber Grid", both the subsidiaries of EPSO-G, have informed in advance the participants of the securities market of the dates of publication of interim financial information in 2018.

On 11 December 2017 the biofuel trading tariff applied for the participants of the energy exchange "Baltpool" has decreased by 12.9 % to 0.61 EUR/tne.

On 20 December 2017 by the Resolution No 1092 of the Government of the Republic of Lithuania "Regarding the appointment of the electronic wood sales system administrator" from 1 January 2018 "Baltpool" has been appointed to act as the electronic wood sales system administrator.

4.2 Key performance indicators

In 2017 both Lithuanian business entities and residents could feel recovery in the entire euro area, and the sustainable growth trend continued in the country's economy. As the national economy, export by producers and the domestic consumption were growing, the demand for energy transmission services has also increased, the infrastructure of the transmission systems has been used more effectively and the services have been rendered to the system users at a more favourable price.

From 1 January 2017 the companies of EPSO-G group have been rendering their services to Lithuanian consumers at a lower price – the average price of electricity transmission decreased by 2.75 % to 0.672 ct per kilowatt hour, and the average natural gas transmission price decreased by 7.8 % to 1.78 euro per megawatt hour.

The most important indicators of the performance of the companies of EPSO-G group:

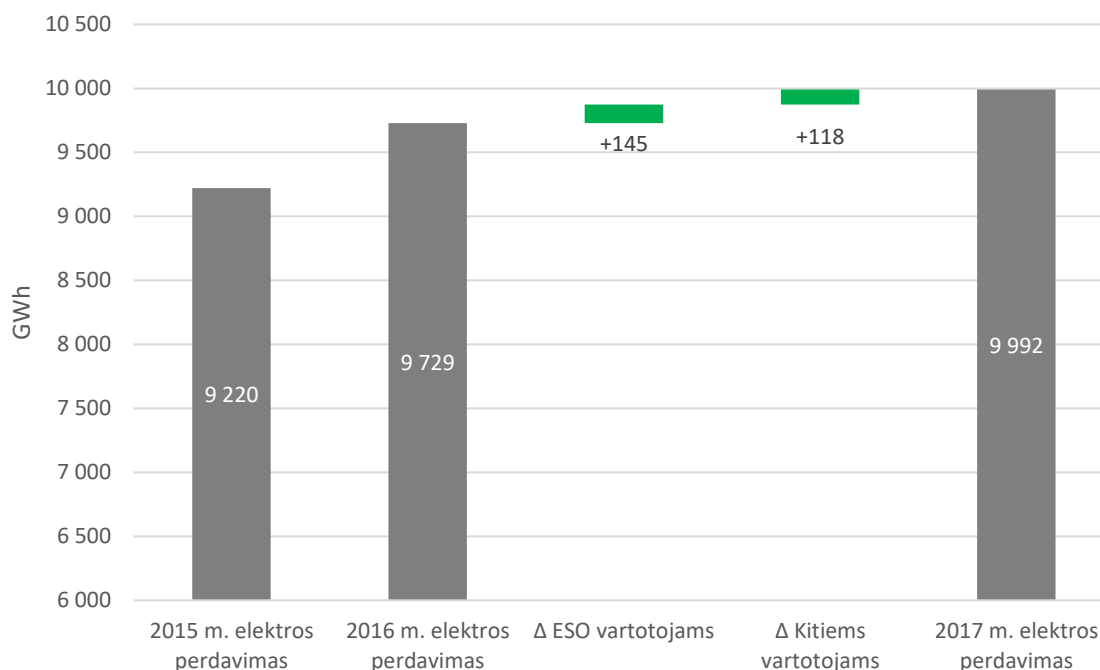
	2017	2016	Change	
			+ / -	%
Electricity				
Electricity amount transmitted, GWh	9 992	9 729	263	2,7%
ENS (energy not delivered), MWh *	1,68	1,03		
AIT (average interruption time), min. *	0,06	0,04		
“NordBalt“ availability, %	84	78		
“LitPol Link“ availability, %	99	96		
Natural gas				
Gas amount transported to the internal discharge point, GWh	24 290	23 336	954	4,1%
Gas amount transported to the adjacent transmission systems, GWh**	28 262	23 985	4 277	17,8%
Turnover of the natural gas exchange, GWh	442	299	142	47,5%
Biofuel				
Biofuel amount sold in the energy exchange, tne	394 047	373 382	20 665	5,5%

* Only for the reasons that fall within the responsibility of the operator and for the unidentified reasons.

**The transmission systems of Latvia and Kaliningrad region of the Russian Federation.

As demand for energy in Lithuania increases, 9 992 million kilowatt hours (kWh) of electricity or 2.7 % more compared to the same period in 2016 have been transferred in 2017 through high voltage transmission grids for the needs of the country's residents and business entities. This is the largest amount of energy transmitted since 1992. 8 988 GWh of electricity have been transferred to the consumers by the operator of distribution systems ("Energijos skirstymo operatorius", UAB), i.e. 1.7 % more than in 2016, and 1 004 GWh or 13/3 % more to other consumers connected to the transmission grid.

Electricity consumption in Lithuania has been growing in all sectors: the agricultural sector has consumed 4.4 % more compared to 2016, the industrial companies – 3.9 % more, the residents – 2.3 % more, and the services sector – 1.8 % more. The electricity consumption in the transport sector almost unchanged (0.1 % less electricity has been consumed).

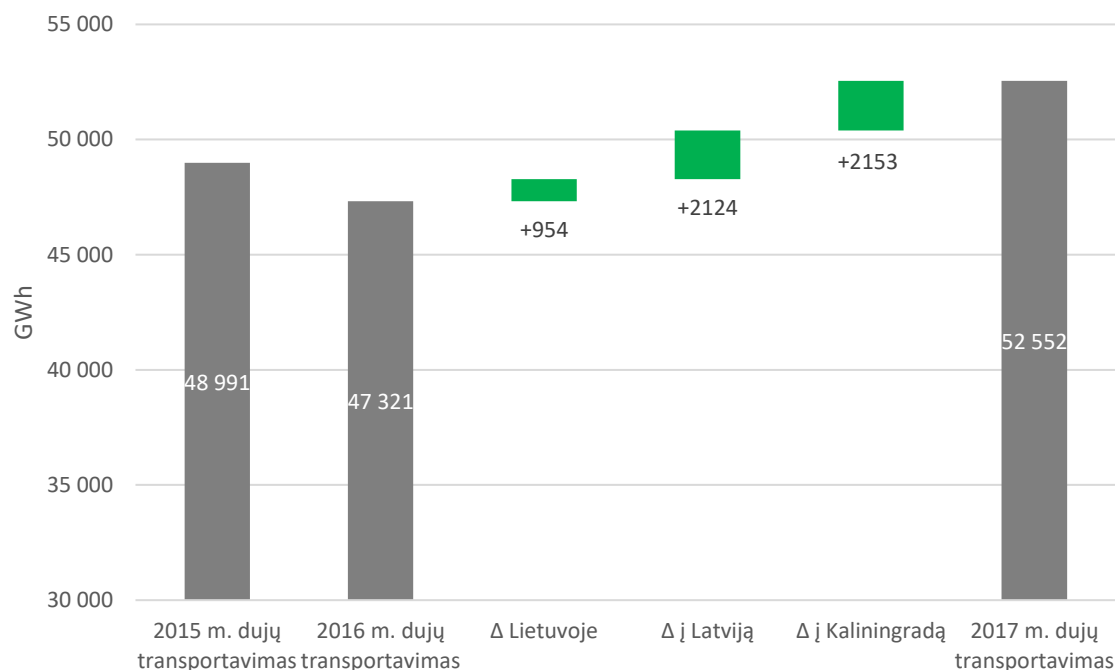


Electricity transmission in 2015 / Electricity transmission in 2016 / To ESO consumers / To other consumers / Electricity transmission in 2017

International connections that made it possible to import a cheaper electricity from the Nordic countries operated reliably: availability to the market of "NordBalt" in 2017 was 84 % (78 % in 2016). "LitPol Link" interconnection with Poland operated almost without interruptions: availability to the market was 99 % (96 % in 2016).

Positive trends were also observed in the natural gas sector. Gas consumption has stabilized after several years of fall. 24 290 GWh of natural gas have been transported for Lithuanian consumers to gas distribution or the directly connected consumer systems, i.e. 4.1 % more compared to 23 336 GWh in 2016. The larger amount of services provided has been mainly driven by increased demand for natural gas in the fertilizer manufacturing sector.

25 664 GWh of natural gas have been transported in 2017 to Kaliningrad Region of the Russian Federation (in the same period of 2016 - 23 511 GWh), and 2 598 GWh of natural gas have been transmitted to the Republic of Latvia via Kiemenai gas metering station (in the same period of 2016 - 474 GWh).



Gas transportation in 2015 / Gas transportation in 2016 / In Lithuania / To Latvia / To Kaliningrad / Gas transportation in 2017

The trading sites in Latvia and Estonia established by the natural gas exchange GET Baltic started their operation on 1 July 2017. GET Baltic has become a regional gas trading platform for the Baltic states and has taken another important step, i.e. it started rendering the services of short-term cross-border transmission capacity allocation to the natural gas transmission system operators of the Baltic states. The rendering of this service has enshrined the status of GET Baltic as the regional natural gas exchange and has integrated the short-term natural gas markets of the Baltic states.

A total trade of GET Baltic exchange amounted to 442 GWh in 2017, i.e. 47.5 % more than in 2016. 85.1 % of the entire amount traded at the natural gas exchange have been acquired by Lithuanian consumers, 14.7 % by Latvian consumers, 0.2 % by Estonian consumers. The volume of trade has increased significantly after becoming a regional gas trading platform: during the second half of 2017 alone 95.7 % of the entire turnover of the natural gas exchange of 2017 has been achieved.

394 thousand tne of biofuel have been acquired in "Baltpool" energy exchange in 2017 by district heating companies and independent heat generating entities, i.e. 5.5 % more compared to 2016. 97 % of the total biofuel consumed for the generation of the country's heating in the district heating system have been acquired in the exchange.

4.3 Financial indicators

Financial indicators, thousand EUR	2017	2016	Change	
			+/-	%
Income	225 246	234 522	-9 276	-4,0%
Operating costs	-225 607	-189 639	-35 968	19,0%
EBITDA ¹	77 213	89 509	-12 296	-13,7%
Net profit	-2 796	39 074	-41 870	-107,2%
Normalized net earnings ²	26 888	34 893	-8 005	-22,9%
Assets	770 456	835 763	-65 307	-7,8%
Equity	236 247	240 413	-4 166	-1,7%
Net debt ³	414 865	468 238	-53 373	-11,4%
Relative Financial Indicators				

EBITDA margin ⁴	34,3%	38,2%
Return on equity (ROE) ⁵	-1,2%	17,7%
Normalized Return on Equity (ROE) ⁶	11,3%	15,8%
Net debt-to-equity ratio	175,6%	194,8%
Equity/asset ratio	30,7%	28,8%
Total liquidation factor ⁷	0,8	0,9

1) EBITDA = profit (loss) before tax + Costs of financial operations - Income from financial operations + depreciation and amortization costs + costs of impairment of assets (including a negative revaluation of non-current tangible assets) + costs of write off of assets

2) Normalized net earnings = Net profit - Amber Grid asset revaluation result - Changes in deferred income tax due to the revaluation of Amber Grid assets - Change in Litgrid price supplement

3) Net debt = Long-term financial debt + Short-term financial debt + liability to "Lietuvos energija", UAB for the acquisition of the shares of "LITGRID" AB. - Short-term investments - Fixed term deposits - Cash and cash equivalents

4) EBITDA margin = EBITDA/Income

5) Return on Equity = Net profit/(Equity at the beginning of the period+Equity at the end of the period)/2

6) Normalized Return on Equity = Normalized net earnings/(Equity at the beginning of the period+Equity at the end of the period)/2

7) Total liquidation factor = Current assets/Current liabilities

Asset revaluation

International Financial Reporting Standards (IFRS) establish the procedures that are mandatory in order to guarantee that assets are carried at fair value. The companies of EPSO-G group regularly assess the internal and external features of potential decrease in value. Should there exist such features, the company must assess a fair value of these assets.

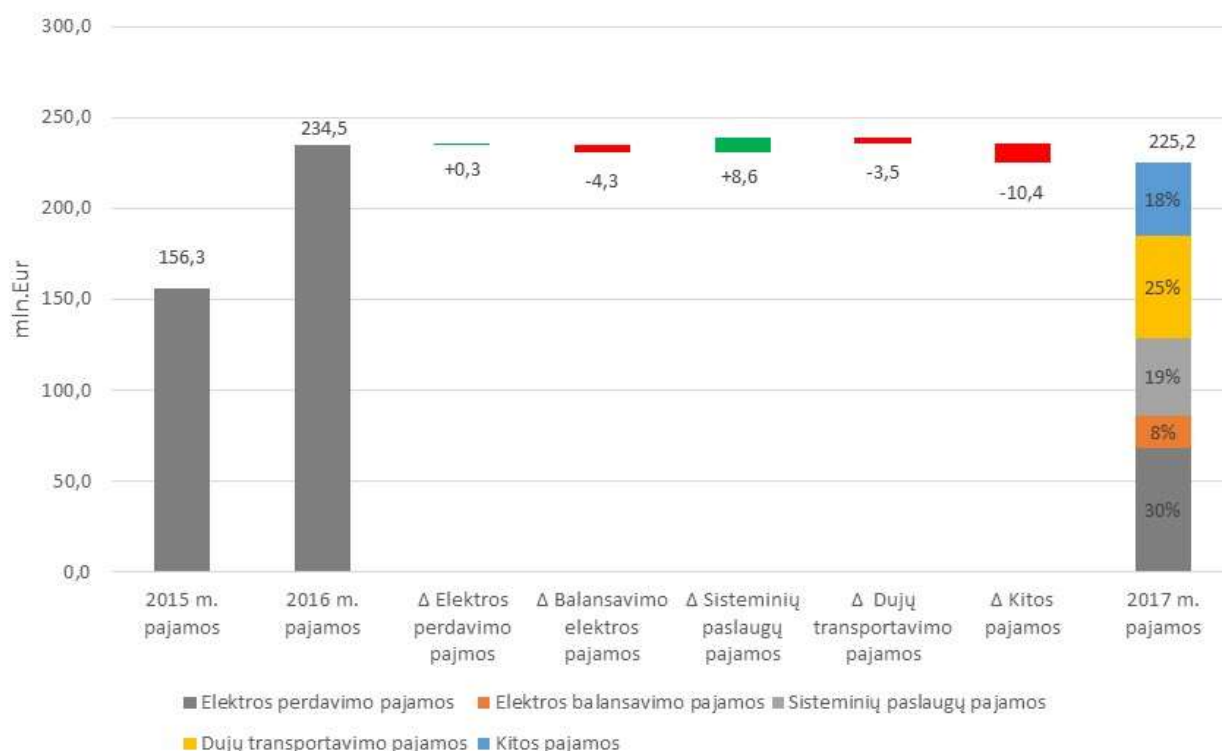
In view of the uniform principles of non-current assets accounting applicable in the group of companies of EPSO-G, in 2017 the subsidiary "Amber Grid" has switched from accounting of non-current assets through application of the cost price method to accounting of assets through application of the method of the revalued amount. The income method has been chosen for the determination of the fair value of the assets through application of the method of calculating discounted cash flows. The discount rate used to estimate discounted cash flows is 5.11 % after tax.

Decrease in value of 35.5 million EUR has been determined after the evaluation of assets. The decrease has been entered into accounts in the Profit and Loss Statement by reducing with a corresponding amount the values of the items of the assets that are carried at the end of 2017 in the balance. The decrease in the value of non-current assets has been mainly determined by the forecasted changes of the regulatory environment from 2019 when the new period of regulating the prices of natural gas transmission services will begin.

The asset revaluation had an impact on the value of "Amber Grid" and EPSO-G group's consolidated pre-tax earnings and net profit as well as operating cost following the corresponding correction of the carrying amount of equity which now corresponds to its fair value. Mismatch between the company's financial and regulatory accounting has been decreased in this way.

Income

After the reduction of the prices for the electricity and gas transmission services for Lithuanian consumers from the beginning of 2017, respectively by 2.75 % and 7.8 %, the consolidated income of EPSO-G group was 225.2 million euros or 4.0 % less compared to 2016. The service tariffs continue to decline: from 1 January 2018 the average electricity transmission price for the system users has decreased by 7.9 %, the average natural gas transmission price decreases by 36.5 %, and the trading tariff of biofuel for the participants of the energy exchange - by 12.9 %. Amount of income was also influenced by interest income that was 4 million euros less.



Income of 2015 / Income of 2016 / Income from electricity transmission / Electricity income from balancing / Income from system services / Gas transportation income / Other income / Income of 2017

As a result of the transmitted electricity amount that has increased by 2.7 % in 2017, income from electricity transmission compared to 2016 has increased by 0.4 % to 68.3 million euros and amounted to 30.3 % of all income of the Group. Income from natural gas transmission in 2017 amounted to 56.2 million euros. Compared to 2016 the income has decreased by 5.9 % and amounted to 24 % of all income of the Group. As a result of 23 % bigger tariff of system services established from 1 January 2017 by the National Commission for Energy Control and Prices, the income for the system electricity services has increased by 25.4 % to 42.5 million euros. The electricity sales income from balancing (regulating) has decreased by 19.4 % to 17.8 million euros. This was mainly due to the reduced demand for energy balancing and a more reliable operation of interconnections.

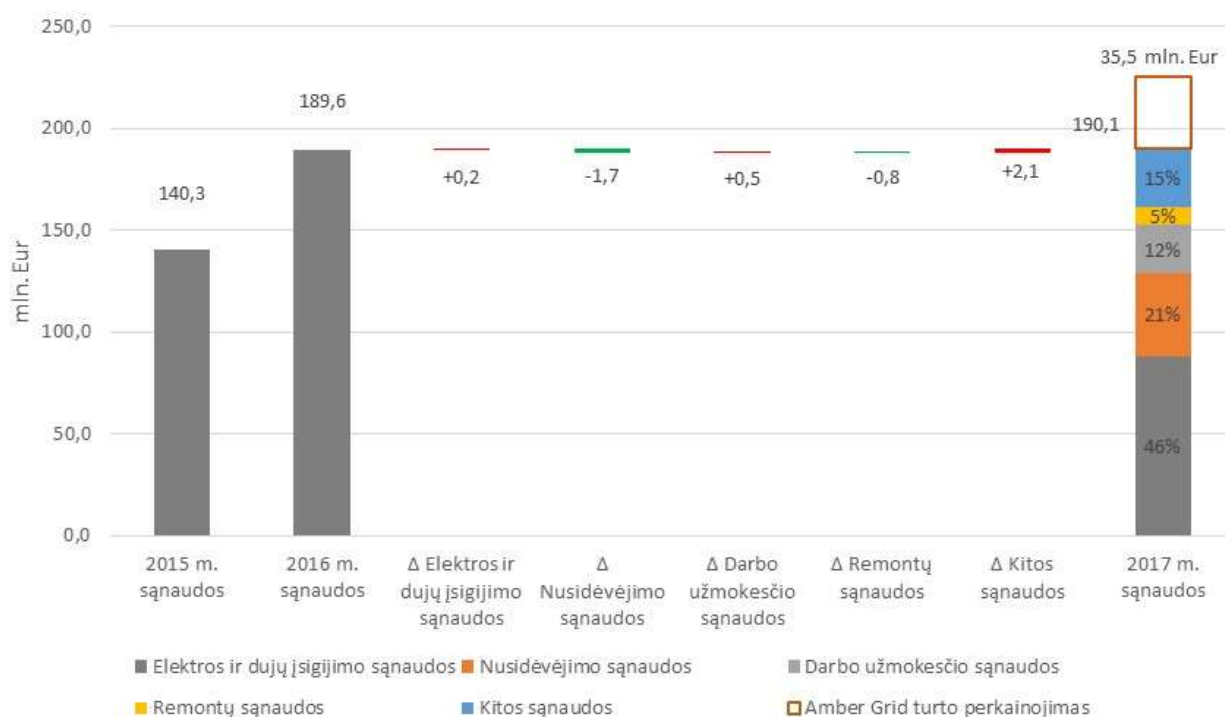
Operation of the international electricity interconnections Lithuania-Poland and Lithuania-Sweden generated 10.2 million euros of congestion revenue in 2017. Congestion revenue occurs due to insufficient capacity of electricity interconnection lines resulting in different electricity market prices in Lithuanian and Swedish, Polish, Latvian electricity exchanges. In accordance with the Regulation (EC) No 714/2009 of the European Parliament and of the Council on conditions for access to the grid for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003, "Litgrid" recognizes only a part of the revenue received as congestion revenue, i.e. only those used for the ensuring distributed capacity of connections. 1.4 million euros have been recognized as income in 2017, 10.2 million euros have been used for the funding of the construction of the 330 kV aerial line Kruonis Pumped Storage Plant-Alytus. The remaining revenue shall be accounted for as the income of the future periods.

The remaining income of the group amounted to 39.0 million euros.

Operating costs

The consolidated operating costs of EPSO-G group in 2017 amounted to 225.6 million euros compared to 189.6 million euros in 2016.

Without an effect of a one-time revaluation of "Amber Grid" AB asset the consolidated EPSO-G operating costs compared to 2016 remained in the same level.



Costs of 2015 / Costs of 2016 / Electricity and gas acquisition costs / Depreciation costs / Wage costs / Repair costs / Other costs / Costs of 2017

The main elements in the costs were the purchase of energy resources and related services – 88.0 million euros (the costs of electricity and related services purchase constituted 80.1 million EUR, the costs of natural gas acquisition amounted to 7.9 million euros) or 46.3 % of all costs (without assessing the costs of “Amber Grid” asset revaluation). Depreciation and amortization costs constituted 40.8 million euros, Wages and related costs – 23.6 million euros, repair and maintenance costs – 8.8 million euros, telecommunications and ITT costs – 2.3 million euros, the remaining costs – 26.6 million euros.

Performance result

Due to the changed “Amber Grid” non-current tangible assets accounting principles the consolidated net loss of EPSO-G group in 2017 was 2.8 million euros.

Without an impact of asset revaluation in accounting the normalized net earnings of EPSO-G group in 2017 was 26.9 million euros, and the normalized indicator of Return on Equity was 11.3 %, i.e. 2.5 p.p. higher compared to the target of 8.8% that is set out for EPSO-G by the Government of the Republic of Lithuania, which is probably the highest among the state-owned companies. In 2016 the normalized net earnings of EPSO-G in 2016 amounted to 34.9 million euros. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the group's performance in 2017 were 77/2 million euros. Compared to the same period the year before EBITDA has decreased by 13.7 percent. The EBITDA margin in 2017 was 34.3 % (in 2016 – 38.2 %).

Statement of financial position

On 31 December 2017 the Group's assets amounted to 770.5 million euros, the non-current assets of the Group amounted to 629.5 million euros and constituted 81.7 % of all of the Group's assets. Equity component of the shareholders in the Group's assets constituted 30.7 %.

At the end of 2017 the financial liabilities of the Group to the credit institutions amounted to 422.9 million euros (including 169.9 million euros of liabilities to “Lietuvos energija”, UAB, for the acquisition of the shares of “Litgrid”), cash and cash equivalents amounted to 8.1 million euros. Net debt-to-equity ratio constituted 175.6 %.

Liabilities to "Lietuvos energija" for the shares of the subsidiary "Litgrid" from the beginning of the year were reduced by 35.4 million euros to 169.9 million euros.

Investments

In 2017 the investments of the transmission system operator "Litgrid" (works performed and assets acquired regardless of payment terms) amounted to 26.7 million euros, 56 % of them for the implementation of the strategic electricity projects that are important for the state and 44 % for the reconstruction and development of the transmission grid.

"Amber Grid" investments in 2017 represented 12.4 million euros. The construction of new gas systems represented 0.3 million euros, and investments in the reconstruction and modernization amounted to 12.1 million euros.

4.4 Research and development activity

Preparation for the autonomous operation of the systems of the Baltic states

The study regarding the preparedness of the electricity system of the Baltic states to operate in isolation has been started on 16 January 2017. The test of isolated operation is one of the most important steps in preparing for synchronization. The model of disconnecting from the neighbourhood energy systems will be provided for, the best time will be proposed, the technological measures that will have to be installed by the Lithuanian, Latvian and Estonian electricity transmission system operators will be specified in the study. It is planned that the test of isolated operation could occur in 2019.

Study of alternatives

The Study of Synchronization Alternatives of the European Union Joint Research Center has been completed in March 2017. The results of the study once again confirmed in technical, economic aspects and the aspect of credibility of electricity supply the optimal scenario of synchronization of the Baltic states with the grids of Western Europe, i.e. synchronization with the grids of Continental Europe via Polish power grid.

Adequacy study

In June 2017 "Litgrid" has presented the Power system adequacy analysis of the Baltic states the results of which show that the deficit of around 200 MW of the initial reserve will emerge in 2025 and the development of the local production must be planned taking into account the fact that after synchronization with the grids of continental Europe the Baltic states will be obliged at all times be ready to operate in an isolated mode of operation and to provide themselves with system services.

Environmental impact study

On 30 May 2017 "Litgrid" has prepared and coordinated with the responsible institutions and the public the report of the environmental impact of the reconstruction of 330 kV electricity transmission aerial line from Lithuanian Power Plant to Vilnius. The report estimates that the environmental impact of the reconstruction will be minimal because the existing engineering infrastructure will be exploited and the current protection zones of the aerial line will remain unchanged.

Need management service study

In June 2017 "Litgrid" together with electricity and gas distribution company ESO initiated the study with the purpose of analysing the electricity demand management potential in Lithuania. This is the first step of electricity transmission and distribution operators intended for the reconsideration of the operators' role in the electricity system and the specific measures are being considered for all users to contribute to its management. The purpose of this study: to analyse what are the needs and expectations of Lithuanian consumers in terms of adjusting their electricity consumption. In practice this means that the electricity consumers would be stimulated for having consumed less electricity during a certain period and more electricity at other time of the day. The agreement for the conducting of the study has been signed with the consultants on the 8th of June.

It is planned that the potential suppliers of electricity demand management services will be assessed in the study taking into account their electricity consumption trends and technical capabilities, also the technical requirements for the transmission system and distribution operators will be set. The study will be carried out until the middle of 2018.

More than 500 electricity consumers (business, industry and population) will have an opportunity during the study to express their expectations and needs to participate in rendering of electricity demand management service. This means that electricity consumers would be financially stimulated for consuming less electricity during a certain period and more electricity at other time of the day. The results of the survey will help understanding whether the residents and businesses would tend to use such a service and to decide on its perspectives in Lithuania.

The study is the first incentive for electricity transmission system and distribution operators to reconsider the role of electricity consumer in the system and to provide with the instruments enabling its functioning. Electricity demand management service can be relevant for the companies of heavy industry, wood and food industry that are energy intensive companies, also for the companies that can flexibly adjust their production plans. Possibilities to provide such service could also be beneficial for the residents who use electricity, heat pumps or other devices that consume a lot of electricity for heating their homes.

Analysis of Common Market Commerce Model and Balancing Model

“Amber Grid” together with the members of East-Baltic Transmission System Operator Coordination Group consisting of the transmission system operators of the Baltic states and Finland participated in the preparation of the analyses of the single market marketing model and balancing model. In October 2017 the models have been presented for public consultation, and in December 2017, after assessing of the comments and suggestions of the market players, they have been approved by the Regional Gas Market Coordination Group. Based on the analyses of the models performed, the Rules of balancing of the common area and use of the transmission system will be prepared in 2018.

4.5 Competence and membership in organizations

Strength of the group of companies: connections with the surrounding countries and well-developed electricity and gas infrastructure in the country that ensures secure and reliable operation of transmission systems and rendering of services.

The EPSO-G employees are responsible for the proper operation and development of the country's energy infrastructure. They are highly skilled and competent professionals who have implemented in a timely manner and within the limits of the budget the international projects of strategic significance, have applied the market models, have developed a new legal practice designed for addressing energy issues. The transmission system operators and the companies engaged in activities of exchanges have accumulated exclusive competences that are attractive in the region and of great value in implementing the requirements of the EU legal acts, including grid codes, changes of electricity and gas markets, and in realizing strategic interests of Lithuania's energy at the national, regional and EU level.

EPSO-G and the transmission system operators actively participate in the activities of the national and various international organisations and associations, such as the European Association of Transmission System Operators for Electricity ENTSO-E and the European Association of Transmission System Operators for Gas ENTSO-G, Central Europe Energy Partners Association (CEEP), transmission system operators and the Association of Other Electricity Companies “Best Grid”, collaborate closely, initiate projects and share experience with the transmission system operators of the Baltic states, Scandinavian countries and Poland.

Memberships of the companies of EPSO-G group:

Organisation	Representing company	Link	Description of organisation
Central Europe Energy Partners (CEEP)	EPSO-G	www.ceep.be	The association bringing together the companies of energy and energy-intensive sectors of the Central Europe

National Lithuanian Electricity Association (NLEA)	EPSO-G "Amber Grid" "Litgrid"	www.nlea.lt	The association bringing together Lithuanian companies operating in the electricity and natural gas sectors
ENTSO-E	"Litgrid"	www.entsoe.eu	The organisation that brings together European electricity transmission system operators
ENTSO-G	"Amber Grid"	www.entsoe.eu	The organisation that brings together European natural gas transmission system operators
International Gas Union (IGU)	"Amber Grid"	www.igu.org	A non-profit organization seeking to promote international trade in gas, the application of advanced technologies, and the establishment of transparent market practices
EUROGAS	"Amber Grid"	www.eurogas.org	The association bringing together the actors operating in the wholesale and retail markets of gas.
Polish-Lithuanian Chamber of Commerce	"Amber Grid"	www.plcc.lt	The association seeking to improve economic cooperation between Lithuania and Poland.
Project Management Association	EPSO-G	www.ipma.lt	The association bringing together project management professionals.

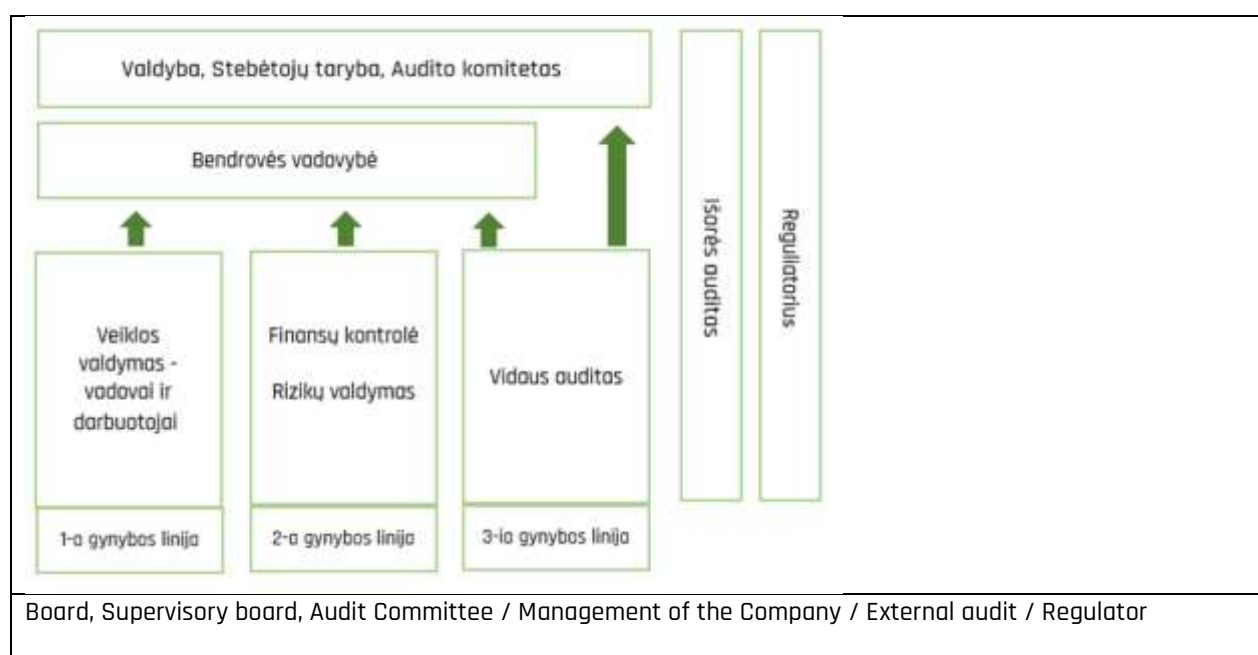
4.8 Transactions with related persons

Information on the transactions of the related parties is disclosed in the annual financial reports in the note 28.

5. RISK MANAGEMENT AND AUDIT

EPSO-G consistently holds the view that in the course of the implementation of the operating strategy proper risk management is a prerequisite for increasing the efficiency of subsidiaries, quality of management, safe environment for the employees and in creating the trust of the stakeholders in the group of companies.

Three lines of defence of EPSO-G:



1st line of defence: Activity management – leaders and employees
2nd line of defence: Financial control. Risk management
3rd line of defence: Internal audit

The first line of defence includes the leaders and employees of EPSO-G who identify and manage operational risk in the daily activities.

The second line of defence consists of the centralized functions of EPSO-G with the responsibility of envisaging risk:

- the function of financial control includes the responsibility for the continuous control of the financial results of the Group;
- the function of risk management includes the responsibility for the creating and coordinating of the risk management system of the Group. This function summarizes the main risk areas of all companies of the Group and coordinates the implementation of their actions of management.

The third line of defence includes the responsibility for the independent assessment of risk management. The Centralized Internal Audit Unit assesses whether the first two lines of defence adequately perform their functions in the risk management process. In accordance with the laws the annual financial reports of EPSO-G companies are audited by the independent companies of external audit. The companies of external audit are elected by the General Meetings of Shareholders of the companies of the Group.

5.1 Risk management system

EPSO-G understands risk management as a structured approach to uncertainties management by methodologically evaluating risk effect and probability, and by applying the proper measures of management.



In 2017 EPSO-G has analysed the risk management processes applied in the companies of the group and has carried out the comparison of these processes. In light of the results of the analysis, the areas for further improvement have been identified and at the end of 2017 the Board of EPSO-G has approved the risk management policy of the Group and risk management methodology.

The purpose of both documents is to create in EPSO-G group a uniform risk management system that is based on common principles and meeting good practice according to COSO ERM (Committee of Sponsoring Organisations of the Treadway Commission Enterprise Risk Management) methodology applicable in the international practice and the standards defining the principles of risk identification, assessment and management and responsibility.

5.2 Operational risks

After the risk assessment has been carried out, the companies of EPSO-G group have found out that they encounter the following main risks in their activities:

Political and regulatory risk

The energy sector is an important economic area that has a major impact on the national, political and economic interests. The structure of the electricity and natural gas energy sector, management thereof, the activities of the

sector's companies are governed by the laws of the Republic of Lithuania and the implementing legislation. The amendments of the National or EU legal acts that govern the energy sector may affect the performance results of EPSO-G group. In order to reduce the impact of this risk on performance results, the representatives of the companies actively participate in deliberations, inform of the decisions that need to be taken and/or make proposals to the legislating institutions.

The prices of electricity and natural gas transmission and related services are regulated, the price ceilings are set by the Commission. The performance results of the companies of EPSO-G group and the funds granted by the companies for the necessary operating costs, investment to maintain the reliability of the transmission grid as well as the opportunities to finance strategic projects using own or borrowed funds directly depend on these decisions.

In order to reduce the impact of regulatory risk on their performance companies actively cooperate with the Commission, participate in the deliberations of the legislative amendments being prepared by raising as an argument in respect of their proposals an effect of their prospective decisions and an importance of long-term, strategic objectives of the companies.

Cyber security risk

Information and data managed by the companies of EPSO-G group are of strategic significance for Lithuanian security. Therefore, loss of such information and/or data, illegal change or disclosure, damage thereof, or termination of the data flow which is necessary for a secure operation of transmission systems may cause disturbances of the activities of the companies of EPSO-G group, cause damage to other natural persons and legal entities.

In order to avoid cyber incidents, threats of information systems of the companies of EPSO-G group, their physical protection, security management systems are assessed on a regular basis, also the existing security measures, systems and/or tools are continuously updated, and the new ones that meet the strict requirements stipulated in the legal acts of the European Union and the Republic of Lithuania governing information security are installed. The staff members of the companies of EPSO-G group also actively participate in the cyber security simulation exercises during which they are trained to control and counteract cyber-incidents against critical information systems and grids, and to ensure functioning of the services they render.

Technological risk

One of the most important functions and responsibilities of the companies of EPSO-G group is to ensure secure, reliable and efficient operation of natural gas and electricity transmission systems. In order to ensure a reliable operation of transmission systems, companies are introducing specialized information systems, modern business management systems, update on a continuous basis the plans of emergencies management, pose high requirements for the contractors.

Maintenance and support of the transmission systems managed by the companies require special attention (more than a half of trunk gas pipelines are operated for more than 25 years, more than a half of high-voltage transmission installations are operated for more than 45 years).

In order to avoid disturbances of transmission systems operation, companies carry out a continuous supervision of the systems, respectively draw up the maintenance plans and plan in a timely manner the necessary new investment in the network. The companies rank grid investments, taking into account the objective criteria and a special assessment methodology thus optimizing them and ensuring a consistent level of investment.

Financial risk

In the course of their activities the companies of EPSO-G group incur these financial risks: credit risk, liquidity risk and market risk (foreign exchange rate and interest rate risk). Information about financial risks is available in the remark 29 of the financial statements of the Group of 2017.

Business Transparency Risk

EPSO-G group implements the projects of the regional and national significance. These are major investment projects. Their success depends on the awareness, trust and support of the shareholders, partners, controlling and regulating institutions and the people of Lithuania. Accordingly, much attention is paid by EPSO-G in its activities to the supervision of public procurement procedures and the prevention of corruption.

EPSO-G group of companies does not tolerate in its activities any manifestations of corruption, acceptance, provision, offer, promise or claim of inappropriate benefit by misusing the position held. The concept of the fight against corruption in EPSO-G involves offering and accepting inappropriate privileges, impact trade, improper influence by nepotism or protecting friends, because we strive the decisions not to be influenced by personal interests or personal gain.

The corruption prevention activities of EPSO-G is based on the national legal acts and the voluntary commitments exceeding them:

- the executives of all companies of the group are directly responsible for the implementation of anti-corruption measures and show an example for their employees;
- we apply proportional anti-corruption procedures based on risk assessment;
- we carry out regular assessments of corruption-related risks, we plan and apply measures to reduce corruption risk; we monitor the effectiveness of anti-corruption activities and, if necessary, put in place more effective measures.

We invite you to report by e-mail pranesk@epsog.lt or directly using a notification submission form about breach of the provisions of the legal acts and norms of conduct committed by the heads and employees of EPSO-G and the directly or indirectly managed companies; breach of business operations conducted and accounting; bribery, graft, impact trade, abuse; conflict of interests, nepotism of protecting friends or any other forms of impact trade, violations of the requirements of transparency, equal treatment, non-discrimination, proportionality and impartiality of public procurement procedures carried out. Only information addressed to EPSO-G corruption prevention officer who ensures confidentiality of the information sender shall be sent to this e-mail address.

Information about the actions of prevention of corruption is available in the Corruption prevention paragraph of the Social accountability progress report.

5.3 Risk management supervision

The risk management results in the separate companies of EPSO-G group have been presented to the Board and to the Audit Committee of the Supervisory Board of EPSO-G in every quarter of 2017, also the newly determined risks and the incidents that have occurred have been discussed.

At the beginning of 2017, following two incidents in one of the companies of EPSO-G group, a very special attention has been paid to the management of occupational safety and health risks by drawing up a separate plan of measures. After the implementation of the plan no more incidents of this kind were recorded during the reporting period.

The companies of EPSO-G group, based on the approved documents that govern risk management (policies, procedures, methodologies, etc.) and taking into account the strategic objectives and the performance targets posed, have also carried out the assessment of operational risks by identifying their potential impact and probability and have concluded the list of unacceptable risk management measures. Taking into account the risk management principles and the process provided for in the EPSO-G group risk management policy approved at the end of 2017 actions will be aimed in 2018 at improving the risk management supervision in the companies of EPSO-G group.

5.4 Information about the harmful transactions entered into during the reporting period

It has been found out by the working group formed by the Director General of EPSO-G that the former Director General of Tetras, in violation of the obligation stipulated in part 6 of the Article 2.87 of the Civil Code, did not properly inform the Board and shareholders about a conflict of interests thus violating the obligation stipulated in part 4 of the Article 2.87 of the Civil Code, has confused the property of a legal person with his property and benefited personally from

this, thus failing to fulfil his obligation to be loyal to the company managed by him. In this respect the Board of Tetas during the meeting of 3 February 2017, after having examined the conclusions of the work group, decided to terminate the contract with the former Director General of the company on grounds of loss of confidence.

The Group is not aware about the other harmful transactions entered into on behalf of EPSO-G and/or the Group that are not in line with the Group's objectives, current usual market conditions, violating the interests of the shareholders or other groups of persons, etc., that have negatively affected or may negatively affect in the future the activities and/or the operational results, as well as the transactions that have been entered into in the background of a conflict of interests between the executives, controlling shareholders or other related parties.

5.5 Information about the internal audit

In order to ensure transparency and efficiency of operations, a centralized Internal Audit Unit operates in the group of companies EPSO-G from the beginning of 2017. The unit carries out on the group scale the functions assigned and is directly accountable to the Board of EPSO-G the majority of whom are the independent members. The auditors of EPSO-G are not subordinate to the administration of the company audited. This creates better preconditions for identifying possible deficiencies in order to eliminate them and to highlight the areas for increasing efficiency.

The internal audit mission of EPSO-G is to create added value for all the companies of the group and to contribute to the achievement of their operational objectives, by systematically and comprehensively assessing and helping to improve the effectiveness of management, risk management and control processes. These functions are implemented through an independent and objective assurance and advisory activity.

The staff members of the unit carry out internal audits and monitor on a regular basis how the recommendations are implemented, as well how the other deficiencies related to the internal control, which have been identified by the external auditors, regulatory authority and the public control institutions, are corrected.

The principles of EPSO-G internal audit activities:

- **Independence.** The condition is that the Internal Audit Unit will carry out without fear or favor its functions ensured via the direct and unlimited access to the top management and the Board of EPSO-G. The Internal Audit Unit has the right to have access to all the information required to perform its functions. All information must be provided for the internal audit when performing the assurance, consulting services and other tasks after significant organizational, process related, legislative changes or when gross violations of the established internal requirements become evident, etc.
- **Objectivity.** This is the condition that the internal auditors will be able to guarantee for their work results and will not compromise the quality of work. When performing audits, the opinion of other persons does not influence the decision of internal auditors, i.e. they are impartial, do not make judgement based on the prior opinion and avoid any conflict of interests, there conclusions are based on the facts and evidences determined.
- **Confidentiality.** The staff members of the Internal Audit Unit take into account the content and value of information they have obtained during performance of tasks, and respect the rights of its owner. Therefore, they do not disclose such information without appropriate authorization, unless disclosure of information is required by the legal acts or it is required on the grounds of professional necessity. The restrictions of distribution and use of the results shall be specified when the reports of audits and reviews are submitted to the external parties.
- **Competence.** Internal auditors shall only perform the tasks for the performance of which they possess sufficient knowledge, skills and experience. If the unit does not have the expertise required for the task to be performed, the consultants may be involved.
- **Accountability.** In each quarter of the year the head of internal audit shall report to the Board of EPSO-G and shall provide the Audit Committee with information on the fulfillment of the operational plan, observations of the unit about important risks and the control problems disclosed, as well information about the implemented recommendations of internal audit and those that are delayed. The head of EPSO-G and the

top-level executives which are related to the activity under review are made acquainted with all internal audit reports.

The activities of the centralized Internal Audit Unit in 2017 covered the following areas that were selected based on the performed assessment of risks and by identifying the priority companies / processes to be inspected:

- assessment of reliability of financial accountability;
- assessment of asset management and control;
- assessment of control of operational costs and use of investments;
- assessment of control of acquisitions (purchases);
- assessment of management of business continuity;
- assessment of control of the contract projects carried out by companies.

Conclusions of internal audit have been submitted to the management and Board of the audited companies, as well as to the Board and Audit Committee of EPSO-G.

5.6 Information on external audit

Information on the external audit companies of the companies of EPSO-G group:

Company	The company that has carried out an audit of the financial statements in 2017	The company that has carried out an audit of the financial statements in 2016
EPSO-G		
"LITGRID"		
"Amber Grid"	"PricewaterhouseCoopers", UAB	"PricewaterhouseCoopers", UAB
"Baltpool"		
TETAS		
"Litgrid" PLS		
Get Baltic	Rodl & Partner, UAB	Rodl & Partner, UAB

6. SHAREHOLDERS AND DIVIDENDS

6.1 Shareholders

The Republic of Lithuania is the sole shareholder of EPSO-G (100 % of the shares). The property and non-property rights of the shareholder, in accordance with clause 2.3 of the Resolution No 826 of the Government of the Republic of Lithuania of 4 July 2012 "Regarding the establishment of the Private Limited Company and investment of the state's property", are implemented by the Ministry of Energy of the Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania.

No changes occurred in the structure of the shareholders of EPSO-G in 2017. The authorized capital of the company did not change.

On 31 December 2017 the authorized capital of EPSO-G Company was 22 482 695 euros, and divided into 77 526 533 ordinary registered uncertificated shares of a nominal value of 0.29 EUR each. All shares are fully paid and provide the shareholders with equal rights.

Shareholder of the company	Number of shares	The nominal value per share, EUR	Authorized capital, EUR	Shareholding, %
Republic of Lithuania represented by the Minister of Energy of the Republic of Lithuania	77 526 533	0,29 EUR	22 482 695	100

Restrictions on the transfer of securities other than those stipulated in the legal acts are not applied for the shares of EPSO-G.

Neither EPSO-G nor the companies of the Group have issued the Convertible Securities.

EPSO-G has not acquired own shares. EPSO-G has neither acquired nor transferred own shares during the reporting period. The subsidiaries of the company have not acquired the shares of the Company either.

The shareholder of EPSO-G does not have special rights of control other than those stipulated by the legal acts of the Republic of Lithuania.

The shares of "Litgrid" and "Amber Grid", the companies managed by EPSO-G, are traded on the Nasdaq Vilnius Stock Exchange:

Company	ISIN code	Securities abbreviation	Trading list	Securities manager
"LITGRID" AB	LT0000128415	LGD1L	BALTIC SECONDARY LIST	AB SEB bank
AB "Amber"	LT0000128696	AMG1L	BALTIC SECONDARY LIST	AB SEB bank

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

6.2 Dividends

In 2017 the management company EPSO-G has allocated and paid to the state budget 508 thousand euros of dividends.

On the basis of the decision of the Government of the Republic of Lithuania EPSO-G must pay until 2022 directly to the state budget the dividends amounting to 0.5 % of the distributed profit. Such the decision has been made after having considered the necessity to allocate sufficient funds for the purpose of fulfilling the financial liability of 210 million euros to the state-owned company "Lietuvos energija" for the shares of the subsidiary "Litgrid".

A balanced structure of capital plays a very important role in the course of the preparation for the works of synchronization and the regional integration of the natural gas markets that are of great importance for Lithuania. Therefore, EPSO-G has set a target for itself to fulfil this obligation within the shortest possible period of time.

When fulfilling this target in 2017 EPSO-G has transferred 35.44 euros to "Lietuvos energija". The later, based on the agreement between the Ministry of Energy and the Ministry of Finance is obliged to allocate these funds to the budget of Lithuania.

6.3 Dividend policy

On 14 July 2017 the Board of EPSO-G has approved the dividend policy that governs the policy of determining the dividend amount, pay-out of and publication about dividends for all companies that form the group.

The most important purpose of the EPSO-G policy is to establish clear guidelines of expected return on equity and return on investment for the existing and potential shareholders while at the same time ensuring a sustainable long-lasting growth of corporate value, timely implementation of strategic projects that are of great importance for the country, thereby gradually strengthening confidence in the entire energy transmission and exchange group of companies.

The dividend policy of EPSO-G has directly linked the amount of dividends to be paid with efficiency of use of the company's equity – as bigger benefit is created by the company for the shareholder as bigger share of profit it may allocate for the further development and implementation of other important projects. The dividend policy is published on the EPSO-G website www.epsog.lt in the column of the Operating policy.

6.4 Ratings

The international credit rating agencies have not issued the companies of EPSO-G group with credit ratings.

7. GOVERNANCE REPORT

Corporate governance of EPSO-G is carried out in accordance with the Corporate Governance Guidelines of the group of state-owned companies of energy sector approved on 7 September 2015 by the Minister of Energy of the Republic of Lithuania which have established the common corporate governance principles which are applicable to the entire group of companies, the management organizing model, the structure of management, the systems of accountability and performance supervision and control.

EPSO-G adheres to the following important corporate governance principles:

- operational transparency,
- separation of state ownership and regulatory functions,
- certainty and sustainability of objectives,
- proper realization of the shareholders' rights,
- compliance with the legislative requirements and best practice standards,
- operational efficiency, sustainability and competitiveness,
- responsibility and accountability of the management and supervisory bodies to the shareholders.

EPSO-G relies on the good governance practices outlined in the recommendations of good governance published by the Organization for Economic Cooperation and Development (OECD), the recommendations of the United Nations and NASDAQ Baltic stock exchange, other internationally recognized standards and the recommendations of good governance, the main objective of which is to ensure that the state-owned companies are managed in efficient and transparent manner.

When implementing the recommendations of good governance:

- EPSO-G has become the first state-owned company in the country having a new Board member, i.e. the international expert who is the representative of the European Bank for Reconstruction and Development;
- transparency of the procedures of selection to the collegiate bodies of EPSO-G that have been carried out and professionalism are attributed in the public space to a model examples to be followed by other state-owned companies;
- 1/3 of the collegiate bodies of EPSO-G are independent members, and the independent members form the majority in the Board of EPSO-G;
- The independent member of the EPSO-G collegiate body is a person who, when adopting decisions, is not in conflict of interests with any of the companies of the Group, its shareholders and/or leaders, and can adopt and adopts impartial decisions for the sake of the best interests of the company.

7.1 The Articles of Association of EPSO-G

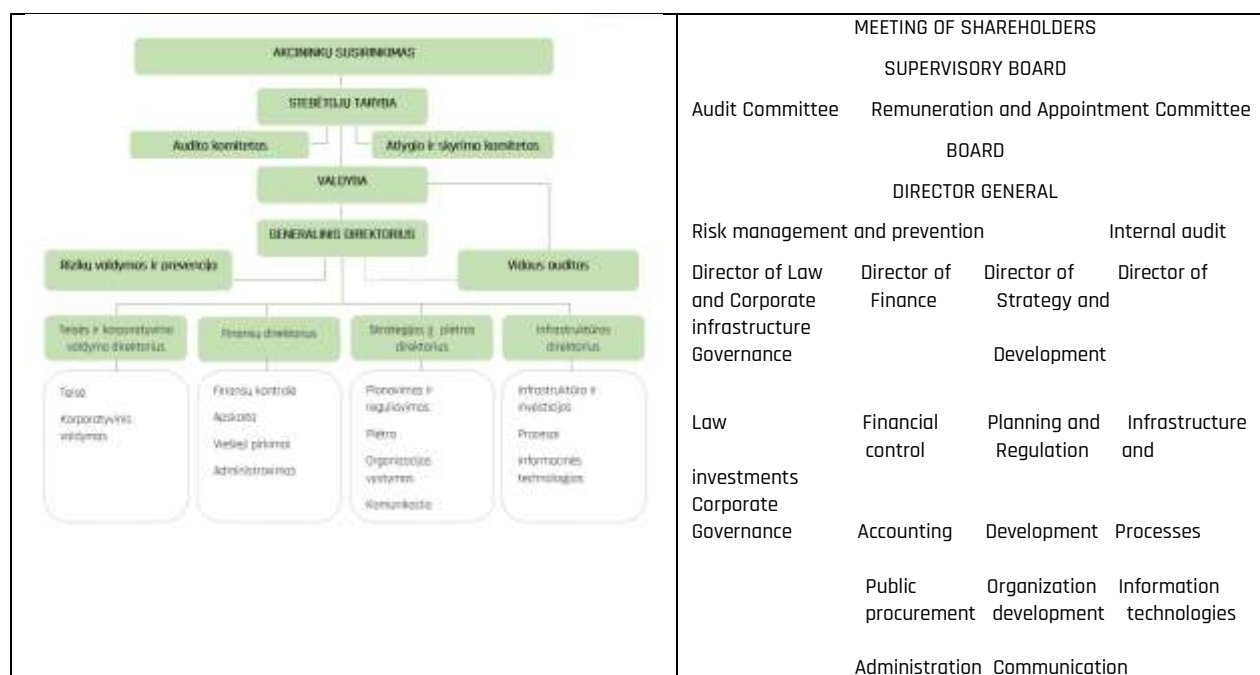
The Articles of Association of EPSO-G registered on 20 May 2016 were in force on 31 December 2017. The Articles of Association of EPSO-G are available publicly on the website www.epsog.lt in the column Corporate governance.

The Articles of Association have not been changed in 2017.

The Articles of Association of EPSO-G can be changed by the decision of the General Meeting of Shareholders adopted by at least 2/3 of all votes attached to the shares of the shareholders participating in the General Meeting of Shareholders, with the exception of statutory exceptions.

7.2 Supervisory and management structure of EPSO-G

The organisational structure of EPSO-G ensures an optimal organization of activities, process efficiency and responsibility:



General Meeting of Shareholders of EPSO-G

The rights and obligations of the sole shareholder of EPSO-G group are implemented by the Ministry of Energy of the Republic of Lithuania.

The sole shareholder of EPSO-G:

- adopts decisions on strategic issues of operational activities;
- approves the most important operational guidelines (guidelines for corporate governance, guidelines for collegiate body remuneration, etc.).

Supervisory Board

The members of the Supervisory Board of EPSO-G are appointed by the decision of the sole shareholder for a term of office of four years. The uninterrupted term of office of the member of the Supervisory Board is no more than two consecutive terms. The beginning of the term of office of the Supervisory Board of EPSO-G consisting of five members is 11 May 2016. Four members work in the currently operating Supervisory Board after Audrius Misevičius has resigned on 17 January 2017 as result of change of the position held.

Selection of the candidates to the independent members of the Supervisory Board is carried out in accordance with the special legal acts applicable for the selection procedure of candidates to the members of the bodies elected by the General Meeting of Shareholders of the state-owned companies. The Selection Commission of six members has been formed by the decision of the Ministry of Energy which is the sole shareholder of EPSO-G. The Commission has been formed for the purpose of selecting the members of the currently operating Supervisory Board. Apart from the representatives of the Ministry of Energy and the Management Coordination Center of the state-owned companies of the State Enterprise Turto Bankas two independent experts were also appointed to hold office in the commission. A public announcement on the selection of independent candidates was published on the website www.enmin.lrv.lt, in electronic publication "Public Announcements of Legal Entities" of the Centre of Registers, LinkedIn, www.vkc.turtas.lt. After the Selection Commission has selected three candidates, the sole shareholder of EPSO-G has submitted a proposal to the Selection Committee consisting of the Minister of Economy, the Minister of Finance and the Minister of Energy regarding the most suitable candidates in accordance with the effective legal acts. Following the submission of recommendation by the Selection Committee on the most suitable candidates, the sole shareholder of EPSO-G has adopted the final decision regarding all members of the Supervisory Board.

The Supervisory Board of EPSO-G:

- carries out the monitoring of the functioning of the internal control system, risk management at the level of the entire Group;
- carries out the monitoring of the activities of the Group's companies;
- ensures the effectiveness of the internal control system in the Group
- provides feedback / suggestions on the Board decisions on key issues

16 meetings of the Supervisory Board took place in 2017.

The composition of the Supervisory Board of EPSO-G:

Full name	Position held	Term of office	Workplace
Viktorija Trimbel	Independent member, Chairman	From 11 May 2016	"Quantum capital", UAB
Raimondas Rapkevičius	Independent member	From 11 May 2016	"General Financing", UAB
Inga Černiuk	Member	From 11 May 2016	Ministry of Transport and Communications of the Republic of Lithuania
Agnė Amelija Kairytė	Member	From 11 May 2016	Ministry of Energy of the Republic of Lithuania
Audrius Misevičius	Member	From 11 May 2016 to 17 January 2017	Government of the Republic of Lithuania

Remuneration and Appointment Committee of EPSO-G

The members of the Remuneration and Appointment Committee of EPSO-G are appointed for a period not exceeding four years by a motivated decision by the Supervisory Board from the candidates selected by the Board. The uninterrupted term of office of the member of the Remuneration and Appointment Committee is no more than two consecutive terms. The currently operating Remuneration and Appointment Committee has been formed by appointing to the Committee by the decision of the Board to members from the Supervisory Board and by electing the third member in the way of public selection (the announcement on the selection of an independent candidate has been made public on www.enmin.lrv.lt, LinkedIn, www.vkc.turtas.lt).

The beginning of the term of office of the currently operating Remuneration and Appointment Committee of EPSO-G consisting of three members is 10 June 2016. Two members of the Remuneration and Appointment Committee are independent members.

The Remuneration and Appointment Committee of EPSO-G:

- assists in carrying out the selections of candidates to the members of the bodies in all companies of the Group;
- provides the companies of the Group with recommendations regarding the appointment of the members of the management bodies, entry into contracts with them and setting remuneration for them;
- provides recommendations regarding the documents of the corporate governance of the Group of remuneration of the employees of the collegiate bodies, the companies of the Group, assessment of their activities.

19 meetings of the Remuneration and Appointment Committees took place in 2017.

The composition of the Remuneration and Appointment Committee of EPSO-G to the Supervisory Board:

Full name	Position held	Term of office	Workplace
Viktorija Trimbel	Independent member, Chairman	From 10 June 2016	"Quantum capital", UAB
Jolita Lauciuvienė	Independent member	From 25 August 2016	"Personalo vertė verslui", UAB
Agnė Amelija Kairytė	Member	From 10 June 2016 to 31 March 2017	Ministry of Energy of the Republic of Lithuania
Inga Černiuk	Member	From 1 April 2017	Ministry of Transport and Communications of the Republic of Lithuania

Audit Committee of EPSO-G

The members of the Audit Committee of EPSO-G are appointed for the term of office of four years by the sole shareholder's decision from the candidates offered by a motivated decision of the Supervisory Board adopted taking into account the recommendations of the Remuneration and Appointment Committee. The uninterrupted term of office of the member of the Audit Committee is no more than two consecutive terms.

The Selection Commission of six members has been formed by the decision of the Ministry of Energy which is the sole shareholder of EPSO-G. The Commission has been formed for the purpose of selecting the independent member of the currently operating Audit Committee. Apart from the representatives of the Ministry of Energy and the Management Coordination Center of the state-owned companies of the State Enterprise Turto Bankas two independent experts were also appointed to hold office in the commission.

A public announcement on the selection of independent candidate was published on the website www.enmin.lrv.lt, in electronic publication "Public Announcements of Legal Entities" of the Centre of Registers, LinkedIn, www.vkc.turtas.lt. After the Selection Commission has provided recommendation regarding the most suitable independent candidate, the Remuneration and Appointment Committee has also provided recommendation regarding the offered composition of the Audit Committee.

The beginning of the term of office of the currently operating Audit Committee of EPSO-G consisting of three members is 12 September 2016. Two members of the Audit Committee are independent members.

The Audit Committee of EPSO-G:

- carries out the monitoring of the preparation and auditing of the financial statements of the Group's companies;
- is responsible for the ensuring of the observance of the independence and objectivity principles by the auditors of the Group's companies and of audit companies;
- is responsible for the monitoring of effectiveness of the internal control of the Group's companies, risk management and internal audit systems, activity processes;
- is responsible for the control of provision of non audit services by the auditor of the Group's companies and/or audit company.

21 meeting of the Audit Committees took place in 2017.

The composition of the Audit Committee of EPSO-G to the Supervisory Board:

Full name	Position held	Term of office	Workplace
Raimondas Rapkevičius	Independent member, Chairman	From 12 September 2016	"General Financing", UAB
Gediminas Šiušas	Independent member	From 12 September 2016	Western Union Processing Lithuania, UAB
Audrius Misevičius	Member	From 12 September 2016 to 30 January 2017	Ministry of Energy of the Republic of Lithuania
Agnė Amelija Kairytė	Member	From 28 April 2017	Ministry of Energy of the Republic of Lithuania

The Board of EPSO-G

The EPSO-G Board is appointed for the term of office of four years by decision of the Supervisory Board. In accordance with the Articles of Association, when electing the members of the Board it must be ensured that there are at least 3 (three) independent members in the Board. Other 2 (two) members of the Board are delegated from the senior management personnel of the Company's administration as defined in the internal documents of EPSO-G, and taking into account the competences required for the functions assigned to the Board to be carried out. The Remuneration and Appointment Committee assists in carrying out the selection and provides the Supervisory Board with recommendations regarding the composition of the Board. The members of the Remuneration and Appointment Committee, in cooperation with the representatives of EPSO-G, have carried out the analysis of the needs of EPSO-G and the entire group of Companies, and based on its results have formed the matrix of competences of the candidates to the Board members. A transparent and open selection has been carried out with the assistance of the external experts. Information about the selection has been made public on www.enmin.lrv.lt, LinkedIn, www.vkc.turtas.lt, it has also been disseminated through the associations and organizations bringing together the professional members of the Board.

The beginning of the term of office of the currently operating Board of EPSO-G consisting of five members is 10 November 2016. Three members of the Board are independent members.

The Board of EPSO-G:

- is responsible for the organizational and systematic development and management of the Group within the scope of its competence;
- forms a common corporate governance policy of the Group of companies;
- carries out the monitoring of the implementation of the activities of the Group's companies, their strategies, performance targets and plans, the documents approved by the Board and other decisions in the Group's companies;
- carries out the supervision and control of the management of the strategic projects carried out by the Group's companies that are included in the national energy strategy, the projects of the particular national interest, the economic projects that are of great importance for the state.

20 meetings of the Board took place in 2017.

The composition of the Board of EPSO-G:

Full name	Position held	Term of office	Workplace
Rytis Ambrazevičius	Independent member*, Chairman	From 10 November 2016	Association "Baltic Institute of Corporate Governance"
Valdas Vitkauskas	Independent member	From 10 November 2016	European Bank for Reconstruction and Development
Gediminas Almantas	Independent member	From 10 November 2016	State Enterprise Lithuanian Airports
Rolandas Zukas	Member	From 10 November 2016	"EPSO-G", UAB
Algirdas Juozaponis	Member	From 10 November 2016	"EPSO-G", UAB

* is considered to be the independent member of the Board from the moment of his resignation from the position of the member of the Board of "Klaipėdos nafta", AB, i.e. from 1 December 2016.

Director General

The Director General of EPSO-G is appointed by the Board of the company taking into account the recommendations of the Supervisory Board of the Remuneration and Appointment Committee.

The current Director General of EPSO-G holds the post since 17 February 2015. In accordance with the Article 371 of the Law of the Republic of Lithuania on Companies, the first five-year term of office of the Director General commenced on 1 January 2018.

The Director General of EPSO-G:

- organizes and controls the implementation of the Group's activities strategy;
- controls the activities of the subsidiaries, makes suggestions and conclusions to the EPSO-G Board regarding the organization of the Group's activities and development thereof;
- organizes and ensures the monitoring of the implementation of the strategy, long-term (strategic), short-term (tactical) objectives of the subsidiaries, the activities assessment, makes suggestions to the EPSO-G Board regarding the activities improvement;
- ensures that the Group's corporate governance documents are submitted to the Group's companies, and the reports of the implementation of the Group's corporate governance documents are submitted in a timely manner to the EPSO-G Board.

7.3 Additional information on the members of the Supervisory Board, the members of the Board and Administration of its Committees:

The curriculum vitae of the members of the Supervisory Board of the Company and its committees as well as of the Board, also of the Director General are published on the website of EPSO-G www.epsog.lt.

Additional information about the Chairman of the Board, the Director General and the Chief Financial Officer:

Rytis Ambrazevičius (the Chairman of the Board) – R. Ambrazevičius holds the office of the Chairman of the Board of EPSO-G from 10 November 2016. R. Ambrazevičius is a professional with a great deal of business strategy and corporate governance experience. He also holds the office of the President of "Baltic Institute of Corporate Governance". R. Ambrazevičius for more than five years worked as the independent Board member of "Klaipėdos nafta" AB, held executive posts in the companies "Omnitel", "Mandatum Life Baltic".

Rolandas Zukas (Director General) – Rolandas Zukas holds the office of the Director General of EPSO-G since 17 February 2015. He has worked before as the Department Director of the LNGT terminal of “Klaipėdos nafta” AB, the member of the Board and the Director General of “Energijos tiekimas”, UAB. R. Zukas is also the member of the Board of “Lietuvos geležinkeliai”, AB.

R. Zukas started his professional career in the Telecommunication sector in the company TEO LT, later he worked in DNB bank. R. Zukas holds a university degree in the fields of Transport Engineering Economics (Vilnius University, the Bachelor's degree) and Management (ISM, the Master's degree).

Ilona Vaitkuvienė (Chief Financial Officer) – I. Vaitkuvienė, who has more than twenty years of work experience in the field of finance, from 16 September 2014 holds the office of the Chief Financial Officer in EPSO-G.

Before she took up her duties in this position I. Vaitkuvienė had a leading position in the field of accounting and finances in the logistics company “Avelita”, UAB.

I. Vaitkuvienė holds the Master's degree in Business Administration of Economic Sciences from Vilnius University. She has also acquired the Engineer's qualification in Kaunas University of Technology.

7.4 Declaration of Interests

The members of the Supervisory Board, Board and Administration of the Company have not acquired the shares of the companies of EPSO-G group, except Nemunas Birknys, the Director of Strategy and Development of EPSO-G, who on 31 December 2017 owned 0.001055 % of the shares of the subsidiary “Amber Grid”.

The Declarations of Interests of the Supervisory Board, Board and the Director General of the Company are available publicly on the website of the Chief Official Ethics Commission www.vtek.lt and www.epsog.lt. All the heads of the companies of EPSO-G group have submitted the Declarations of Interests to the management company EPSO-G within the scope and procedure stipulated in the Interest Management Policy which is publicly available on the website of epsog.lt in the column of the Operating policy.

The heads of the Supervisory Board, Board and companies are not in conflict of interests between their position in EPSO-G group and private interests and/or other position.

The members of the Supervisory Board and Board as well as the personnel of the Administration have no family links between each other.

The members of the Supervisory Board and Board as well as the heads of the companies have no criminal records for committing criminal offence, no accusations have been brought against them or no sanctions have been imposed on them by the regulatory institutions over the last five years, the court has not prohibited them from holding the position of a member of the Company's administrative, management or supervisory bodies or to hold leadership positions, or to deal with the tasks of any issuer.

EPSO-G has not entered with the abovementioned persons into transactions which are not specific to the Company's core business or those about which the EPSO-G collegiate governing bodies would not be informed in the appropriate manner and their permissions to conclude such the transactions would not be received.

7.5 Number of the meetings of the collegiate supervisory and management bodies and the participation of the members in the meetings:

76 meetings of the collegiate supervisory and management bodies of EPSO-G took place in 2017

Full name of the member	Meetings of the Board ¹	Meetings of the Supervisory Board	Meetings of the Audit Committee	Meetings of the Remuneration and Appointment Committee
Number of meetings (including the participation in the meeting by means of a conference telephone and voting by correspondence)	20	16	21	19
Rytis Ambrazevičius	20	-	-	-
Valdas Vitkauskas	20	-	-	-
Gediminas Almantas	19	-	-	-
Rolandas Zukas	20	-	-	-
Algirdas Juozaponis	20	-	-	-
Viktorija Trimbel	-	16	-	19
Raimondas Rapkevičius	-	15	21	-
Inga Černiuk	-	16	-	12 ³
Audrius Misevičius	-	0 ²	0 ²	-
Agnė Amelija Kairytė	-	16	12 ⁴	7 ⁵
Gediminas Šiušas	-	-	21	-
Jolita Lauciuvienė	-	-	-	19

¹ The number of the meetings of the Board does not include the strategic sessions of the Board of 29 March 2017 and 17 October 2017.

² Audrius Misevičius has been removed from the office of the member of the Supervisory Board from 17 January 2017 and from the office of the member of the Audit Committee from 30 January 2017.

³ Inga Černiuk has been appointed to hold an office of the member of the Remuneration and Appointment Committee from 1 April 2017.

⁴ Agnė Amelija Kairytė has been appointed to hold an office of the member of the Audit Committee from 28 April 2017.

⁵ Agnė Amelija Kairytė has been removed from the Remuneration and Appointment Committee from 31 March 2017.

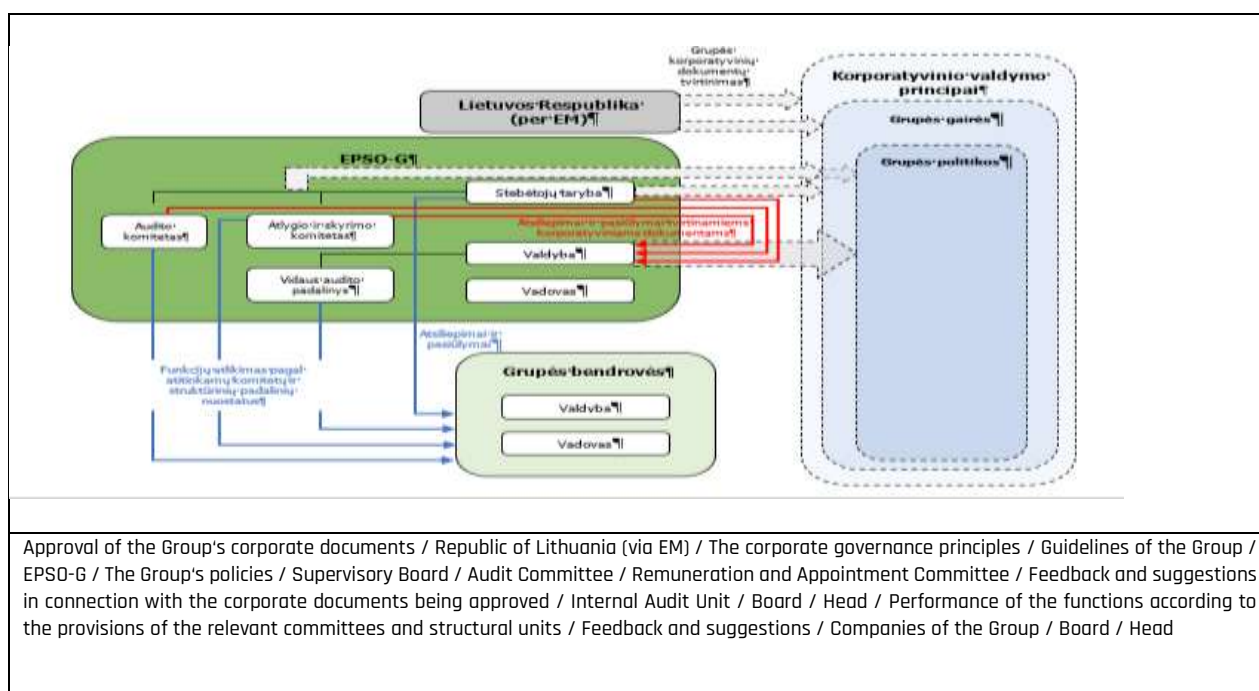
7.6 The corporate governance policy

On 12 May 2017 the EPSO-G Board has approved the corporate governance policy of the Group that has been joined by the companies of the Group.

EPSO-G, as the parent company, carries out the management, supervision and control functions in respect of the companies of the Group:

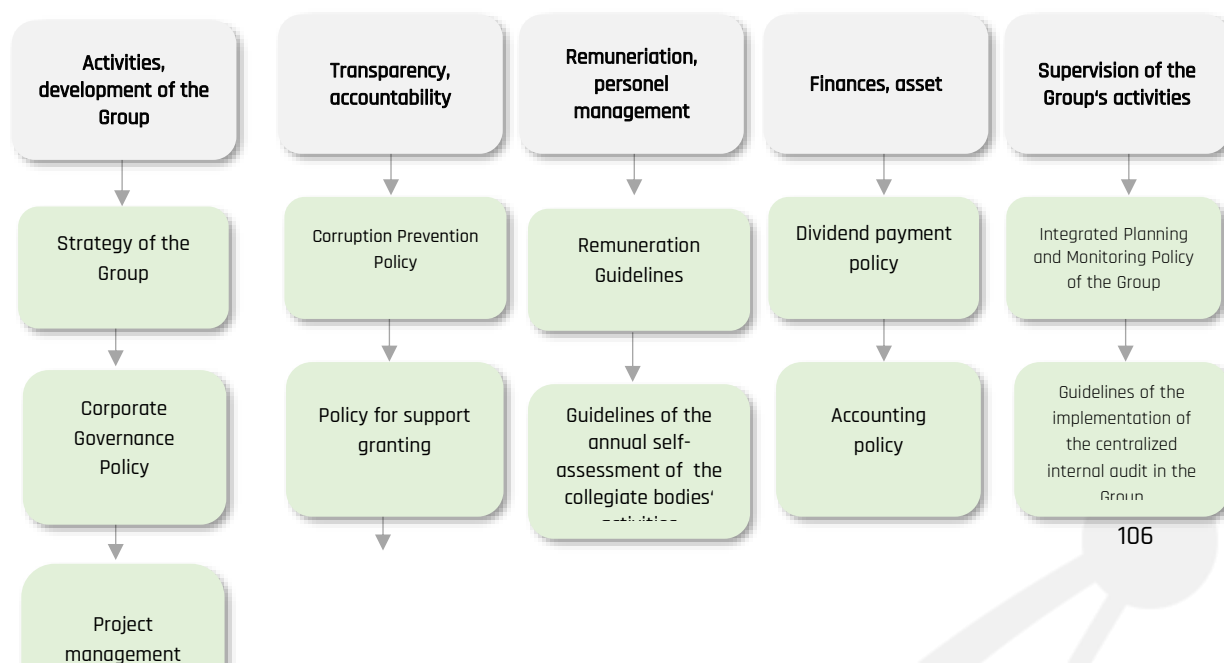
- by exercising the rights of EPSO-G as the shareholder with regard to the subsidiaries (and when, respectively, the subsidiaries exercise their rights of the shareholder in the companies controlled by them);

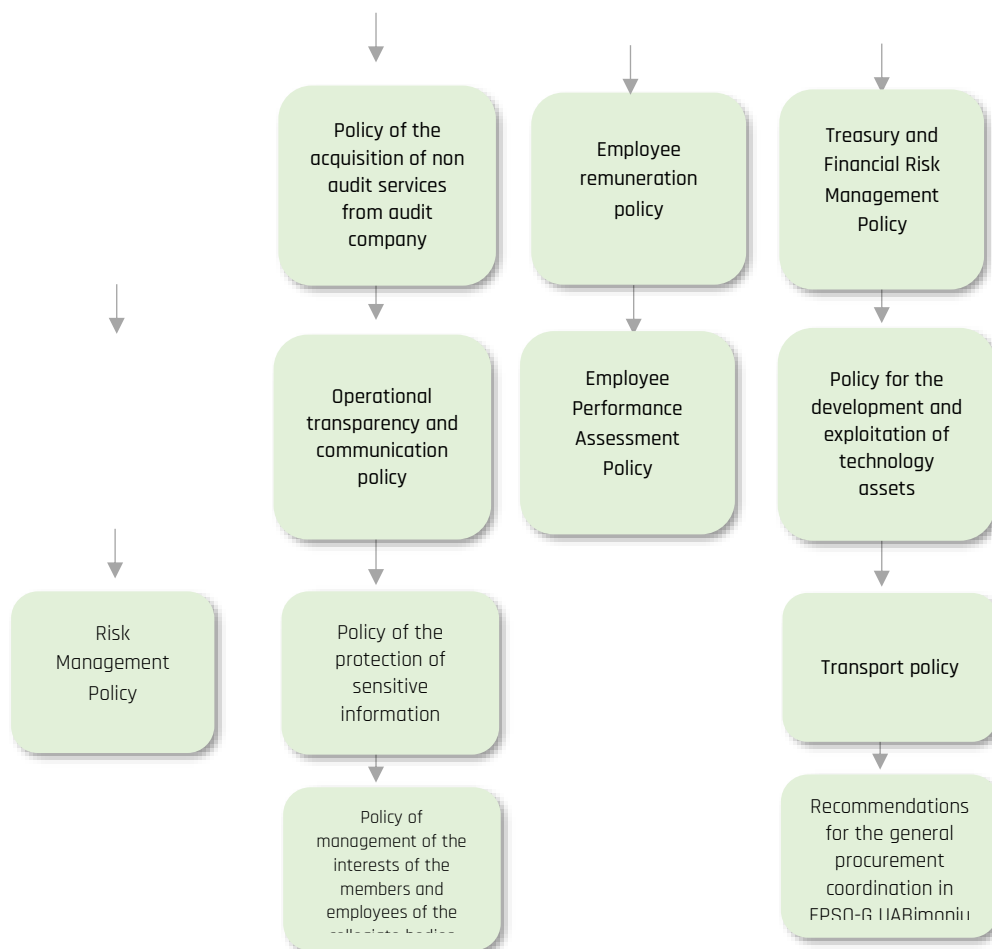
- when the management bodies and the structural units of EPSO-G directly perform with regard to the Group's companies the functions assigned to them:
 - the Supervisory Board of EPSO-G and its Audit Committee as well as the Remuneration and Appointment Committee operate as the Supervisory Board and committees of the companies of the entire Group;
 - the Internal Audit Unit of EPSO-G carries out the centralized internal audit functions at the Group level;
- by establishing the corporate governance principles applicable at the Group level and the corporate governance documents of the Group (guidelines, policies);
- the corporate governance documents (usually the Group's policies) approved by the competent bodies of EPSO-G are submitted to the Group's companies whose Boards decide on the implementation thereof. The Group's companies at least once a year report on the implementation of the policies of EPSO-G Group.



7.7 Operating policies

The management bodies of EPSO-G have established the main principles and, in some cases, the specific rules in these fields at the Group's level:





All policies or their summaries are available publicly on EPSO-G website www.epsog.lt in the column Operating policy.

7.8 Self-assessment of own activities by the collegiate supervisory and management bodies, and the results of the assessment

In light of the guidelines prepared by the Remuneration and Appointment Committee, at the beginning of 2018 EPSO-G and the collegiate supervision and management bodies of the Group's companies have carried out the self-assessment of their own activities of 2017.

The summarized assessments of the members of each collegiate body have been discussed during the meeting of each collegiate body. The fields of activity to be improved have been identified and the directions for improvement of the operational processes have been established by drawing up a coherent plan of actions and tasks for the year 2018.

The self-assessment of own activities of the collegiate bodies has been coordinated and summarized by the Remuneration and Appointment Committee of EPSO-G. In view of its opinion the Supervisory Board has recommended the Boards of the Group's companies to continue improving activities in the following fields:

- strengthening of risk management competencies,
- making organization of meetings more efficient,
- improvement of cooperation of the collegiate bodies,
- strengthening of organizational development, personnel management and financial knowledge.

8. REPORT OF THE IMPLEMENTATION OF THE REMUNERATION POLICY

The strength of EPSO-G group lies in its employees: experienced and competent professionals who effectively manage the state asset, implement the projects of strategic significance for the state, ensuring safe and uninterrupted transmission of energy and transparent trade in biofuels and wood. We create an open and advanced organisation by basing our activities on the values of EPSO-G such as professionalism, cooperation and progress.

We adapt the knowledge and experience accumulated in the region and create preconditions for contributing to the implementation of the strategic goals set by the State and the Energy Union striving to become the Energy Competence Centre of Lithuania and the Baltic Sea Region.

The human resource management policy of EPSO-G group is focused on the development of the employees' professional skills and the formation of value-generating activity culture.

We are aiming for the EPSO-G employees to be proud that they work in an active and honest organization, we create conditions for our employees to develop in the professional field, to reconcile professional and family obligations, we foster tolerance of individual differences.

8.1 Formation and monitoring of the remuneration and appointment policy

In order to ensure a proper management of the remuneration fund, the Remuneration and Appointment Committee to the Supervisory Board works in EPSO-G group of companies.

When performing this function the Remuneration and Appointment Committee of EPSO-G:

- provides recommendations regarding the terms and conditions of the contracts entered into with the members of the Board and/or heads, including the maximum amount of the remuneration for these persons, the maximum annual operating budget for their remuneration;
- prepares the main criteria of the assessment of the activities of the heads of the companies of the group of companies and the remuneration guidelines applicable when establishing the remuneration for the activities in the Supervisory Board, Board, the Remuneration and Appointment Committee, the Audit Committee, other specialized committees, if any are formed, of the subsidiaries of the Company and the Group. The committee reviews their implementation at least once a year;
- makes suggestions to the management bodies regarding the individual salaries for the management personnel and the members of bodies in order they would meet the remuneration guidelines and the assessment of the activities of these persons;
- when performing this function the Remuneration and Appointment Committee is informed about the total remuneration received by the management personnel and the members of the bodies from the other related companies;
- ensures that the individual salaries paid to the management personnel and/or to the members of the governing body would be in proportion with the salary of other management personnel of the Company and/or of the Group of companies or of the members of the bodies and of other employees of the subsidiaries of the Company and/or the Group of companies;
- provides recommendations regarding the policy established by the Board of payment for the work of the heads, deputy heads and other management personnel of the subsidiaries and sub-subsidiaries of the Company, also regarding the review of the policy and its implementation at least once a year;
- monitors and provides conclusions on how the Company and the companies of the Group of companies comply with the valid provisions concerning the publication of information related to salaries;

- provides the management personnel of the companies and/or the members of the bodies the general recommendations regarding an amount and structure of the salaries of these employees and/or members of bodies, also the recommendations to monitor an amount and structure of their salaries based on the information provided by the Company and the subsidiaries of the Group of companies;
- collects and systematises all information collected and received in the spheres of its competence, and on the basis of such information provides recommendations to the relevant body of the Group of companies and, when necessary, directly to the Supervisory Board;
- once a year the Remuneration and Appointment Committee reports in writing to the Supervisory Board about its activities covering one calendar year;
- the Supervisory Board and other bodies of the Company and/or of the subsidiaries of the Group of companies shall have the right to apply to the Remuneration and Appointment Committee and to provide conclusions on the specific issues raised by them if such the issues fall within the Competence of the Remuneration and Appointment Committee.

8.2 Remuneration policy

The uniform remuneration policy based on the principles of responsibility and accountability has been introduced in the companies of EPSO-G group in 2017. The aim of the policy: effective management of the salary costs of the Group and at the same time creating motivational incentives for the employees in order an amount of their salary would be associated with the implementation of the objectives provided for in the Group's strategy and of the tasks posed at the personal level.

Therefore, the remuneration of the employees of EPSO-G consists of two components, i.e. fixed and variable. The fixed component depends on the responsibility level related to the position held, which is determined according to the methodology applied in the international practice. The variable component of the remuneration is paid when the individual objectives established during the annual assessment are achieved and the companies report to the shareholder and the Board for the achievement of the annual objectives of the company.

- Based on the international good governance practice, the EPSO-G remuneration policy is approved or changed in the Board only after the provision of the recommendations by the Remuneration and Appointment Committee which also has independent members. This remuneration policy has also been followed in EPSO-G group of companies in 2018.
- The identical principles of the remuneration policy are applied both for the executives and employees.
- The remuneration fund is approved by the Boards of the companies. The Remuneration and Appointment Committee monitors whether there is a balanced control of salary costs with motivation of the employees who are properly performing their duties.
- The award of the variable component of remuneration depends on the assessment of the measurable activity results that are pre-set for the company and personally for the employee.
- The variable component of remuneration is not a bonus. It cannot exceed 20-30 percent of the fixed component of remuneration.
- The variable component of the remuneration of the head of the company depends on the implementation of the objectives set in the strategy of the company which are publicly available on the website of the company.
- The variable component of remuneration is not paid if the performance assessment criteria are not in line with the expectations.
- The amount of variable remuneration is provided for in the Company's budget and is accounted for in the financial result which is audited and is made publicly available.
- The termination payments of the heads and employees do not exceed the amount other than the one stipulated in the legal acts of the Republic of Lithuania and shall not be paid if the employment contract is terminated due to bad performance.
- The remuneration policy does not provide for any remuneration by granting the right to the shares, stock options or the right to receive remuneration based on changes in share prices.

- The companies of EPSO-G group reward their employees in emotional non-financial form in order to promote their engagement and loyalty. The indirect remuneration consists Indirect reward includes events for the employees, recognition and appreciation for very good performance.

8.2 Staff performance assessment

Staff performance assessment is one of the most important conditions of management and effective leadership that helps achieving the objectives of EPSO-G group of companies and creating a positive relationship between the leaders and their subordinates, allows planning the career of the employees, increasing their motivation and involvement.

An annual conversation is a performance assessment tool that ensures that the personal objectives of EPSO-G employees are tailored to the objectives of the company. The conversation is intended to discuss and set the measurable, time-defined and motivating objectives for the employees.

The annual and interim conversations are intended to assess the achievement of the objectives that have been set for the employee of EPSO-G and to set the new ones, forms a feedback culture between the leader and the subordinate. The need for the employee's competence development and further career prospects and career opportunities are also discussed during the conversation.

The assessment of the employee's operational goals during the annual conversation determines the amount of the variable remuneration component.

8.4 Employees

Number of the employees in the group of companies and in separate companies in 2016-2017		
	Number of the employees on 31 December 2017	Number of the employees on 31 December 2016
Group of companies	1014	1071
EPSO-G	22	16
Amber Grid	345	357
Litgrid	229	235
Tetas	375	421
"Baltpool"	11	10
Litgrid Power Link Service	29	29
Get Baltic	3	3

Distribution of the employees by groups in 2016-2017		
Groups of the employees	Number of the employees on 31 December 2017	Number of the employees on 31 December 2016
Director General	7	7
Top level executives	17	12
Middle and lower level executives	95	91

Experts – Specialists	566	577
Workers	337	391

Distribution of the employees by seniority in 2016-2017		
Groups of the employees	Number of the employees on 31 December 2017	Number of the employees on 31 December 2016
< 5 years	44 %	48 %
5-10 years	23 %	24 %
10-20 years	16 %	12 %
20-30 years	12 %	12 %
>30 years	5 %	4 %

Distribution of the employees by age groups in 2016-2017		
Groups of the employees	Number of the employees on 31 December 2017	Number of the employees on 31 December 2016
< 20-30 years	10 %	13 %
30-40 years	27 %	26 %
40 - 50 years	25 %	26 %
50 -60 years	29 %	28 %
>60 years	9 %	8 %

Distribution of the employees by educational background in 2016-2017		
Groups of the employees	Number of the employees on 31 December 2017	Number of the employees on 31 December 2016
Higher education	62 %	60 %
College	13 %	13 %
Secondary	25 %	27 %

Distribution of the employees by gender in 2016-2017		
Groups of the employees	Number of the employees on 31 December 2017	Number of the employees on 31 December 2016
Female	18 %	17 %

Male	82 %	83 %
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8.5 Information on wages

The wage fund of EPSO-G group in 2017 was 18 251 thousand euros (in 2016 17 307 thousand euros).

Twelve month payroll information of 2017

Wages by the groups of employees	Group		Company	
	Number of the employees (at the end of the period)	Average monthly salary	Number of the employees (at the end of the period)	Average monthly salary
Director General	7	6 239	1	7 774
Top level executives	20	5 822	4	5 431
Middle level executives	81	2 777	8	3 403
Specialists	572	1 475	9	2 362
Workers	337	902	-	-
Total average wages	1014	1 483	22	3 561
The wage fund, thousand EUR		18 251		927

1. Note: The amount of remuneration is specified including the variable remuneration amount paid out in 2017 for the results or objectives achieved in 2016.
2. The official remuneration of the Director General and the employees of the Company has not changed in 2017.
3. Information on the average salary is published by the companies of EPSO-G Group on the websites within 10 working days after the end of the reporting quarter. Information on EPSO-G salary is published on the website <http://www.epsog.lt/lt/tikslai-ir-atskaitomybe/darbo-uzmokestis>.
4. The new contracts for the term of office of 5 years have been prepared in 2017 for the heads of the companies that form the group of companies. The contracts can be extended for no more than 1 term of office of the same duration.

Payroll information of 2016

Wages by the groups of employees	Group		Company	
	Number of the employees (at the end of the period)	Average monthly salary	Number of the employees (at the end of the period)	Average monthly salary
Director general	7	6 070	1	7 234
Top level executives	21	4 538	4	4 309
Middle level executives	82	2 597	5	2 940
Specialists	582	1 367	6	2 296
Workers	381	813	-	-
Total average wages	1071	1 363	16	3 398

The wage fund, thousand EUR

17 037

569

8.6 Information on remuneration for the members of the collegiate management bodies

The members of EPSO-G supervisory and management bodies are appointed for the term of office of four years. The civil contracts have been entered into with them. The responsibilities, obligations, rights and functions of the members are discussed in detail in the contracts.

As per the Remuneration guidelines approved by the sole shareholder, the members of the collegiate bodies in the EPSO-G Group can be paid the remuneration that cannot exceed 1000 EUR, the chairmen can be paid the remuneration not exceeding 1300 EUR per month for the services actually rendered by the member of the Board.

The remuneration of the members of EPSO-G supervisory and management bodies is linked to the time spent for the performance of the functions provided for in the contract and cannot exceed the aforementioned threshold of the maximum remuneration.

There are 34 % of independent members in the collective management and supervisory bodies of the group of companies. They are paid under the civil contract pursuant to the approved remuneration guidelines.

The contracts entered into with the members of supervisory and management bodies do not confer any rights to the shares of the companies of EPSO-G Group, other forms of remuneration or additional benefits.

The contracts do not provide for any termination payments and periods of notice.

The remuneration for the execution of the rights and obligations of the shareholder in the subsidiaries in accordance with the civil contract of the member of the Board is not paid to the members of the Board who are appointed by EPSO-G as the largest shareholder. This principle is valid for the subsidiaries delegating members to the companies controlled by them.

Information on the work and pay-outs of the members of the supervisory and management bodies

	31 December 2017	31 December 2016
Meetings of the collegiate supervisory and management bodies (pcs)	76	38
Number of the members of the collegiate bodies who are paid remuneration (persons)	17	17
Pay-outs associated with the members of the management bodies (thousand EUR)	176	58

Information on pay-outs to the individual members of supervisory and management bodies

Full name of the member	31 December 2017	31 December 2016
Rytis Ambrazevičius	15 600	1 300
Valdas Vitkauskas	12 000	1 000
Gediminas Almantas	11 913	1 000
Rolandas Zukas	10 785	1 000
Algirdas Juozaponis	11 676	1 000
Viktorija Trimbel	14 849	7 813

Raimondas Rapkevičius	7 625	5 425
Inga Černiuk	-	-
Audrius Misevičius	-	-
Agnė Amelija Kairytė	-	-
Gediminas Šiušas	5 225	1 425
Jolita Lauciuvienė	4 870	1 580

8.7 LEGAL DISPUTES AND UNCERTAINTES

- During the meeting that took place on 26 March 2015 the National Commission for Energy Control and Prices (hereinafter referred to as the Commission) has imposed on "Litgrid" a fine of 100 thousand for the violations of the activities regulated that have been committed during the 2011-2013 regulatory period. The company has challenged the decision of the Commission regarding the imposition of the fine at Vilnius Regional Administrative Court. The Court of First Instance has rejected an appeal of the Company. On 1 September 2017 "Litgrid" has paid a fine of 100 000 euros by a bank transfer to the bank account of State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania.
- On 27 September 2017 the reports of the regulated costs of 2011-2013 have also been submitted to the Commission. The reports submitted have been corrected taking into account the inspection results confirmed by the Resolution No 03-815 of the Commission of 26 September 2014 and the reports of the actual costs of 2011-2013.
- On 3 September 2017 "Litgrid" has applied to Vilnius Regional Administrative Court and has brought an appeal against the administrative acts adopted by the Public Procurement Office and Public Institution Lithuanian Business Support Agency regarding the public procurement procedure "The construction of 110 kV power transmission line Kretinga-Benaičiai wind farm" that was carried out by the company during the period 2014-2015 (the partial funding of the procurement procedure is granted from the funds of the EU investments). When the completion of performance of the procurement contract was nearing to end, the Public Procurement Office at the order of Lithuanian Business Support Agency has carried out the assessment and on 3 August 2017 has presented the assessment conclusion stipulating that "Litgrid" has improperly assessed the unusually low price of the winning supplier and has infringed the principle of rational use of funds, transparency and equal rights. Accordingly, after the Conclusion has been presented, on 24 August 2017 Lithuanian Business Support Agency has adopted the decision whereby it has established that "Litgrid" has committed infringements of public procurement and has imposed a sanction amounting to 25 % of the project funds that are eligible for funding or a financial sanction of 486 927,25 EUR (the EU funds are reduced by 243 463,62 EUR). The company disagreed with the conclusion of the Public Procurement Office and the decision of Public Institution Lithuanian Business Support Agency, and has brought an appeal against them at the court by requesting the court to annul them and to suspend their validity. The court has accepted the appeal but refused to take enforcement measures and did not suspend the validity of the administrative acts adopted in respect of the Company. The Public Procurement Office and Public Institution Lithuanian Business Support Agency disagreed with the appeal and have lodged their responses at the court. The judgment dismissing the claim was delivered by Vilnius Regional Administrative Court on 18 January 2018.
- On 29 April 2015 "Achema" AB has brought an action against the defendants "Litgrid" and "TETAS", the company that has performed the contract works on the basis of the works contract entered into with the company, regarding compensation of losses of 2 326 964,40 EUR (jointly and severally) for the damage that arose from the failure in the power supply in the internal electricity grid of "Achema" AB on 29 April 2013. The court order regarding withdrawal of the action in the part regarding the income losses of 1 759 864,34 EUR has been adopted on 17 February 2017. Vilnius Regional Court by the court order of 9 March 2017 has upheld the request of "Achema" AB and has ordered an expert to give a report of the causes and consequences of

the event. The forensic examination act challenged by "Litgrid" has been received on 22 September 2017. The company has also lodged a request for a re-examination. The unfavourable outcome of the proceedings could have a negative financial impact on the Company of up to 567 100 EUR.

- When complying with the requirements of the Law of the Republic of Lithuania on Liquefied Natural Gas Terminal and the implementing legislation of this law "Amber Grid" collects, administers and pays out the LNG funds to the operator of the terminal ("Klaipėdos nafta", AB) and to the supplier appointed (LITGAS, UAB) in accordance with the legal acts.
- The litigation with "Achema" AB regarding the unpaid funds of LNG terminal was taking place in 2017. The second civil case regarding the unpaid funds of the LNG terminal (for the period from 1 September 2013 to 31 December 2013 and for the period from 3 December 2014 to 30 April 2015) has been suspended until the final procedural judgement will be adopted in the proceedings No T-417/16 of the General Court of the European Union. The preparatory inquiries in the documented way in third civil case pending before the court are taking place.
- The cases involving "Amber Grid" as the third party are also examined at the administrative courts:
 - six cases as per the applications of "Achema" AB regarding the annulment of the decisions of the National Commission for Energy Control and Prices. Proceedings in all administrative cases were stayed pending because the appeal of "Achema" AB is examined at the General Court of the European Union (in the case T-417/16);
 - one case as per an appeal of "Achema" AB vs the Republic of Lithuania regarding compensation of the damage of 15.329.728,69 EUR incurred as result of provision of the state aid that was not agreed with the European Commission. The case was heard at the court of the first instance, an appeal of "Achema" AB was rejected. "Achema" AB has lodged an appeal which is still pending before the court.

8.8 Important events after the end of the reporting period

January

On 18 January 2018, in the course of preparation for synchronization of electric grids with the grids of continental Europe, an electricity and gas distribution company "Energijos skirstymo operatorius" (ESO) and electricity transmission system operator "Litgrid" have signed the contract under which both companies will implement a joint project which will ensure a reliable electricity supply to the residential and business customers of the eastern part of Lithuania. To ensure autonomous energy supply it will be enough to instal one new line of 35 kilo-volts between the substations in Medininkai and Kalveliai because besides this new substation the power lines maintained by ESO will be used. The works are planned to be completed until 2020.

On 18 January 2018 the National Commission for Energy Control and Prices has approved the ten-year plan (2017-2026) of the network development of natural gas transmission system operator "Amber Grid" AB. The network development plan of "Amber Grid" AB is intended for the formation of the regional gas market. The value of the investments to the gas transmission system development projects within the next decade provided for in the plan amounts to 192.8 million euros.

9. EPSO-G PROGRESS REPORT ON SOCIAL RESPONSIBILITY

"We do care not only about the results of our activities, but also about the ways in which they are achieved", says Rolandas Zukas, the Director General of EPSO-G.

9.1 About the report

When preparing the Progress Report on Social Responsibility (hereinafter referred to as the Progress Report or Report) EPSO-G is guided by the principles of the Global Compact initiated by the United Nations and the recommendations of the Global Reporting Initiative (GRI) that help assessing the performance as per economic, environmental protection, employees, human rights, market and public relations indicators.

In 2018 the Progress Report on Social Responsibility of the Company for the year 2017 has been prepared as an integrated part of the annual financial statements that can also be published as a separate document.

Works and achievements of EPSO-G group of companies in the activity of social responsibility related to behaviour in the market, environmental protection, relations with employees and society done and achieved in 2017 are presented in this Progress Report. The social responsibility directions, actions and progress of the Company are described in the report.

Questions and comments as well as remarks regarding improvement of the Social Responsibility Report are invited to be submitted by e-mail andrius.vilkancas@epsog.lt.

This Progress Report is available publicly on the Company's website www.epsog.lt.

9.2 General provisions

The companies of EPSO-G group consider that the ways in which the results are achieved play an important role. Therefore, based on good experience gained by the domestic and international companies the companies seek to improve the business practice, to implement a modern management of human resources and to apply natural resource-saving technologies, substances and processes that are not harmful to human health.

When planning its activities EPSO-G group of companies takes into account the economic and social expectations of stakeholders, ensures transparent management, develops ethical relations in the market, introduces measures to prevent corruption and contributes to creating a good business climate in the country.

The social responsibility policy is based on the vision, mission, values of EPSO-G group of companies and the activity directions and goals approved in the five-year strategy of the group, specifically the development of regional activities and ensuring the success of the strategic projects, efficient activities, creating and advances organisation.

Based on the objectives established in the Shareholder's Letter of Expectations, the specific objectives have been formed for each direction of EPSO-G strategy, i.e. the objectives pursued during the period of the implementation of the strategy (until 2022). The measuring indicators have been formed for the strategic objectives. The efficiency of own activities is assessed in the short and long term based on these indicators.

The vision, mission, values, strategy and the activity directions of EPSO-G company as well as information about the implementation of objectives are presented in detail in sections 1 and 2 of this annual report.

9.3 Harmonious and sustainable development

The social responsibility of the companies of EPSO-G group is understood as an indivisible and integral part of a sustainable business.

The companies of EPSO-G group understand a sustainable development of harmonious business as a whole set of economic, social and environmental actions by increasing the general welfare of society in own professional activities and by reducing the permissible environmental exposure limits.

The principles of social responsibility are implemented on the basis of the related policies of EPSO-G group of companies and other valid internal documents.

The following policies apply in EPSO-G group:

- **Corporate governance policy.** The policy is intended to ensure a good governance practice in EPSO-G group of companies by establishing in the group of companies the uniform principles of corporate governance and reciprocity of the parent company and the other companies of the group.
- **Social Responsibility Policy.** The policy is intended to improve, based on good experience gained by the domestic and international companies, the business practice, to implement a modern management of human resources, to apply natural resource-saving technologies, substances and processes that are not harmful to human health.

- **Transparency and communication policy.** The policy is intended to help communicate more effectively with each other and with the external stakeholders, i.e. society, shareholder, market regulators, etc.
- **Corruption prevention policy.** The policy is intended to establish in EPSO-G group of companies the basic principles and requirements of prevention of corruption and guidelines for ensuring compliance with them, the implementation of which creates preconditions and conditions for the implementation of the highest standards of transparent business conduct.
- **Remuneration policy.** The policy is intended to properly manage wage costs and create motivational incentives in order the remuneration amount would directly depend on the implementation of the objectives that are set for the company and each employee.
- **Accounting policy.** The policy is intended to ensure that the stakeholders are able to assess the activity and perspective of the companies of the group and to make corresponding economic decisions.
- **Dividend policy.** The policy is intended to establish clear guidelines for expected equity and return on investment for the existing and potential shareholders while at the same time ensuring sustainable long-term corporate value growth, timely implementation of strategic projects of national importance thereby gradually strengthening confidence in the entire energy transmission and exchange group of companies.
- **Interest management policy.** The policy is intended to create in EPSO-G group of companies the interest management system which is consistent with the common good practice and would allow ensuring that decisions in the companies of the group are made in an objective and impartial manner and would also form an environment that is unfavourable to corruption and would increase confidence in the activities of the companies of the group.
- **Policy for the protection of sensitive information.** The policy is intended to create a uniform system for the identification, use and protection of confidential information and information constituting trading (know-how) secret, and to help the members and employees of the management bodies of the companies of EPSO-G group protecting the confidential information they were entrusted with against inappropriate and harmful disclosure.
- **Policy for the development and exploitation of technology assets.** The policy is intended to consistently implement the principles of management and development of electricity and natural gas infrastructure based on the cost and benefit analysis, to deploy advanced technologies, to manage and develop the energy transmission infrastructure in a socially responsible manner taking into account the occupational safety and environmental requirements.
- **Support policy.** The policy is intended to ensure that the support provided is public and does not cast doubt in the society regarding its expediency and transparency of the process of support granting.

Internal policies and procedures of the companies:

- Code of Ethics;
- the procedure or policy of ethical employment and working conditions;
- the policy and procedure of environmental protection and occupational safety and health;
- equal opportunities policy;
- Collective contracts.

The procedure of adoption and entry into force of the policies can be found in section 1.3 of the Corporate Governance Report of EPSO-G company of this annual report.

9.4 Stakeholders

When implementing the objectives provided for in the operating strategy the boards of the companies of EPSO-G group assess and seek to take into account the socials and economic interests and expectations of the stakeholders.

Each direction of strategic activities is related to one or several stakeholders. The official, partnership or consultative contacts are maintained with the groups or individuals who express their interest in the activities carried out by EPSO-

G. The stakeholders are provided with a comprehensive information related to the activities carried out by the company, except for the cases that are dealt with in EPSO-G policy of sensitive information.

The companies of the group at least once a year publicly present financial and non-financial activity reports to the Stakeholders, i.e. shareholders and social partners.

The companies of the group pre-inform the local communities about the projects carried out in their neighbourhood. During the implementation of the project the time of works is agreed with the locals in order to minimize inconvenience caused to the locals by the works being performed.

In order to assess a quality of the social dialogue with the stakeholders, a "Vilmorus" survey of the internal and external stakeholders has been carried out in December 2017 at the order of EPSO-G.

Based on the conclusions of this survey, the actions to improve the quality of dialogue with the stakeholders will be carried out in 2018.

The stakeholders having an influence on the success of EPSO-G activities:

Stakeholders	We undertake	Why this group is important	How we cooperate
Customers	To create professional and trustful partnerships for mutual benefit.	The companies of the group operate in B2B (business-to-business) field.	Given the complexity of the services provided and economic expectations, the groups of the company initiate and organise timely information events for the customers.
Employees	- To act purposefully in order a uniform business culture of the companies of the group and the remuneration policy would encourage the employee engagement and motivation when implementing the objectives set in the strategy; - To ensure that the employees of the group have sufficient and timely information about the values, objectives, activity and changes of the group.	Experienced, competent and value-driven professional employees represent an essential prerequisite for implementing objectives and vision.	- We improve the content and forms of the internal communication; - We conduct the employee engagement surveys and adjust our action plans accordingly; - We follow the uniform provisions of remuneration and social responsibility in respect of the employees; - We organise at least once a year the executives and staff meetings.
Shareholders	- To ensure a sustainable management of the group, its growth and a long-term benefit; - To provide relevant, accurate and timely information that allows the shareholders to assess the group's activities, their perspectives and to take appropriate decisions;	The success of the strategic projects implemented directly depends on the trust of the shareholders and on fast and timely decisions.	- We organize regular meetings to discuss relevant issues; - We submit at least once in a quarter the reports of financial and non-financial activities regarding the implementation objectives stipulated in the "Shareholder's Letter of Expectations".

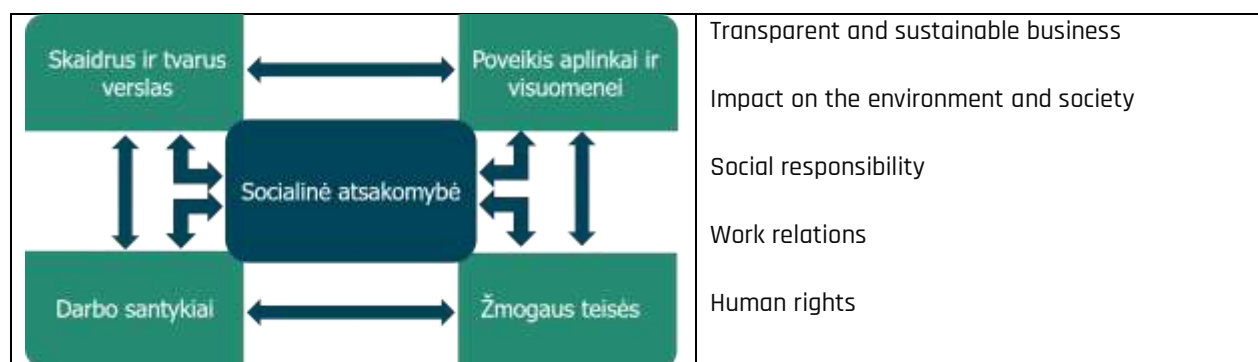
	To ensure efficient feedback.		We ensure the communication of the most important news of the companies of the group on a group scale.
Companies of the group	- To create value through meaningful management solutions; - By responding to a rapidly changing environment to consolidate the strengths of the companies of the group in order to achieve the efficiency of the objectives implementation.	The results of the Group's activities depend on the targeted and synchronized work of the companies of the group in pursuit of strategic objectives.	- We are the members of the management bodies of the companies of the group; - We organise and implement at the group's level the uniform operating policies enabling coordination of actions when introducing a good governance practice.
Foreign partners - the operators of energy transmission and biofuel exchange	The ensure in the implementation of strategic objectives the harmonization of the mutually beneficial agreements and actions.	Synchronization of the electricity transmission systems of the Baltic states with the European energy system, the creation of a regional gas market and the development of biofuel trading market directly depend on the involvement of foreign partners.	- We strive to establish and maintain on a regular basis a constructive business relationship based on mutual trust; - We initiate and participate in professional meetings to achieve the objectives provided for in the strategy.
Government representatives	To provide in an understandable and accessible form a relevant information that would form a reliable basis for assessing in accordance with competence the activities of the companies of the group, the results achieved and the benefits to the public.	Cooperation with the government representatives is necessary in order to ensure the formation of a coherent and long-term vision of the energy sector and smooth implementation of the projects of national and regional significance.	- We initiate meetings according to the need to discuss relevant issues; - We comment in the area of our competence the relevant issues in the committees of the Seimas of the Republic of Lithuania, in the meetings of the Government of the Republic of Lithuania; - We participate in the activities of the inter-institutional working groups.
National Regulatory Authority	- To ensure consistent compliance with the requirements of the legal acts in the group; - To implement a culture of an open and transparent	The main activities of the group are regulated. Therefore, it is necessary to ensure effective business	We provide in a timely manner the information necessary to ensure the functions of the regulatory authority;

	dialogue with the regulator.	relationships based on transparency, openness and responsibility.	• We cooperate during the process of introducing new market mechanisms; • We initiate the meetings to discuss the relevant issues.
Contractors	• To work with professional contractors who adhere to the standards of professional ethics.	• The companies of the group implements extremely complex and complicated projects. Therefore, it is important to raise a high standard of quality, transparency and occupational safety for the contractors.	• We organize annual information events for potential contractors; • We publicly announce in advance the procurement plans and consultations in order to ensure an increased competition among the market players.
Service and product suppliers	• To acquire under competitive conditions high-quality services from reputable suppliers;	• The suppliers supplying high-quality value-generating goods and rendering high-quality value-generating services in a timely manner contribute to the continuity and effectiveness of the group's activities.	• We consult with the market players and carry out market research; • We publish plans of the planned procurements.
Non-governmental organizations (NGOs)	Communication and collaboration with environmental organizations and those promoting operational transparency help identify the needs of society and the ways of addressing them.	The companies of the group carry out a continuous environmental impact monitoring. The companies of the group introduce a good governance practice in the fields of accountability and prevention of corruption.	Together with Lithuanian Ornithological Society we implement the measures to reduce the environmental impact. At least twice a year we consult with Transparency International Lithuania regarding corrections of the actions in implementing the provisions and practice of prevention of corruption.
Trade unions	• To ensure a constructive and positive social dialogue between the employer and the representatives of the employees.	• The employees determine the success of the group of companies. It is important that the employment relationships and the solutions that govern them would ensure a fair and	• By creating conditions for the activities of trade unions and/or work councils. • By entering into collective contract with trade unions and/or work councils. • By discussing the implementation of collective contract during

		uniform treatment of all employees and would ensure their legitimate interests.	periodic meetings with the employees and/or their representatives. By informing and consulting with the representatives of trade unions and/or work councils when making decisions on employment relationships.
General public and media	- To create added value for the society, business and the competitiveness of the country's economy; - To act in a socially responsible manner; - To provide information that is relevant and provided in an understandable form in accordance with the principles of importance, reliability, comparability and accessibility of information.	The mission of EPSO-G group: to ensure the implementation of the strategic energy objectives of Lithuania assigned to the group, safe operation of energy transmission systems, to enable benefiting from the possibilities of the effectively operating infrastructure and energy exchanges, and to contribute to the welfare of the society.	- We operate in accordance with the policy of the transparency of the group's activity and communication; - We observe the provisions of the social responsibility policy; - We maintain an impersonal relationship with the media representatives who work in the field of energy when providing sufficient information to evaluate the group's financial and non-financial performance and the ongoing projects.
Local communities	- To increase through coordination of interests the trust of the local communities in the ongoing projects and approval thereof; - To contribute to the growth and the creation of the possibilities of a full-fledged life.	Support from the local communities created by fostering mutual trust, understanding, cooperation, responsibility, is a very important element of the success of the project.	- The companies of the group share experience on spatial planning; - The information events for the local communities are organized.

9.5 Social Responsibility Directions and Priorities

The social accountability of EPSO-G involves these directions: business ethics of companies in the market and prevention of corruption, environmental sustainability, awareness-raising of employees, human rights, equality and diversity, occupational safety and health and mutual trust building relationships with stakeholders.



9.6 SOCIAL RESPONSIBILITY IN THE MARKET: EFFECTIVE AND TRANSPARENT BUSINESS

Strategic objective of EPSO-G group: to ensure through effective operation uninterrupted power supply and to enable the market players to freely exchange it. In order to achieve their objectives the Companies promote open and honest cooperation with stakeholders who help implementing the provisions of socially responsible business.

Accountability

The companies of the Group keep accounts in a correct way, and prepare and submit on a regular basis the reports of non-financial activities that are sufficient for the stakeholders to assess the behaviour of the companies of the Group in the market, the relations with the employees and the society. The companies of the group seek the standards of ethics, honesty and transparency that are higher than the minimum standards established by the legal acts.

In order to ensure that the stakeholders are able to assess the performance and perspective of the companies of the group and to make appropriate economic decisions the financial statements are drawn up in accordance with the accounting policy of EPSO-G that establishes the uniform principles, methods and requirements for keeping the accounts of the group forming companies and for drawing up of financial statements and submission thereof to the stakeholders.

The most important provisions of EPSO-G accounting policy:

- information must be objective, comparable and useful for the internal and external stakeholders;
- information is reliable, meaningful, timely and understandable;
- accounts are kept in accordance with the Law of the Republic of Lithuania on Accounting, Law of the Republic of Lithuania on Financial Reporting by Undertakings and Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, other regulatory acts regulating the accounting procedure;
- accounts are kept and financial statements are prepared and submitted as per the valid International Financial Reporting Standards and clarifications approved by the International Financial Reporting Interpretations Committee that are accepted for use in the European Union.
- Detailed information about the accounting principles of the companies of EPSO-G group is presented in the published financial statements.

In accordance with the provisions of EPSO-G Accounting policy and Transparency and communication policy the companies of the Group prepare and publish on a regular basis on the websites the interim and annual activity reports and financial statements as well as information about the shareholder's expectations, operational objectives, declarations of interests and remuneration.

The company observes the provisions of sections IV-VII of the description of the Guidelines for Ensuring Transparency of Operation of State-Owned Enterprises approved by the Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 and makes public the specified indicators of EPSO-G group (<http://vkc.turtas.lt/imonas>).

Respect for social and economic interests

While respecting the right of the stakeholders to assess in advance the impact of the projects developed in the nearby environment on their economic and social interests the companies of EPSO-G group that are the operators of transmission systems update and publish on an annual basis the ten-year plans of grid development.

Plans of development of electricity transmission systems

On 12 July 2017 electricity transmission system operator “Litgrid” has publicly announced that the most important projects in the ten-year grid development plan will be devoted to the integration into Europe.

Electricity transmission system operator “Litgrid” has assessed in the updated ten-year transmission grid development plan that 400 million euros will be required for synchronization with the grids of continental Europe during the period 2017-2026. The total value of investments in the transmission grid will be around 643 million euros.

It is expected that until 2026 60 million euros on average every year will be required for the implementation of strategic and grid renewal projects. Two new 330 kilo-volt (kV) electricity transmission aerial lines will start operating in Lithuania in the next decade. Works of construction of a double-circuit line between Kruonis Pumped Storage Plant and Alytus will be completed in this year. Furthermore, a new line with a length of around 60 kilometers is planned to be constructed around Vilnius. The extremely important projects that are required for synchronization are already being implemented in the eastern part of Lithuania: the reconstruction of 330 kV aerial line between Lithuania Power Plant and Vilnius substation will be started in the next year, the preparation for the optimization of Northeast Lithuanian power transmission grid node is under way.

It has been announced that “Litgrid” will consistently invest every year in the grid intelligence, remote management and self-healing potency. In 2017-2026 such investments will account for a fifth of all funds intended for the network.

A ten-year “Litgrid” grid development plan has been prepared in accordance with the provisions of the Country Strategy Papers, the needs of the electricity market players, ensuring the reliability of supply and efficient operating of transmission system, company strategy, the environmental policy of the company and the requirements of legal acts.

Natural Gas Transmission Grid Development Plan

On 18 January 2018 the National Commission for Energy Control and Prices has approved the ten-year plan (2017-2026) of the grid development of natural gas transmission system operator “Amber Grid” AB that has been prepared in 2017.

The value of the investments to the gas transmission system development projects within the next decade provided for in the plan will amount to 192.8 million euros.

The ten-year project provides for the gas transmission system development investments aimed at the achieving the objectives of the strategic natural gas sector of the European Union and Lithuania, i.e. to diversify sources of gas supply, to ensure the security and reliability of gas supply, to promote competitiveness, to integrate the gas markets of the Baltic states into the common European gas market and to develop the common regional gas market of the Baltic states.

a common European gas market there are plans to construct together with the Polish gas transmission system operator GAZ-SYSTEM S.A. until the end of 2021 the Lithuanian and Polish gas transmission systems and a gas pipeline that will interconnect the markets. In order to ensure adequate functioning of this gas pipeline and a cross-border

connection, the agreements necessary for the operation of the interconnection will be signed between the Lithuanian and Polish transmission system operators before the start of the gas pipeline operation.

The 2017-2026 grid development plan provides for the implementation of the following strategic projects of the gas infrastructure:

- a gas interconnection between Poland and Lithuania is expected to be built until the end of 2021 together with the Polish gas transmission system operator GAZ-SYSTEM S.A. The project is intended for the integration of the gas markets of the Baltic states into the common EU gas market, to diversify the gas supply sources and increase gas supply security;
- there are plans to implement the project of the capacity increase of the gas pipeline interconnection between Lithuania and Latvia together with the Latvian natural gas transmission system operator AS "Conexus Baltic Grid". This project is aimed at creating the preconditions for a greater integration of the gas markets of the Baltic states, at ensuring security and reliability of the natural gas system operation. The detailed parameters of the project, the funds required for the implementation and the implementation deadlines will become apparent after the project feasibility study will be carried out in 2018.

These projects will be relevant for the processes of the regional gas market formation in the Eastern Baltic region and will enable transmitting gas by the gas market participants of other countries of the region.

In addition to the strategic infrastructure projects, the development plan also provides for the investments in the development, restoration and modernization of the transmission system that will allow ensuring security and reliability of natural gas supply, sufficiency of the existing capacities of the transmission system, the introduction of advanced natural gas transmission infrastructure using the funds of the European Structural Fund resources.

A ten-year "Amber Grid" network development plan has been prepared in accordance with the provisions of the Country Strategy Papers, the needs of the gas market players, ensuring the reliability of supply and efficient operating of transmission system, company strategy, the environmental policy of the company and the requirements of legal acts, and is published on <https://www.ambergrid.lt/uploads/documents/Tinklo%20pl%C4%97tros%20planas%202017-2026.pdf>.

Public procurements and relations with the contractors

The companies of EPSO-G group implement the projects of the regional and national significance. These are major investment projects. Their success depends on the awareness, trust and support of the shareholders, partners, controlling and regulating institutions and the people of Lithuania. Accordingly, much attention is paid by the companies of EPSO-G in their activities to the supervision of public procurement procedures and the prevention of corruption.

The companies of EPSO-G group apply effective measures to ensure that procurements are carried out in a transparent manner by complying with the requirements of equality, non-discrimination, mutual recognition and proportionality, and opposes fraud, bribery or other unauthorized, restrictive practices.

Information on annual procurement plans, their implementation and responsible persons are made public on the websites of the companies of EPSO-G group.

To ensure fair competition, the projects that are planned to be implemented and works that are planned to be performed in 2018 and in later years, i.e. the projects and works that will be the object of the calls for tender for contracts works that are planned to be launched, have been presented to the contractors in 2017 by the heads of "Litgrid" and "Amber Grid". Such the meetings will be organized in 2018.

Prevention of corruption

The companies of the group do not tolerate corruption, nepotism or protecting friends or any other forms of impact trade, implement in a consistent and systemic manner prevention of corporate and private conflicts of interests. The companies of the group encourage the employees and other stakeholders to report directly or anonymously without fear for negative consequences about the possible infringements, unethical or unfair behaviour a trust based e-mail pranesk@epsog.lt.

A statement on the possible corruption manifestations in the subsidiary has been lodged at EPSO-G in 2017. The statement describes the circumstances surrounding the procurements of engineering systems and the actions related thereto, which could be inconsistent with the principles of transparency, equal treatment, non-discrimination, mutual recognition, as well as with the proportionality and impartiality requirements for the rational use of the resources of the company that acquires the goods, services or works, and the suppliers are selected on the basis of the most economically advantageous tender or the lowest price criterion by creating a level playing field and non-discriminatory conditions for the suppliers both during the both at the time of the procurement and during the execution of the contract.

In response to the statement received, EPSO-G has set up a commission to assess the statement. The Commission has assessed the circumstances set out in the statement in the context of the procurements regarding works related to engineering systems and has presented the following conclusions and suggestions:

1. No specific data on corruption-related offenses or violations of other legislation have been found during the investigation.
2. The requirements for the suppliers to hold a manufacturer's license were without prejudice to the requirements of public procurements. But according to the market situation at the time, the tender could be submitted by only one supplier. Therefore, the subsidiary has been required to submit specific measures to promote competition between suppliers at the time of acquiring electronic security and other IT systems and the related services.
3. When running the procurements in the field of IT systems the value of which exceeds 10 000 euros, the subsidiary has been advised to conduct market consultations and to assess the impact of the decisions taken on competition in the future procurements.

The Special Investigation Service of the Republic of Lithuania (SIS) has carried out and announced in 2017 a conclusion of the corruption prevention analysis in EPSO-G group of companies. The service has stated in the conclusion that risk is managed and put forward therein proposals how this process should be improved. EPSO-G group understands and finds that risk management is a continuous process. Therefore, in line with the recommendations of specialists they have introduced additional measures to increase the effectiveness of anti-corruption activities.

Information on monitoring of possible cases of corruption is provided in section 5.3 of this Annual Report.

Employee liability

The companies of the group and their employees are obliged to observe the requirements of legal acts and business ethics standards.

An employee who has breached this obligation shall be subject to disciplinary action in accordance with the internal procedure and grounds of the Companies, including the dismissal of such employee.

It has been found out in 2017 by the working group formed by the Director General of EPSO-G that the former Director General of Tetras, in violation of the obligation stipulated in part 6 of the Article 2.87 of the Civil Code, did not properly inform the Board and shareholders about a conflict of interests thus violating the obligation stipulated in part 4 of the Article 2.87 of the Civil Code, has confused the property of a legal person with his property and benefited personally from this, thus failing to fulfil his obligation to be loyal to the company managed by him. In this respect the Board of Tetras during the meeting of 3 February 2017, after having examined the conclusions of the work group, decided to terminate the contract with the former Director General of the company on grounds of loss of confidence.

9.7 SOCIAL RESPONSIBILITY IN THE FIELD OF ENVIRONMENTAL PROTECTION

Given that the activities of the companies of the Group may have an impact on the environment where the activities are carried out, the decisions taken must have a minimum, reducing and / or reversible environmental impact, to conserve natural resources and contribute to energy efficiency.

Environmental impact assessment standards

The companies of the Group whose activities may have an impact on the environment introduce advanced technologies that help reduce the environmental impact of activities or for restoring good environmental condition, apply measures and processes in accordance with the generally accepted environmental standards. The contractors and sub-contractors participating in the procurements are required to behave according to a similar standard.

While undertaking the development, "Litgrid" carries out the procedures for the assessment of the environmental impact of the electricity transmission lines that are planned to be built and selection thereof, the conclusions of which are assessed during the preparation of technical projects. When preparing the design tasks, the environmental requirements are set for all newly built or reconstructed transformer substations and switchgears. In all cases, efforts are being made to select less environmentally harmful devices. For example, during the reconstruction of electrical substations the oil equipment that was in service so far is replaced with modern gas installations. This helps reduce the risk of environmental pollution in the event of an accident. Furthermore, this helps reducing the operating costs of the equipment. The contractors are obliged to organize works in such a way as to avoid possible environmental impact or to minimize the environmental impact, to handle the waste generated during the construction and to submit the supporting documents.

When services are purchased, the contractors are required to have implemented the environmental management systems in accordance with LST EN ISO 14001 standard. It shall be checked at the time of acceptance of the works performed whether the contractors have fulfilled the requirements, whether they have properly managed waste and do they have the supporting documents. The Occupational Safety and Health Management system and Environmental Management system that meet the requirements of the international standards ISO 14001 and OHSAS 18001 are implemented in "Amber Grid" company where most of the infrastructure maintenance works are carried out by the employees of the company.

The Occupational Safety and Health Management system and Environmental Management system are integrated into the processes of planning, organisation and management of "Amber Grid" activities. Environmental management and Occupational Safety and Health Management, that are established by standards, help ensuring a continuous reduction of the environmental impact of the activities, also their impact on occupational safety and health, as well as ensuring of the implementation of the requirements applicable for the activities that are established by the international legal acts, regulations and other normative documents and those of the Republic of Lithuania.

The management of the company, having regard to the social and economic situation, as well as to the financial and technical capacities of the company, is committed to ensuring a continuous improvement of the processes of Environmental Management and Occupational Safety and Health Management, increasing environmental efficiency and efficiency of occupational safety and health, and to lead the company according to the standards acceptable for the management process.

The Environmental Management system and the Occupational Safety and Health Management system and introduced in the company operate as a repetitive process "planning-implementation-verification-analysis". The process involves the employees of all levels in accordance with the clearly established responsibilities for the certain parts of coordination of the management process and the implementation thereof. Taking into account the conditions of the changing economic, social and natural environment, the changing internal and external factors influencing the activities of the Company, the processes of the system are continuously monitored, reviewed and periodically adjusted. The management of the influencing factors is directly associated with the objectives and tasks posed for

the implementation of the principles of the environmental policy and the policy of occupational safety and health of the Company.

Environmental impact monitoring

The companies of the Group whose activities may have an impact on the environment assesses on a continuous basis the potential environmental impact during the project planning and implementation, also carry out environmental impact monitoring after the project has been implemented.

A constant monitoring of the environmental impact of Lithuania-Poland interconnection "LitPol Link" took place in 2017. The recording of concentrations of migrating geese and water birds in the established monitoring points has been carried out in the Spring. The monitoring of endangered amphibians, reptiles, turtles and natural habitats provided for in the monitoring program has also been carried out. Monitoring of environmental impact of another electricity transmission line Telšiai-Klaipėda is being continued: the concentrations of the migrating birds are being monitored in the valley of the River Minija near Dovilai, the density of the predatory birds living in Mižuikiai forest in Rietavas district.

Together with Lithuanian Ornithological Society "Litgrid" implements a project "Installation of the bird protection measures on the high voltage electricity transmission grid in Lithuania". The goals of this project: to reduce the death of migrating birds, to improve the conditions for the reproduction of the common kestrel in Lithuania, to monitor the cases of the death of birds near a high-voltage power transmission grid and to provide recommendations for their protection. Special bird-diverting measures (of a "pendant" or "spiral" type) that are better visible for the birds are installed on the lines in the places where the bird migration is most intense thus ensuring a greater visibility of the wires of electricity transmission lines. Special bird protections such as "fork" type devices preventing landing above the insulators are installed in the places where the biggest pre-migratory gathering of the white storks is observed, also the upper insulators in the garlands are replaced with the insulators of a bigger diameter to reduce short-circuit possibilities. Special nesting-boxes for the common kestrel are installed in the supports of 110 kV voltage in the places selected by ornithologists.

Energy saving

According to the principles of climate change, sustainable development and pollution prevention, the companies of the Group implement the activities that reduce energy consumption and greenhouse effect, pay attention to waste amount monitoring and sorting, hazardous waste management, promote the rational management and use of water, paper, energy and other resources.

On 9 October 2017 the Minister of Energy Žygimantas Vaičiūnas and the companies of EPSO-G group have signed the agreement on the actions and measures that will help the consumers of the country to save 269 GWh (0,27 TWh) of energy until the end of 2020.

The electricity transmission company "Litgrid" has committed to save almost 146.6 GWh (0.146 TWh), whereas the gas transmission operator "Amber Grid" - 122.54 GWh (0,122 TWh) of energy at the end users. EPSO-G will cooperate and coordinate the achievement of saving objectives by "Litgrid" and "Amber Grid", and will initiate the implementation of the measures of increasing energy efficiency.

The particular attention will be devoted to the saving measures related to the main activities of the energy transmission operators, i.e. to seek savings related to the modernization of electricity systems, also those related to smart accounting, etc. The saving effect will be pursued in cooperation with the largest energy consumers.

Waste management and sorting, economical use of resources

In the context of rational use of energy and water resources, the "Amber Grid" AB audit of consumption of energy, energy resources and water has been carried out in 2017. The audit in technological processes and equipment is

intended for estimating energy and water losses in technological processes and equipment and to foresee the technical, organizational measures for reducing energy and water losses.

There are special containers for sorting glass, plastic and paper in the companies of "Litgrid" and "Amber Grid". The requirements for air, surface water, groundwater, soil contamination monitoring and protective measures referred to in the permits of Integrated pollution prevention and control are also implemented in "Amber Grid". Hazardous and non-hazardous waste generated in the companies is handed over to waste managing companies. Household, paper and cardboard, plastic and glass waste from the activities of the Company's divisions is sorted and handed over to utilities companies.

9.7 SOCIAL RESPONSIBILITY IN RELATIONS WITH EMPLOYEES

Human rights

The companies of the group create a value-based organizational culture and are in favour of equal rights and equal opportunities of the employees in the workplace regardless of their gender, ethnic origin, race, nationality, social status, age, disability, membership in a political party or association, religious beliefs or sexual orientation.

Any form of harassment, psychological violence, bullying or taking advantage of the position held is intolerable too. The employees who may have been the subject of unlawful acts can submit a complaint to the responsible person appointed by the company. If the employee is dissatisfied with the result of the complaint examine, such the employee can defend his/her right infringed in accordance with the legal acts.

The employee who saw and/or has any suspicion about and/or who is a witness of the case of discrimination, harassment or sexual harassment shall notify thereof his/her direct manager or the responsible person appointed by the Company. The Company ensures confidentiality when examining complaints. Accordingly, all employees and the Company shall treat any information obtained during the investigation of an infringement as confidential. Breach of this provision is considered to be a gross violation of work discipline.

No reports of discrimination or other incidents related to human rights violations at work have been received in EPSO-G in 2017.

Equal rights

The companies of the group ensure that the working conditions are in line with the legislation, international standards and recommendations applicable in the Republic of Lithuania, and seek to create working conditions that respect dignity related to working hours, weekly rest, holidays, occupational safety and health, protection of maternity and adequate work-family relations balance.

For this reason, the companies of EPSO-G systematically analyse the working environment and constantly improve it. To achieve the objectives pursued that are set for the company and improvement, the employee opinion assessments are carried out during the employee satisfaction surveys that are held at least once every two years. The results of the surveys are used for adjusting the activity plans.

Decisions related to recruitment, competence development, remuneration or other pay-outs, promotions are taken in the companies of the Group taking into account objective criteria and factors without discrimination.

Workforce of the Group is composed mainly of men. This is strongly influenced by the specifics of the activity: women are less likely to choose works of technical engineering profile and those performed outdoors, and specialties directly related to them. In this regard, the Social Responsibility Policy introduces the provision that a proportional gender representation will be sought in the companies of the Group by identifying the measures and actions that help implement this provision.

No reports of gender discrimination have been received in EPSO-G group of companies in 2017.

The employees of the companies of the group are paid equal salary for the same or equivalent work. The amount of salary for a potential or actual employee is determined according to the objective criteria related to the abilities, competence, qualification, experience and knowledge of the employee. According to the employee remuneration policy

of the Group, the companies are encouraged to adequately reward their employees having achieved objectives and exceeding expectations.

Information about the employees, remuneration policy and the staff evaluation system is provided in section 8 of this Annual Report in the Report of the implementation of Reward policy.

Collective agreement

The companies of the Group recognize the right of the employees of voluntary joining trade unions or associations and the right to negotiate with the employer, and support a constructive social dialogue.

The collective agreement is intended for ensuring efficient work of the Company and to represent the rights and legitimate interests of all employees of the Company. The agreement establishes the conditions of labour, wages, social, also economic and professional conditions and guarantees which are not regulated by laws, other normative legal acts.

The meetings of the representatives of trade unions and the management of the companies intended to discuss the issues of relevance to the trade unions are organized on a periodic basis.

9.8 SOCIAL RESPONSIBILITY IN THE RELATIONS WITH THE SOCIETY

The companies of EPSO-G group create and maintain open and business relationship with the stakeholders and are accountable to the shareholders and the society for the activities carried out by them. At least once a year the companies of the group publicly present financial and non-financial activity reports to their shareholders and / or social partners.

Culture of the dialogue with communities

The companies of the group pre-inform the local communities about the projects carried out in their neighbourhood. During the implementation of the projects the time of works is agreed with the locals in order to minimize inconvenience caused to the locals by the works being performed.

In 2017 "Litgrid" has introduced in Alytus DC converter station the measures to reduce the noise coming from the operating equipment and spreading to the living environment. Barriers to reduce the level of the noise have been installed next to the power transformers. "Litgrid" envisages to introduce analogous measures in Klaipėda transformer substation in order to improve the living conditions of the locals who live near the substation. The technical project on the basis of which noise barriers will be installed here in 2018 has been prepared in 2017.

"Litgrid" in cooperation with the Association "Center for Civic Initiatives" has initiated in 2017 400 meetings-discussions with famous people in various cities and towns of Lithuania such as Druskininkai, Kėdainiai, Ignalina, Visaginas, Lazdijai, Birštonas, Gargždai. The project which runs from 2012 is intended to establish a dialogue with the communities in the neighbourhood of which important energy projects of infrastructure are being implemented or are underway.

Support policy

The Support policy confirmed in the EPSO-G group of companies second half of 2017 is based on the objectives and values of a five-year strategy and the attitude thereof that the support granted must be public and must not create doubts for the society regarding its expediency and transparency of the granting process.

EPSO-G is a state-owned company. Therefore, one of the most important obligations of the company is to pay dividends to the shareholder who allocates them through the country's budget to meet the essential needs of the society. For this reason, in order to implement the objectives provided for in the strategy of EPSO-G the companies of the group will grant support for the predefined areas.

Strands of support

There are plans to develop cooperation with the communities in the immediate vicinity of which the companies of the group carry out their activities or implement projects. Education is another strand of support, i.e. support for the individuals studying under the programmes of universities and other higher education institutions that are closely linked to the professional activities of the companies.

The policy which is common for all companies of the group provides that support may be granted for education, culture, sport, social services or other community welfare areas based on four principles, i.e. compliance with the operational objectives, transparency and impartiality, equality and alignment of confidentiality and publicity.

The companies of EPSO-G group will grant support neither for political parties or political campaigns nor for the activities that promote or are associated with gambling or similar activities, alcoholic beverages, tobacco products or other intoxicants nor for other activities that have or may have a negative impact on the society.

A profit share allocated for support in the companies of EPSO-G group of companies is determined annually at the Ordinary General Meeting of Shareholders by forming a reserve for this amount taking into account the profit achieved of the reporting year and the ongoing projects. A profit share allocated for support shall not be more than 1 % of the net profit of the reporting financial year, not exceeding in any case 50 thousand euros.

No support has been granted by the companies of EPSO-G group in 2017.

Volunteering

By contributing to the implementation of the objectives of public interest or those that are important for the local community, the companies of EPSO-G group encourage a voluntary unremunerated engagement of their employees in charitable activities.

Blood donation

A civil campaign "Blood Donor Day" has been organized on 5 June 2017 in the company "Amber Grid". 42 employees of the Company took part in the campaign (31 employees in 2016). The employees have donated their blood and thus contributed to saving health and life of the individuals suffering from various illnesses. 14.4 litres of blood have been donated. The National Blood Center expressed their thanks to the employees of "Amber Grid" for active participation and the dissemination of the ideas of unpaid blood donation.

Environmental management

More than 70 employees of the company "Amber Grid" together with their family members participated in a voluntary public action "Darom" in 2017 (600 employees in 2016). The Company received acknowledgement from the organisers of the action for the participation in a voluntary public action "Darom".

2500 pieces of spruce tree seedlings have been planted in April 2017 in Punia surroundings (Alytus district) by more than 50 employees of "Litgrid".

Donated a performance for children

The celebration "Children's Constellation" organized by Lithuanian National Drama Theater together with the partners which is a part of the National Social Security Campaign "For a Secure Lithuania" initiated by Dalia Grybauskaitė, the President of the Republic of Lithuania, took place on 1 June.

The employees of the Company contributed in person to the implementation of this beautiful idea. This caused great joy for the children who are in care of Raguvele Children's Day Center of the Public Institution "Save the Children", Ignalina parish of the birth of the Blessed Virgin Mary, Varėna District Public Organization "Let's Extend the Hand to the Child" and Rokiskis District Municipality. 49 tickets to the latest performance of Lithuanian National Drama Theater "Old man bones on the iron mountain" that recently received the "Golden Cross of the Stage" award have been bought by the employees of the Company.

Project "Students to the government"

"Amber Grid" contributed to the Project "Students to the government" organized in the Ministry of Energy. The future twelfth graders, who were the participants of the Project, visited the strategically important objects of Lithuanian energy.

The students have visited the Company, they got acquainted with the way of management of the gas transmission system at the Central Dispatcher's Department of AB "Amber Grid", got acquainted with the activities of Jauniūnai natural gas compression station.

The campaign "Christmas of Books"

The employees of "Amber Grid" have joined the social campaign "Christmas of Books" initiated by Dalia Grybauskaitė, the President of the Republic of Lithuania. Books have been donated to "Mothers' Union" which is a support and charity fund for children with oncological diseases. A total of 280 books have been donated.

Activities assessed

- "Amber Grid", a public limited company that creates a competitive and liquid gas market of the country, has received the award "Lithuanian Business Leaders 2017". The company has been recognized by the readers of Lithuanian business daily newspaper "Verslo žinios" (*Business News*) as a leader in the energy sector. The majority of the readers' votes have been casted namely to this energy company.
- On 23 November 2017, during the ceremony of the National Responsible Business Award "Amber Grid", which forms a part EPSO-G Group of Energy Transmission and Exchange Companies, has acquired recognition in the category of large companies as "Environmental Company of the Year" for the solutions to look for and assess technological innovations for the sake of technical, economic, financial and environmental efficiency.

The most advanced companies in Lithuania having done most of the work in the area of corporate social responsibility and having mostly contributed to the development of the social responsibility principles in the business sector in 2016 received honour during the ceremony of the National Responsible Business Award that took place for the tenth time.

The National Responsible Business Award is annual initiative supported by the state institutions aiming to raise awareness on the benefits of corporate social responsibility to business, the state and every person, and to encourage the companies of the country to implement the principles of social responsibility in their activities.

- At the Conference "Business Management 2018: Victory Management" organized by "Verslo žinios" (*Business News*) "Litgrid" has been announced a leader of the energy sector. 6 indicators such as profit, income, their annual change, profitability and the average wages in the company have been assessed by the analytics of "Verslo žinios" (*Business News*) at the time of ranking the companies.

INDICATOR INDEX ACCORDING TO GRI

A list of generic report indicators

Indicator code according to GRI Standard	Description	Page
Strategy and analysis		
GRI 102-14	Speech of the Chief Executive of the company	page 59

Description of the company		
GRI 102-1	Company name	page 62
GRI 102-2	Company activity, main brands and services	pages 64 - 71
GRI 102-3	Address of the company's head office	page 62
GRI 102-5	Property type and legal form	page 62
GRI 102-6	Markets in which the company operates	pages 64 - 71
GRI 102-7	Company size	pages 64 - 71
GRI 102-8	Number of employees	pages 106 - 107
G4-11	Percentage of all employees who are subject to the arrangements under the collective agreement	pages 106 - 107
GRI 102-11	Observance of precautionary principle	pages 89 - 93
GRI 102-12	External economic, environmental and social initiatives	xx-xx
GRI 102-13	Membership in national and international organizations	pages 88 - 89
Ethics and integrity		
GRI 102-16	The values, principles, standards and norms of the organization related to behavioral and ethical codes	page 69; pages 111 - 112
Company management		
GRI 102-18	Company management structure	pages 95 - 100
GRI 102-19	Delegated powers	pages 95 - 100
GRI 102-20	Attribution of the leading representatives of the Company and representation in the field of finances, environmental protection and social responsibility	pages 95 - 100
GRI 102-21	Responsibility in providing information / advice to the shareholders on the issues of finance, environmental protection and social responsibility	pages 95 - 100
Stakeholders		
G4-24	Stakeholder list	pages 113 - 116
Report parameters		

G4-28	Report period	page 62
G4-29	Date of the previous report	page 117
G4-30	Reporting frequency	page 117
G4-31	Contact person to answer the questions related to social responsibility	page 111
G4-33	Policy and practices of the organization regarding the external audit of report	pages 89 - 93
Management		
G4-34	The management structure of the company, including the top-level committees	pages 95 - 100

List of impacts and specific indicators of the company			
Impact	Description, disclosed mode of management and indicator	External check	Page/Source
Economy			
Economic efficiency	Direct economic benefits received and distributed	Accomplished	Annual report, pages 81 - 87
Market	Comparison of a standard salary of employees with a minimum wage	Not accomplished	-
Indirect economic impacts	Development and impact of investment in infrastructure and services	Accomplished	The Progress Report on Social Responsibility, pages 117 -120
Environmental protection			
Products and services	Environmental impact mitigation measures for products and services of the Company (G4-EN27)	Partially	The Progress Report on Social Responsibility, pages 120 - 122
Social area			
Education and training	Programs for improving employee skills and lifelong learning, ensuring continuity of worker capacity and helping to manage their careers (G4-LA10)	Not accomplished	-
Non-discrimination	The number of discrimination incidents and the	Accomplished	The Progress Report on Social Responsibility, pages 122 - 123

	actions taken to deal with the incidents related to human rights violations (G4-HR3)		
Local communities	Subdivisions involving the local communities by assessing the impact or development programs (G4-S01)	Not accomplished	The Progress Report on Social Responsibility, pages 123 - 125

ANNEX I

Report of "EPSO-G" UAB on the compliance with the governance code of the companies listed on AB NASDAQ OMX

"EPSO-G" UAB (hereinafter referred to as the Company or EPSO-G) is a parent company of EPSO-G group of companies (hereinafter referred to as EPSO-G group of companies) whose sole shareholder is the state of Lithuania. Information on the Corporate Governance Model implemented in the Company and EPSO-G group of companies is presented in the part "Governance Report" of the Annual Report.

In accordance with the description of the Guidelines for Ensuring Transparency of Operation of State-Owned Enterprises approved by the Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010, and the Operational transparency and communication Policy of "EPSO-G" UAB group of companies, EPSO-G reveals in this report how the provisions of the Code of management of the companies whose securities are traded in the regulated market approved by AB NASDAQ OMX Vilnius are being complied with. If this Code or some of the provisions thereof are not complied with, then it specified which specific provisions are not complied with and for what reasons.

The implementation of the recommendations of the management code of the companies listed on AB NASDAQ OMX in "EPSO-G" UAB is essentially ensured through information disclosed in the annual report and through disclosure of extensive information on EPSO-G website in order to provide information in a format which is accessible and comprehensible to the stakeholders.

Structured table of disclosure:

PRINCIPLES/RECOMMENDATIONS	YES/NO/ IRRELEVANT	COMMENT
Principle 1: Main provisions		
Meeting the interests of all shareholders by ensuring a constant increase of the value of shareholders' equity should be main objective of the company.		
1.1. The company should prepare and make publicly available the development strategy and objectives of the Company by clearly declaring how it intends to act for the sake of the interests of the shareholders and increase the shareholders' equity.	YES	The main development strands and strategy of EPSO-G group are publicly available on the Company's website www.epsog.eu , in the annual and interim reports of the Company. The Operational transparency and communication Policy of EPSO-G group stipulates that all companies of the group must publish the strategic strands, annual reports, etc. on their website.
1.2. The activities of all bodies of the company should be focused on the implementation of the strategic objectives taking into account the need to increase the shareholders' equity.	YES	As per the competence established in the Articles of Association of the Company, the key strategic decisions that determine increase of the shareholders' equity are adopted in the Supervisory Board and Board of the Company. The head of the company organizes and controls the implementation of the operational strategy of EPSO-G Group, coordinates and monitors the progress and implementation of the projects of

		particular national interest and / or projects of the state significance. When assessing the activities of the Boards of the Group of companies the Remuneration and Appointment Committee also assesses to what extent the Boards analysed and dealt with strategic issues, to what extent they dealt with the issues of supervision and control and other issues.
1.3. The supervisory and management bodies of the Company should work closely together to maximize the benefits to the company and its shareholders.	YES	The supervisory and management bodies of the Company work closely together to achieve the objectives set out in the strategy of the Group by, inter alia, cooperating in the following forms: - sessions for cooperation between the Management and Supervisory Bodies of the Group of companies are organised at least twice a year; - strategic sessions are organised at least twice a year; - meetings of the Chairmen of the Supervisory Board, the Board, the Remuneration and Appointment Committee, and of the Audit Committee of the Company; - the members of other body are invited to the meetings of a collegiate body if the topics of relevance to both bodies are discussed; - a related relevant information from other meetings of collegiate bodies is presented during the meetings; - a letter of expectations is discussed with a sole shareholder of the Company.
1.4. The supervisory and management bodies of the company should ensure that the rights and interests of not only the shareholders of the company, but also of other persons involved in or related to the activities of the company (employees, creditors, suppliers, customers, local communities) are respected.	YES	The Company has an approved Operational Transparency and Communication Policy of EPSO-G group of companies that establishes the objectives to raise awareness and understanding of the stakeholders about the activities of EPSO-G group and separate companies of the group; to ensure employee involvement; develop and maintain a sustainable and trust-based relationship with the stakeholders. The Company has an approved Social responsibility policy of EPSO-G group of companies that establishes the strands and guidelines of social responsibility involving business ethics in the market of the companies of EPSO-G group and corruption prevention, environmental sustainability, employee development, human

		rights, equality and diversity, occupational safety and health, and mutual trust building relationship with the stakeholders. The Company fulfils its financial and other liabilities in accordance with the budget approved by the Board of the Company.
Principle 2: Corporate governance framework The corporate governance framework should ensure strategic management of the company, effective supervision of the company's governing bodies, an appropriate balance and distribution of functions between the company's bodies, and the protection of the shareholders' interests.		
2.1. In addition to the mandatory bodies provided for in the Law of the Republic of Lithuania on Companies such as the General Meeting of Shareholders and the Head of the Company, it is recommended that both a collegiate supervisory body and a collegiate governing body be formed in the company. The formation of collegiate supervisory and management bodies ensures a clear separation of management and supervisory functions in the company, accountability and control of the company's head, which in turn results in a more efficient and transparent corporate governance process.	YES	The following collegiate bodies are formed in the Company: (i) the Supervisory Board with two committees formed thereto, i.e. the Audit Committee and the Remuneration and Appointment Committee; (ii) the Board.
2.2. The collegiate governing body is responsible for strategic company management and carries out other essential company management functions. The collegiate supervisory body is responsible for efficient supervision of the activities of the management bodies of the company.	YES YES	The Supervisory Board of the Company elects and revokes the members of the Board of the Company, supervises the activities of the Board and the head, provides feedback and suggestions to the General Meeting of Shareholders. The Supervisory Board of the Company also carries out supervisory functions at the Group level, as provided for in the Articles of Association of the Company. The Audit Committee and the Remuneration and Appointment Committee formed to the Supervisory Board contribute to efficient maintenance at the group's level. The committees also perform their functions at the group's level. The competence of the company's Board includes core management issues, such as decisions on entry into significant transactions, approval of the policies of EPSO-G group of companies, voting at the general meetings of shareholders of the subsidiaries, supervision of major projects, etc.
2.3. If a company decides to create only one collegiate body, it is recommended that it be a supervisory body, i.e. the Supervisory Board. In	YES	The following collegiate bodies are formed in the Company:

such case, the Supervisory Board is responsible for the effective supervision of the functions performed by the company's head.		(i) the Supervisory Board with the advisory permanent committees, i.e. the Audit Committee and the Remuneration and Appointment Committee (ii) the Board of EPSO-G.
2.4. The collegiate supervisory body elected by the General Meeting of Shareholders should be formed and should act in accordance with the procedure outlined in Principles 3 and 4. Should a company decide not to form a collegiate supervisory body, but should form a collegiate governing body, i.e. the Board, the principles 3 and 4 should apply to the Board, to the best of their ability, insofar as this is not incompatible with the essence and purpose of this body.	YES	The Company has the Supervisory Board which operates in accordance with the procedure outlined in the principles 3 and 4 (see below for a report on the implementation of the principles 3 and 4).
2.5. The management and supervisory bodies of the company should be comprised of such the number of the members of the Board (executive directors) and the members of the Supervisory Board (directors, non-executive directors) that an individual or a small group of individuals could not dominate at the time of decision making by such bodies.	YES	From 17 January 2017 the Supervisory Board consists of four members, two of whom are independent. The meeting of the Supervisory Board is deemed to have taken place when more than a half of the members of the Supervisory Board participate in the meeting. The Audit Committee to the Supervisory Board consists of three members, two of whom are independent. The meeting shall be deemed to have taken place when at least two members are present at the meeting. The Remuneration and Appointment Committee to the Supervisory Board consists of three members, two of whom are independent. The meeting shall be deemed to have taken place when at least two members are present at the meeting. The Board consists of five members, three of whom are independent. The Board may take decisions and its meeting is deemed to have taken place when four or more Board members are present.
2.6. Non-executive directors or the members of the Supervisory Board should be appointed for a specified period, with the possibility to be individually re-elected at the maximum intervals permitted by the legal acts of the Republic of Lithuania in order to ensure the necessary growth of professional experience and a sufficiently frequent re-confirmation of their status.	YES	The Supervisory Board is elected for a four-year term of office. The uninterrupted term of office of the member of the Supervisory Board is no more than two consecutive terms. The Board of the company is elected for a four-year term of office. The uninterrupted term of office of the member of the Board is no more than two consecutive terms.

Provision should also be made for them to be exempted, but this procedure should not be easier than the procedure for dismissal of the executive director or member of the management board. The possibility for their dismissal should also be provided for. However, that procedure should not be easier than the procedure for the dismissal of the Executive Director or the member of the Board.		The Supervisory Board, the Board and its individual members can be revoked in accordance with the legal acts of the Republic of Lithuania.
2.7. A person whose current or former position would not be an impediment to the execution of independent and impartial supervision can be the Chairman of the collegiate body elected by the General Meeting of Shareholders. In the case where the Supervisory Board is not formed in the company, but the Board is formed instead, it is recommended that the Chairman of the Board of the company and the head of the company would be different persons. The former head of the company should not be immediately appointed to hold the post of the Chairman of the collegiate body elected by the General Meeting of Shareholders. When the company decides to depart from these recommendations, information should be provided on the measures taken to ensure the impartiality of the supervision.	YES	Clause 7.19 of the Articles of Association of the Company stipulates that the Supervisory Board shall elect the Chairman of the Supervisory Board from its members. Candidates to the position of the Chairman of the Supervisory Board shall be nominated from the independent members of the Supervisory Board. An independent member is appointed to hold a position of the Chairman of the operating Supervisory Board. Clause 8.28 of the Articles of Association of the Company stipulates that the Board shall elect the Chairman of the Board from its members, the candidates to the position of the Chairman of the Board shall be nominated from the independent members of the Board. The uninterrupted term of office of the Chairman of the Board is no more than 4 (four) consecutive years. The Chairman of the Board cannot be elected from the representatives of the Company appointed to the Board of the Company. An independent member is elected to hold a position of the Chairman of the operating Board of EPSO-G.
Principle 3: The procedure for the formation of a collegiate body elected by the General Meeting of Shareholder The procedure for the formation of a collegiate body elected by the General Meeting of Shareholder of a company should ensure the representation of the interests of the minority shareholders of the company, the accountability of this body to the shareholders and objective supervision of the company's activities and its management bodies.		
3.1. The mechanism for the formation of a collegiate body elected by the General Meeting of Shareholders (hereinafter referred to in this principle as the collegiate body) should ensure that an objective and impartial supervision of the company's governing bodies will be carried out and the interests of the minority shareholders will be represented in a proper manner.	YES	Clause 7.2 of the Articles of Association of the company stipulates that the Supervisory Board shall consist of 5 (five) members at least 2 (two) of whom must be independent. Each candidate must provide a candidate's declaration of interests. The Supervisory Board shall be elected by the General Meeting of Shareholders in accordance with the requirements of the Law of the Republic of Lithuania on Companies and the requirements of the legal acts applicable for the state-owned companies.

3.2. The forenames, surnames of the candidates to the members of a collegiate body, information about their educational background, qualifications, professional experience, current position held, other important professional obligations and potential conflicts of interests should be disclosed to the shareholders of the company before the General Meeting of Shareholders in order the shareholders would have enough time decide in favour of which candidate they want to cast their votes. All circumstances that could affect the candidate's independence should be disclosed should be also disclosed (the illustrative list of the circumstances is can be found in 3.7 recommendations). A collegiate body should be informed about subsequent changes in the information specified in this clause. A collegiate body should each year compile the data referred to in this clause on its members and should present them in the annual report of the company.	YES	The shareholders shall be provided with information on the candidates to the members of the Supervisory Board in accordance with the Law of the Republic of Lithuania on Companies during the General Meeting of Shareholders the agenda of which includes consideration of the issue of the election of the members of the Supervisory Board. Each candidate to the members of the Supervisory Board must submit a candidate's declaration of interests to the General Meeting of Shareholders containing details about all circumstances that could lead to a conflict of interests between the candidate and the Company. When new circumstances develop that could lead to a conflict of interests between the member of the Supervisory Board and the Company, the member of the Supervisory Board must immediately inform the Supervisory Board in writing about such new circumstances. In accordance with the policy of EPSO-G group of companies of management of the interests of the members, heads and employees of the collegiate bodies, a unified interest management system that meets good practice and allows ensuring decision making in the companies of the group in objective and impartial manner has been created in the EPSO-G group of companies. The members of the collegiate bodies must at least once a year assess the independence of the members. Therefore, the information specified on the changed circumstances, as referred to in the recommendations, is collected. Information about the collegiate members of EPSO-G is publicly available on www.epsog.lt.
3.3. A specific competence directly related to work in the collegiate body should be specified when it is proposed to appoint a member of the collegiate body. In order the shareholders and investors could assess whether such the competence is still appropriate, the collegiate body should announce in every annual report of the company information on its composition and on a specific competence of its individual members that is directly associated with their work in the collegiate body.	YES	Information on the work experience of the candidates to the members of the Supervisory Board and the position they hold as well as other information describing the competence of the candidate is provided at the General Meeting of Shareholders. The Company announces in the annual report and on the Company's website a composition of the collegiate bodies and the position held by the members.
3.4. In order to maintain a proper balance of the qualification of the collegiate body's members, a	YES	The selections of the members of the collegiate bodies of EPSO-G are carried out by determining

composition of the collegiate body should be determined taking into account the company's structure and the nature of the activities, and should be assessed periodically. The collegiate body should ensure that its members, as a whole, have a wide range of knowledge, opinions and expertise to carry out their tasks properly. The members of the Audit Committee, as a whole, should have the latest knowledge and relevant experience in the fields of finance and accounting and/or audit of the listed companies. At least one member of the Remuneration Committee should have knowledge and experience in the field of remuneration policy.		the necessary competences of the body and, namely, on the estimate that the Supervisory Board of EPSO-G performs the supervisory functions at the level of the entire Group of companies and the Board of EPSO-G is responsible for the group's development and when selecting the members who meet them. The composition of the Audit Committee of EPSO-G meets the requirements of the legal acts: the Resolution No 03-14 of the Board of the Bank of Lithuania of 24 January 2017 "Regarding the approval of the description of the requirements for the Audit Committees" and the Resolution No 383 of the Government of the Republic of Lithuania of 24 May 2017 "Regarding the approval of the description of the requirements for the Audit Committees of the state-owned companies and the municipality-owned companies". The composition of the Remuneration and Appointment Committee of EPSO-G ensures (...) in the fields of remuneration, personnel competences and activities assessment, selection, management of changes in organisations. The collegiate bodies of EPSO-G group and their members carry out on annual basis the self-assessment of their activities according to the guidelines of self-assessment of own annual activities of the collegiate bodies of EPSO-G group of companies approved by the Remuneration and Appointment Committee of EPSO-G.
3.5. All new members of the collegiate body should be offered an individual program to familiarize them with the duties, organization and activities of the company. The collegiate body should conduct an annual check to identify areas in which its members need to update their skills and knowledge.	YES	The newly elected members of the collegiate bodies shall have the opportunity to meet with the members of other collegiate bodies and the heads of the structural units of the Company in order to make themselves familiar with the Company's activities. The members of the collegiate bodies are regularly informed about the Company's activities at the meetings and individually upon request of members. The collegiate bodies of the group of companies and their members carry out on annual basis the self-assessment of their activities according to the guidelines of self-assessment of own annual activities of the collegiate bodies of EPSO-G group

		of companies approved by the Remuneration and Appointment Committee of EPSO-G.
3.6. In order to ensure that all material conflicts of interests related to a member of the collegiate body are properly resolved, a sufficient number of independent members should be elected to the collegiate body of the company.	YES	See comment in clause 2.5.
3.7. A member of the collegiate body should be considered independent only in cases where it is not associated through any business, family or other relationship with the company, its controlling shareholder or their administration, which give rise to or might give rise to a conflict of interests and which may affect the opinion of a member. Since it is impossible to list all cases when the member of the collegiate body may become dependent, plus the relations or the circumstances surrounding the establishment of independence may vary between companies, and the best practices for resolving this problem will develop over time, for this reason, the assessment of the independence of the member of the collegiate body should be based on the content of the relations and circumstances rather than the form. The main criteria for determining whether a member of the collegiate body can be considered as an independent member are as follows: 1) he may not be the executive director or the member of the Board of the company or related company (if the collegiate body elected by the General Meeting of Shareholders is the Supervisory Board) and must not have been holding such the position for the last five years; 2) he may not be the employee of the company or related company and must not have been holding such the position for the last three years, except in cases where the member of the collegiate body is not a member of the senior management and has been elected to the collegiate body as a representative of the employees; 3) he should not receive or must not have received a significant extra emolument from the company or related company, except for	YES	The independence of the collegiate bodies is determined in accordance with the policy of managing the interests of the members, heads and employees of the collegiate bodies of EPSO-G group of companies prepared in accordance with the management code of the companies listed on Nasdaq, the description of selection of the candidates to the Board of the state-owned or municipal company and of the candidates to the collegiate supervisory or governing body elected by the General Meeting of Shareholders of the state-owned or municipal company, the Description of the requirements for the members of the Audit Committee approved by the Bank of Lithuania, the explanations found in the good governance practice regarding determination of independence.

remuneration received for the obligations of the member of the collegiate body. Such extra emolument includes participation in stock options or other pay-as-you-run systems. It does not include payment of compensations under the pension plan (including deferred compensations) for the previous work in the company (provided that such a payment is not in any way related to the subsequent obligations);

4) he must not be a controlling shareholder or must not represent such a shareholder (control shall be determined in accordance with Article 1 (1) of the Council Directive 83/349 / EEC);

5) he cannot have and during the past year he must not have had a significant business relationship with the company or the related company neither directly nor as a partner, shareholder, director or a superior employee of the entity who is in such relationship. An entity that is an important supplier of goods or provider of services is considered to be an entity who is business relationships (including financial, legal, advisory and consulting services), a significant customer or organization that receives significant contributions from the company or its group;

6) he cannot be and must not have been in the past three years a partner or employee of the current or previous external audit company of the company or related company;

7) he must not be an executive director or the member of the Board of another company where the executive director of the company or the member of the Board (if the collegiate body elected by the General Meeting of Shareholders is the Supervisory Board) is a non-executive director or a member of the Supervisory Board, nor can he be in other significant relationships with the executive directors of the company that arise from their participation in the activities of other companies or bodies;

8) he must not have been in position of the member of the collegiate body for more than 12 years;

9) he must not be a close family member of the executive director or the Board member (if the collegiate body elected by the General Meeting of

Shareholders is the Supervisory Board) or of the persons referred to in clauses 1-8. A close family member is a spouse (cohabiting partner), children and parents.		
3.8. The content of the notion of independence is essentially determined by the collegiate body itself. The collegiate body may decide that its particular member, although fulfilling all the independence criteria set out in this Code, cannot, however, be considered independent due to special personal or company-related circumstances.	Yes	In accordance with the policy of managing the interests of the members, heads and employees of the collegiate bodies of EPSO-G group of companies, a member of the collegiate body himself shall, foremost, personally carry out the independence assessment and the final decision shall be made by the collegiate body whose member's independence is assessed and by evaluating both the formal criteria of independence, the self-assessment of the member of the collegiate body and other circumstances known to the collegiate body. The policy establishes that despite the fact that the member of the collegiate body meets all the criteria for independence set out in the policy he may not be considered an independent member, and vice versa, if a person does not meet a particular formal criterion, this does not necessarily mean that the person cannot be considered independent.
3.9. The necessary information about the conclusions reached by the collegiate body when trying to find out if its particular member can be considered independent should be disclosed. When it is proposed to appoint a member of the collegiate body, the company should declare whether it is considers the member as independent. When a particular member of the collegiate body does not meet one or more of the criteria for the assessment of independence set out in this Code, the company should announce the reasons why it, however, considers that member as independent. Furthermore, the company should announce in each of its annual reports which members of the collegiate body are considered to be independent.	YES	The company announces both on its website and in the annual report which members of the collegiate bodies are considered to be independent. Information on the annual independence assessments of the members of the collegiate bodies is provided in the annual report.
3.10. When one or several criteria for the assessment of independence set out in this Code have not been met all year round, the company should announce the reasons why it considers an particular member of the collegiate body to be independent. In order to ensure the accuracy of information provided in connection with the	YES	In accordance with the policy of managing the interests of the members, heads and employees of the collegiate bodies of EPSO-G group of companies, the members of the collegiate bodies and candidates to the members of the collegiate bodies are obliged to submit declarations of interests. All the circumstances that could give rise

independence of the members of the collegiate body, the company should require the independent members to periodically confirm their independence.		to a conflict of interests of the declarant must be disclosed in the declaration of interests. The independence assessment of the members of the collegiate bodies shall be carried out: - at the time of appointment of the member, - periodically once a year, and - in the event of change in any circumstances, the change of which could result in loss of independence by a relevant independent member of the collegiate body. Information on the annual independence assessments of the members of the collegiate bodies is provided in the annual report.
3.11. The independent members of the collegiate body can be remunerated out of the funds of the company for their work and participation in the meetings of the collegiate body. The amount of such remuneration should be approved by the General Meeting of Shareholders of the Company.	YES	The independent members of the collegiate body shall be remunerated for their work and participation in the meetings of the collegiate body in accordance with the Guidelines for establishing remuneration for the activity in "EPSO-G" UAB and in the bodies of the companies of "EPSO-G" group of companies approved by the sole shareholder of EPSO-G. The terms and conditions of the contract with the members of the Supervisory Board are approved by the General Meeting of Shareholders of EPSO-G. The terms and conditions of the contract with the members of the Board are approved by the Supervisory Board.
Principle 4: The obligations and responsibility of the collegiate body elected by the General Meeting of Shareholders The corporate governance framework should ensure that the collegiate body elected by the General Meeting of Shareholders would function properly and effectively, and the rights granted to it should ensure effective supervision of the company's management bodies and the protection of the interests of all shareholders of the company.		
4.1. The collegiate body elected by the General Meeting of Shareholders (hereinafter referred to as the collegiate body in this principle) should ensure the integrity and transparency of the company's financial accounting and control system. The collegiate body should regularly make recommendations to the company's governing bodies and supervise and control their activities in the management of the company.	YES	The Supervisory Board provides feedback and suggestions to the General Meeting of Shareholders regarding the activities strategy of EPSO-G group, a set of the consolidated accounts of EPSO-G and the annual financial statements of the Company, the annual and interim reports, profit (loss) distribution project, the draft decision regarding the allocation of dividends for a period shorter than the financial year and a set of the interim financial statements formed for the purpose of adopting the decision and the interim report prepared. The Supervisory Board provides feedback and suggestions to the Board of the Company on the

		issues referred to in clause 7.13.2.3 of the Articles of Association of the Company. The Supervisory Board carries out supervision of the functioning of the internal control system and risk management at the level of the entire Group of Companies by providing advice and recommendations to the management bodies of the Company on the management of internal control risks, improvement of business processes in the companies of EPSO-G group, also ensures the effectiveness of the internal control system in EPSO-G Group through the regular monitoring of the implementation of such recommendations in the companies of EPSO-G Group. The Supervisory Board, while performing the functions of the collegiate body carrying out the supervision of the activities of the subsidiaries of the group of companies, as per clause 7.14 of the Articles of Association of the Company provides feedback and suggestions to the General Meetings of Shareholders and the Boards of the subsidiaries.
4.2. The members of the collegiate body should act honestly, carefully and responsibly for the benefit and in interests of the company and the shareholders, taking into account the interests of employees and the society's welfare. The independent members of the collegiate body should: a) safeguard under any terms whatsoever their independence of analysis, decision making and actions; b) not seek or accept any unjustified concessions which may compromise their independence; c) express clearly their objection in the event that they find that the decisions of the collegiate body may harm the company. When the collegiate body has taken decisions that raise serious doubts of the independent member, in such case this member should make appropriate conclusions. Should the independent member resign, he should explain the reasons thereof in a letter addressed to the collegiate body or the Audit Committee and, and, if necessary, to the relevant body (authority) outside the company.	YES	The obligations referred to in the recommendations are enshrined in the contracts entered into with the members of the Supervisory Board and the Board. The members of the collegiate bodies act in interests of the company, shareholder, other stakeholders. In the event of a possible conflict of interest s they are dismissed from office The positions of the members of the collegiate bodies on the issues analysed are recorded in the minutes of the meetings.
4.3. Every member should devote enough time and attention to the performance of the obligations of the member of the collegiate body.	YES	The members of the collegiate bodies actively participate in the meetings of the collegiate body and devote a sufficient portion of their, as the

Every member of the collegiate body should commit themselves to restrict their other professional obligations (especially the duties of the director in other companies) to the extent that they would not hinder the proper performance of the obligations of the member of the collegiate body. If the member of the collegiate body participated in less than a half of the meetings of the collegiate body in the financial year of the company, the shareholders of the company should be informed thereof.		member of the collegiate body, time to the performance of the obligations. Contracts are concluded with the members of the collegiate body, whereby the members of the collegiate body undertake to devote a sufficient portion of time for the functions of the collegiate body. The annual report contains detailed information on the attendance of the meetings.
4.4. When decisions of the collegiate body may have a different effect on the shareholders of the company, the collegiate body should act fairly and impartially with all shareholders. The collegiate body should ensure that the shareholders are properly informed about the company's affairs, its strategy, risk management and resolution of conflicts of interests. The role of the members of the collegiate body in dealing with the shareholders and committing to the shareholders should be clearly determined in the Company.	YES	The principle of the realisation of the eligibility of the shareholders' rights enshrined in the Corporate Governance Guidelines of the group of the state-owned companies of the energy sector approved by the Order No 1-212 of the Minister of Energy of the Republic of Lithuania of 7 September 2015 is mandatory for all collegiate bodies: the governance system of EPSO-G group must ensure the conditions and assumptions for the proper realization of the property and non-property rights and legitimate interests of all shareholders, both in implementing the rights and legitimate interest of the state of Lithuania as a shareholder in the controlling company and in subsidiaries, and in ensuring the equally effective representation of the minority shareholders' rights and legitimate interests in the companies of the group of companies with the minority shareholders. Forasmuch as EPSO-G is a sole shareholder, a part of this recommendation regarding the relations with other shareholders is irrelevant. The collegiate bodies of the company shall discuss with a sole shareholder the Shareholder's Letter of Expectations, shall provide information in accordance with the Articles of Association and the legal acts.
4.5. It is recommended that the transactions (except for the minor ones due to their low value or those entered into under standard conditions in the course of the normal activities of the company) entered into between the company and its shareholders, the members of the supervisory or management bodies, or other natural persons or legal entities who are or may be able to exercise control over the management of the company would be confirmed by the collegiate body. The decision on the confirmation	YES	The company enters into transactions with the related persons in accordance with the legal acts of the Republic of Lithuania, the Articles of Association of the Company and the policy of managing the interests of the members, heads and employees of the collegiate bodies of EPSO-G group of companies, which, inter alia, provides for that: - when the transaction is entered into with the member of the Supervisory Board, the decision on the transaction shall be adopted by the

of such transactions shall be deemed to have been accepted only if the majority of the independent members of the collegiate body vote for such a decision.		Supervisory Board or the Meeting of Shareholders if the Supervisory Board cannot adopt a decision since no member can vote on the relevant issue because of the conflict of interests; - when the transaction is being entered into with the member of the Board, the decision on the transaction shall be adopted by the Board or the Supervisory Board if the Board cannot adopt a decision since no member can vote on the relevant issue because of the conflict of interests. The General Meeting of Shareholders of EPSO-G establishes the standard conditions of the contracts entered into with the members of the Supervisory Board, and also adopts decisions on payment of remuneration to the members of the Supervisory Board. The Supervisory Board establishes the standard conditions of the contracts with the members of the Board and regarding their remuneration.
4.6. The collegiate body should be independent in adopting decisions that are relevant to the company's activities and strategy. The collegiate body, inter alia, should be independent from the management bodies of the company. The work and decisions of the members of the collegiate body should not be affected by the persons who have elected them. The company should ensure that the collegiate body and its committees are provided with sufficient resources (including financial ones) that are required to perform the duties, including the right to receive (especially from the employees of the company) all required information and the right to apply for independent professional advice to external law, accounting or other professionals in matters falling within the competence of the collegiate body and its committees. When using the services of the aforementioned advisors or professionals to obtain information on the market standards of remuneration systems, the Remuneration Committee should ensure that advice would not be provided by the same advisor at the same time to the Human Resources Department, or to the executive, or to	YES	The Supervisory Board of the Company is independent from the management bodies of the Company, and when adopting decisions that are relevant to the Company's activities and strategy, acts independently in accordance with the requirements of the legislation and the Articles of Association of EPSO-G. EPSO-G ensures the conditions of work of the Supervisory Board and its members in the Supervisory Board, provides with the organizational measures that are necessary for the work. A secretary who must be the graduate in law is appointed to serve the meetings of the Supervisory Board. The secretary is selected from among the employees of the Company. The possibility to allocate a part of the activity budget to cover the costs related to the activities in the Supervisory Board (consultations, training, etc.) is provided for in the documents that govern the activities of the Supervisory Board.

the members of the management bodies of the related company.		
4.7. The activities of the collegiate body should be organized in a manner allowing the members of the collegiate body to exercise significant influence in especially important areas where the possibility of conflicts of interests is particularly high. Such areas include the matters related to the appointment of the company's directors, the determination of the remuneration for the company's directors and the audit control and evaluation of company. Therefore, when the aforementioned matters fall within the competence of the collegiate body, such the body is recommended to form the Appointment committee, the Remuneration committee and the Audit committee. Companies should ensure that the functions assigned to the Appointment committee, the Remuneration committee and the Audit committee are performed. However, they can combine these functions and form less than three committees. In this case, companies should explain in detail why they have chosen an alternative approach and how the approach chosen corresponds to the objectives set for the three individual committees. In the companies whose collegiate body has only few members the functions assigned to three committees can be performed by the collegiate body itself if it meets the composition requirements posed for the committees and if it discloses relevant information on this matter. In this case, the provisions of this Code related to the committees of the collegiate body (in particular regarding their role, activities and transparency) should apply where appropriate to the whole collegiate body.	YES	The Remuneration and Appointment Committee to the Supervisory Board of EPSO-G group operates in the Company. Its competence is governed by the Articles of Association of EPSO-G, the Rules of Procedure of the Supervisory Board and the operational rules of the Remuneration and Appointment Committee. The Remuneration and Appointment Committee shall be composed of at least three members by ensuring that this committee is composed of at least two independent members. The Audit Committee to the Supervisory Board of EPSO-G group operates in the Company. Its competence is governed by the Articles of Association of EPSO-G, the Rules of Procedure of the Supervisory Board and the operational rules of the Audit Committee. The Audit Committee shall be composed of at least three members by ensuring that this committee is composed of at least two independent members.
4.8. The main objective of the committees is to increase the efficiency of the work of the collegiate body by ensuring that decisions are	YES	See comment in clause 4.7.

taken with due consideration and to help organize the work in such a way that the decisions of the collegiate body are not affected by material conflicts of interests. The committees should operate in an independent and principled manner and should submit to the collegiate body recommendations related to the decision of the collegiate body, but the final decision shall be adopted by the collegiate body itself. The recommendation to establish committees is not intended to narrow the competence of the collegiate body or to transfer it to the committees. The collegiate body remains fully responsible for decisions made within its competence. The collegiate body shall remain fully responsible for decisions adopted within its competence.		The Remuneration and Appointment Committee operates as an advisory body of the Supervisory Board, whose main functions are: - assists in the selection of candidates to the members of the bodies in all companies of the Group; - provides recommendations to the companies of the Group regarding the appointment of the members of the management bodies, entry into the contracts with them and determination of their remuneration; - provides recommendations to the Board of EPSO-G regarding the corporate governance documents of the Group related to the matters of the collegiate bodies, the remuneration of the employees of the companies of the Group, assessment of the activities. The following functions are performed by the Audit Committee: - carries out the supervision of the preparation of financial statements of the companies of the Group and carrying out of audit; - is responsible for ensuring the compliance with the principles of independence and objectivity of the auditors of the companies of the Group and audit companies; - is responsible for the supervision of the efficiency of the internal control, risk management and internal audit systems, operational processes of the companies of the Group; - is responsible for the control of the provision of non-audit services of the auditor of the companies of the Group and/or audit company.
4.9. The committees established by the collegiate body should usually consist of at least three members. In companies with only few members of the collegiate body the committees can be exceptionally composed of only two people. The majority of the members of each committee should be composed of independent members of the collegiate body. The majority of the members of each committee should be composed of independent members of the collegiate body. In case there is no Supervisory Board in the company, the Remuneration and Audit Committees should be composed exclusively of non-executive directors. In deciding who should	YES	The Audit Committee shall be composed of at least 3 members appointed by EPSO-G General Meeting of Shareholders for a period not exceeding four years by a reasoned decision taken in accordance with the recommendations of the Remuneration and Appointment Committee. The Remuneration and Appointment Committee shall be composed of at least 3 members appointed by the Supervisory Board by a reasoned decision for a period not exceeding four years from the candidates selected by the Supervisory Board.

be appointed to take office of the Chairman and members of the committee consideration should be given to the need to update membership in the committee and that certain persons should not be trusted too much.		
4.10. The powers of each committee established should be determined by the collegiate body itself. The committees should carry out their obligations in accordance with the powers established and regularly inform the collegiate body of their activities and their results. The powers of each committee defining its role and indicating its rights and obligations should be made public at least once a year (as part of the information that is made public by the company on the annual basis about its governance structure and practices). Companies should also announce on the annual basis in their annual report the reports of the existing committees on their composition, the number of meetings and the attendance of the members at the meetings in the past year, as well as on the main directions of their activities. The Audit Committee should confirm that it is satisfied with independence of audit process and briefly describe the steps taken to reach this conclusion.	YES	The operating regulations of the Remuneration and Appointment Committee and the operating regulations of the Audit Committee are available publicly on the Company's website. The operating regulations of the Remuneration and Appointment Committee approved by the Supervisory Board enshrine the obligation of this committee to inform the Supervisory Board at least once in a year on its activities and to submit an annual written report on its activities. The operating regulations of the Audit Committee approved by the General Meeting of Shareholders of EPSO-G enshrine the obligation of this committee to inform the Supervisory Board at least four times in a year on its activities and to submit written reports on its activities; and once in a year to submit written annual reports to the Supervisory Board and to the General Meeting of Shareholders of EPSO-G. The Supervisory Board is given technical possibility to have access to the protocols of the meetings of the committees. The members of the committees who are also the members of the Supervisory Board shall inform at each meeting of the Supervisory Board about the issues discussed and decisions adopted at the committee's meetings. Information on the composition of the Supervisory Board and its committees, number of meetings and attendance of the members at the meetings in the past year, on the main functions performed is announced in the annual report of the Company.
4.11. In order to ensure the independence and objectivity of the committees the members of the collegiate body who are not the members of the committee should normally be entitled to attend the meetings of the committee only upon invitation of the committee. The Committee may invite or require certain staff or experts to attend the meeting. The Chairman of each committee should be able to have direct contact with the shareholders. The cases in which this should be	YES	This possibility is provided for in the regulations of the Audit Committee and in the operating regulations of the Remuneration and Appointment Committee.

done should be specified in the rules governing the activities of the Committee.		
4.12. Appointment Committee. 4.12.1. The main functions of the Appointment Committee should be as follows: 1) to select candidates for the vacancies of the members of the governing bodies and to recommend to the collegiate body to consider them. The Appointment Committee should assess the balance of skills, knowledge and experience in the governing body, should prepare a description of the functions and abilities needed for a specific position and should consider the time needed for the obligation to be completed. The Appointment Committee can also assess the candidates offered by the shareholders of the company to the members of the collegiate body; 2) to assess on a regular basis the structure, size, composition and activities of the supervisory and governing bodies, to make recommendations to the collegiate body on how the necessary changes should be pursued; 3) to assess on a regular basis the skills, knowledge and experience of individual directors, and to notify the collegiate body thereof; 4) to pay due attention to the planning of continuity; 5) to review the policy of the governing bodies in connection with the election and appointment of senior management. 4.12.2. The Remuneration Committee should consider the proposals of other persons, including the administration and the shareholders. When dealing with the issues related to the executive directors or the Board members (if the collegiate body elected by the General Meeting of Shareholders is the Supervisory Board) and the senior management, the head of the company should be consulted giving him the right to make proposals to the Appointment Committee.	YES	See comments in clause 4.8. The functions of the Committee referred to in the recommendations are enshrined in the operating regulations of the Remuneration and Appointment Committee.
4.13. Remuneration Committee.	YES	See comment in clause 4.8. The functions of the committee referred to in the recommendation are

4.13.1. The main functions of the Remuneration Committee should be as follows: 1) to submit to the collegiate body the proposals on the policy of remuneration of the members of the governing bodies and executive directors. Such the policy should cover all forms of remuneration, including fixed remuneration, performance-based remuneration systems, pension schemes and termination payments. The proposals on performance-based remuneration systems should be accompanied by recommendations on the related objectives and evaluation criteria the purpose of which is to adequately reconcile the remuneration of executive directors and members of the governing bodies with the long-term interests and objectives of the shareholders set out by the collegiate body of the company; 2) to submit to the collegiate body the proposals on the individual remunerations for the executive directors and the members of the governing bodies in order they would meet the remuneration policy of the company and the assessment of the performance of these individuals. In carrying out this function the Committee should be well informed about the overall remuneration paid to the executive directors and the members of the governing bodies by other related companies; 3) should ensure that an individual remuneration paid to the executive director and the member of the governing body is proportional to the remuneration of other executive directors of the company or the members of the governing bodies and of other employees of the company; 4) to review on a regular basis the remuneration policy of the executive directors or the members of the governing bodies (also the share-based remuneration policy) and its implementation; 5) to make proposals to the collegiate body on appropriate forms of contracts with the executive directors and the members of governing bodies; 6) to assist the collegiate body in overseeing how the company complies with the applicable provisions on disclosure of information related to remunerations (in particular as regards the		enshrined in the operating regulations of the Remuneration and Appointment Committee. On the basis of the recommendations of the Remuneration and Appointment Committee the General Meeting of Shareholders of EPSO-G has approved the Guidelines of remuneration for the activities in "EPSO-G" UAB and in the bodies of the companies of "EPSO-G" group of companies; the Board of EPSO-G has approved the policy of evaluation of performance of the employees of EPSO-G group of companies and the remuneration policy of the employees of EPSO-G group of companies. Each year the Remuneration and Appointment Committee assesses the competitiveness of the remuneration of the employees of EPSO-G group. The Remuneration and Appointment Committee submits an annual activity report to the Supervisory Board and the latter indicates in its annual activity report information on the performance of the functions of this committee.
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existing remuneration policy and individual remuneration for directors); 7) to provide common recommendations to the executive directors and the members of governing bodies on the amount and structure of the remunerations of the senior management (as defined by the collegiate body itself), also to supervise an amount and structure of the remunerations of the senior management based on a relevant information provided by the executive directors and the members of the governing bodies. 4.13.2. In the case where the promotion issue needs to be addressed, specifically the issue related to share options or other share-based incentives that can be applied to directors or other staff, the committee should: 1) consider a common policy for the application of such promotion schemes, with particular emphasis on incentives related to stock options and submit the related proposals to the collegiate body; 2) to examine the information provided in this matter in the annual report of the company and in the documents intended for the meeting of shareholders; 3) to make proposals to the collegiate body concerning the choice between granting options to subscribe shares or granting options to purchase shares by defining the causes and consequences of granting such an alternative. 4.13.3. The Remuneration Committee should, when dealing with the issues that fall within its competence, should ask for the opinion of at least the chairman of the collegiate governing body and / or the head of the company as regards the remuneration of other executive directors and the members of the governing bodies. 4.13.4. The Remuneration Committee should inform the shareholders about the performance of its functions and, for this purpose, participate in the annual General Meeting of Shareholders.		
4.14. The Audit Committee	YES	See comments in clause 4.8. The functions of the Committee referred to in the recommendations are

4.14.1. The main functions of the Audit Committee should be as follows: 1) to monitor the integrity of the financial information provided by the company, paying particular attention to the suitability and consistency of the accounting policies used by the company and its group (including the criteria for consolidating the sets of the financial statements of the group of companies); 2) to revise at least once a year the internal control and risk management systems to ensure that key risks (including risk associated with compliance with the applicable laws and regulations) are well-established, managed and information thereof is disclosed; 3) to ensure the effectiveness of internal audit functions, inter alia, by providing recommendations for the selection, appointment, reappointment and dismissal of the internal audit unit manager and for the budget of this unit, as well by monitoring how the company's administration responds to the findings and recommendations of this unit. If there is no internal audit function in the company, the committee should at least once in a year assess the need to have this function; 4) to make recommendations to the collegiate body related to the selection, appointment, reappointment and dismissal of the external audit company (this shall be done by the General Meeting of Shareholders of the company) and the conditions of the contract with the audit company. The Committee should investigate situations which give the audit company or auditor a reason for resignation and make recommendations for the actions required in such a case; 5) to monitor the independence and objectivity of the external audit company. It is particularly important to check whether the audit company takes into account the requirements related to the rotation of the audit partners. It is also necessary to check the amount of the remuneration that the company pays to the audit company and similar things. In order to prevent material conflicts of interests the committee should regularly monitor the nature		enshrined in the operating regulations of the Audit Committee of EPSO-G. The policy of EPSO-G group of companies of purchase of non audit services from audit company has been approved by the Audit Committee.
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and extent of non-audit services based on, inter alia, data published by an external audit company on all remunerations paid to the audit company and its network by the company and its group. The Committee should in accordance with the principles and guidelines enshrined in the Recommendation 2002/590/EC of the Commission of 16 May 2002 establish and apply a formal policy defining the types of non-audit services the purchase of which from the audit company is: a) not permitted; b) permitted following examination by the Committee and c) permitted without approaching the Committee; 6) to check the effectiveness of the external audit process and the response of the administration to the recommendations made by the audit company in a letter addressed to the management.

4.14.2. All members of the committee should be provided with detailed information related to the specific accounting, financial and operational peculiarities of the company. The company's administration should inform the Audit Committee about the methods of accounting of important and unusual transactions in cases where accounting can be carried out in different ways. In this case particular attention should be paid to the activities of the company in offshore centers and / or to the activities carried out through special purpose companies (organizations) and to the justification of such activities.

4.14.3. The Audit Committee should decide whether the chairman of the collegiate governing body, the head of the company, the chief financial officer (or senior staff responsible for finance and accounting), the internal auditor and external auditor must attend its meetings (if so, when they must participate). The Committee should be able to meet, when necessary, with relevant persons in absence of executive directors and the members of governing bodies.

4.14.4. Not only effective not only effective working relationship with the administration but also free access to the collegiate body should be ensured for the internal and external auditors. To this end the Audit Committee should act as the

main contact point with the internal and external auditors. 4.14.5. The Audit Committee should be informed about the work program of internal auditors and receive the internal audit reports or periodic summary. The Audit Committee should be also informed about the work program of the external auditors and should receive from the audit company a report describing all the relationships between the independent audit company and the company and its group. The Committee should receive on a timely basis information on all issues related to the company's audit. 4.14.6. The Audit Committee should check whether the company complies with the applicable provisions governing the employees' ability to complain or anonymously report suspicions of significant irregularities in the company (reports are usually submitted to the independent member of the collegiate body), and should ensure that a procedure is established for a proportionate and independent investigation of such issues and for appropriate follow-up actions. 4.14.7. The Audit Committee should submit its activity reports to the collegiate body at least once every six months, at the time of approval of the annual and half-yearly reports.		
4.15. The collegiate body should each year carry out an assessment of its activities. It should include assessment of the structure, organization of work and the ability to act as a group of the collegiate body, as well as the assessment of the competence and efficiency of work of each member of the collegiate body and the committee, as well as an assessment of whether the collegiate body has achieved the established operational objectives. The collegiate body should at least once a year announce (as part of the information annually published by the company about its management structures and practices) a relevant information about its internal organization and operational procedures, as well as indicate what material changes were caused by the self-assessment of the collegial body of its activities.	YES	The collegiate bodies of EPSO-G group and their members carry out on annual basis the self-assessment of their activities according to the guidelines of self-assessment of own annual activities of the collegiate bodies of EPSO-G group of companies approved by the Remuneration and Appointment Committee of EPSO-G. Information on self-assessment of activities is announced in the annual report.

Principle 5: The procedure of work of the collegiate bodies of the company

The procedure of work of the collegiate supervisory and governing bodies established in the company should ensure efficient work of these bodies and decision making by them, should promote active cooperation between the bodies of the company.

5.1. The collegiate supervisory and governing bodies of the company (in this principle a term collegiate bodies includes both collegiate supervisory and governing bodies) are lead by the chairmen of these bodies. The chairman of the collegiate body is responsible for a proper convocation of the meetings of the collegiate body. The chairman should ensure a proper information of all members of the collegiate body about convening such meeting and the agenda of the meeting. He should also ensure proper management of the meetings of the collegiate body and the procedure and working atmosphere of the meeting.	YES	Work of the Board and Supervisory Board of the Company is regulated by the work regulations of these collegiate bodies. The company provides all necessary resources for the proper organization of meetings of the Board.
5.2. It is recommended that meetings of the company's collegiate bodies be held at the appropriate intervals, according to a pre-approved schedule. Each company itself decides on how often to convene the meetings of the collegiate bodies, but it is recommended that they be held at such intervals that allow ensuring uninterrupted resolution of the key issues of the company. The meetings of the Supervisory Board of the company should be convened at least once a quarter, and the meetings of the board of the company should be convened at least once a month.	YES	Both the Supervisory Board and the Board at the beginning of the calendar year establish a schedule of ordinary meetings. At least twelve meetings of the Supervisory Board and the Board respectively take place during the year.
5.3. The members of the collegiate body should be informed in advance of the meeting being convened so that they have enough time to properly prepare to discuss the issues addressed at the meeting and in order there could be a useful discussion following which proper decisions could be adopted. All necessary material related to the agenda of the meeting should be enclosed to the notification of the meeting being convened sent to the members of the collegiate bodies. The agenda should not be amended or supplemented during the meeting, except when all members of the collegiate body are present at the meeting or when issues of importance to the company need to be addressed urgently.	YES	The members of the Supervisory Board and the Board and the persons invited to the meetings shall be informed about the meeting being convened and its agenda 5 working days in advance. They shall also be provided with all necessary material related to issues that are foreseen for consideration in the agenda of the meeting. The collegiate bodies receive in advance information on the meeting being convened, the agenda of the meeting and all material related to the issues to be considered at the meeting in order to have sufficient time to properly prepare for the consideration of the issues examined during the meeting and in order to be able to conduct a useful discussion, after which appropriate decisions can be adopted.

		In order the issue to be dealt with would be put forward in a qualitative manner, explanatory notes (submissions) of issues are prepared and based on them the collegiate bodies adopt informed decisions.
5.4. In order to coordinate work of the collegiate bodies of the company and to ensure an efficient decision-making process, the chairmen of the collegiate supervisory and governing bodies of the company should harmonise between each other the dates of the meetings being convened, their agendas, and closely cooperate in solving other issues related to the management of the company. The meetings of the Supervisory Board of the Company should be open to the members of the Board of the Company, especially in cases where issues related to the revocation of the members of the Board, liability, determination of remuneration are discussed.	YES	See comment in clause 1.3.
Principle 6: Equal treatment of shareholders and the rights of shareholders The corporate governance framework should ensure the equal treatment of all shareholders, including minority shareholders and foreigners. The corporate governance framework should protect the rights of shareholders.		
6.1. It is recommended that the capital of the company is comprised only of the shares that give their holders equal voting rights, equity, dividends and other rights.	YES	The total authorized capital of the company is comprised of ordinary registered shares with a value of 0.29 EUR per share. The shares give all the holders thereof equal property and non-property rights.
6.2. It is recommended that conditions for investors are created in advance, i.e., to get acquainted before purchasing shares with the rights granted by the newly issued or already issued shares.	YES	The rights attached to the shares are referred to in the Articles of Association of the Company that are publicly available on the Company's website.
6.3. The transactions that are of importance to the Company and its shareholders, such as transfer, investment, pledge or other encumbrance of the assets of the company, should be approved by the General Meeting of Shareholders. All shareholders should be given equal opportunities of access to and participation in the adoption of decisions of importance to the company, including approval of the mentioned transactions.	YES	Clause 8.20 of the Articles of Association of the Company specifies the decisions of the Board, which require approval of the General Meeting of Shareholders before their adoption.
6.4. The procedures for convening and conducting the General Meetings of Shareholders should provide equal opportunities for the shareholders to participate in the meeting and	YES	The Company convenes the General Meeting of Shareholders and implements other meeting procedures in accordance with the procedure established by the Law of the Republic of Lithuania

should not violate the rights and interests of the shareholders. The selected place, date and time of the General Meeting of Shareholders should not prevent the active participation of shareholders in the meeting.		on Companies. As the Company has the sole shareholder, some of the recommendations are not relevant.
6.5. In order to ensure the right of shareholders residing abroad of access to information, it is recommended, when possible, that the documents prepared for the General Meeting of Shareholders are made publicly available on the website of the company not only in Lithuanian but also in English and / or other foreign languages. It is also recommended that the minutes of the General Meeting of Shareholders after signing them and / or the decisions adopted are also made publicly available on the company's website in Lithuanian and English and / or other foreign languages. Incomplete volumes of documents can be made publicly available on the website of the Company if their public disclosure could harm the company or thus business secrets of the company would be disclosed.	Irrelevant	The sole shareholder of EPSO-G is the Republic of Lithuania, the institution implementing the rights and obligations of the shareholder is the Ministry of Energy of the Republic of Lithuania.
6.6. The shareholders should be given the opportunity to vote in the Meeting of Shareholders personally participating in or in the absence from the meeting. Shareholders should not be prevented from voting in writing in advance by completing the general ballot paper.	YES	The shareholders of the company may exercise their right to participate in the General Meeting of Shareholders either personally or through a representative if the person has the appropriate power of attorney or the contract for the transfer of voting right has been entered into with him in accordance with the legal acts. The Company allows the shareholders to vote by completing the general ballot paper as provided for in the Law of the Republic of Lithuania on Companies.
6.7. In order to increase the opportunities for the shareholders to participate in the Meetings of Shareholders it is recommended that companies to use modern technologies more widely and thus allow the shareholders to participate and vote in the Meeting of Shareholders using electronic means of communication. In such cases the security of the information transmitted must be ensured and the identity of the participant and the voter can be identified. In addition, companies could create opportunities for the shareholders, especially those living abroad, to observe the Meetings of Shareholders using modern technology tools.	Irrelevant	Taking into account the structure of the Company's shareholders (one shareholder) and the current rules for organizing the Meeting of Shareholders there is no need to install a system that makes it possible to verify the identity of the voter.

Principle 7: Avoidance and disclosure of conflicts of interests

The corporate governance framework should encourage the members of the bodies of the company to avoid conflicts of interests and ensure a transparent and effective mechanism for disclosure of conflicts of interests of the members of the bodies of the company.

7.1. The member of the supervisory and management body of the company should avoid a situation where his personal interests are in conflict or may be in conflict with the interests of the company. If such a situation nevertheless occurs, the member of the supervisory or management body of the company should within a reasonable time notify the other members of the same body or the company's body that elected it or the shareholders of the company on such a situation of conflict of interests, indicate the nature of the interests and, if possible, the value thereof.	YES	Such the obligation is enshrined in the Articles of Association of the Company. Interest management in the company is carried out in accordance with the policy of interest management of the members, heads and employees of the collegiate bodies of EPSO-G group of companies.
7.2. The member of the supervisory and management body of the company cannot confuse the assets of the company the use of which is not specifically discussed with the member with its own assets or cannot use the assets or the information received by him as the member of the body of the company for the personal benefit or for the benefit of the third party without the consent of the General Meeting of Shareholders of the company or without the consent of other body of the company duly authorized by the General Meeting of Shareholders of the company.	YES	Interest management in the company is carried out in accordance with the policy of interest management of the members, heads and employees of the collegiate bodies of EPSO-G group of companies. The collegiate bodies are obliged to perform such the duty in accordance with the provisions of the Civil Code of the Republic of Lithuania.
7.3. The member of the supervisory and management body of the company may enter into transaction with the company in the body of whom he holds membership. The member must immediately notify either in writing or orally, by recording this in the minutes of the meeting, the other members of the same bodu or the body of the company who has elected the member, or the shareholders of the company on such transaction (except for minor transactions due to their low value or those entered into in the course of normal business activities of the company and under standard conditions). Recommendation 4.5 also applies to the entry into the transactions listed in this recommendation.	YES	The members of the supervisory and management bodies of the company shall enter into and approve transactions in accordance with the requirements established by the legal acts, the Articles of Association of the Company. The collegiate bodies are obliged to perform such duty in accordance with the provisions of the Civil Code of the Republic of Lithuania. The process of entry into transactions with related persons is enshrined in the policy of interest management of the members, heads and employees of the collegiate bodies of EPSO-G group of companies.

7.4. The member of the supervisory and management body of the company should abstain from voting when decisions are made on transactions or other matters with which it relates through personal or business interests.	YES	The process of entry into transactions with related persons is enshrined in the policy of interest management of the members, heads and employees of the collegiate bodies of EPSO-G group of companies.
Pinciple 8: The remuneration policy of the company The procedure of approval, review and announcement of the remuneration policy and directors' salaries established in the company should prevent the possible conflicts of interests and overindulgence in determining the directors' remuneration as well as ensure publicity and transparency of the remuneration policy of the company and directors' remuneration.		
8.1. The company should publish its remuneration policy statement (hereinafter referred to as "remuneration statement"), which should be clear and easy to understand. This remuneration statement should be published not only as part of the company's annual report but should also be made publicly available on the company's website.	YES	The principles of the remuneration system in the company are enshrined in the policy of remuneration of the employees of EPSO-G group of companies. The remuneration policy report is publishes in the annual report and in the website of the Company.
8.2. The greatest focus in the remuneration statement should be on the policy of the remuneration of the company's directors in the next and, where appropriate, in the further financial year. The report should also include an overview of how the remuneration policy has been implemented in the last financial year. Particular attention should be paid to the essential changes in the company's remuneration policy compared to the previous financial year.	YES	We provide information in the annual report in accordance with this recommendation.
8.3. The remuneration statement should include at least the following information: 1) the ratio of the variable and fixed components of the directors' remuneration and its explanation; 2) sufficient information on the performance measurement criteria on which the right to participate in share options is based, the right to shares or variable components of remuneration are based; 3) an explanation how the performance measurement criteria selected proved to be beneficial for the long-term interests of the company;	YES	We provide information in the annual report in accordance with this recommendation.

4) an explanation of the methods used to determine whether the performance criteria are met; 5) sufficiently detailed information on the deferment periods for the payment of variable component of remuneration; 6) sufficient information on the relationship between remuneration and performance; 7) the main criteria of the annual bonus system and any other non-cash benefit and their justification; 8) sufficiently detailed information on termination payment policy; 9) sufficiently detailed information on the share-based payment entitlement period referred to in clause 8.13; 10) sufficiently detailed information on the maintenance of shares after the granting of rights as referred to in clause 8.15; 11) sufficiently detailed information on the composition of the groups of similar companies whose remuneration policy was analysed in order to determine the remuneration policy of the related company. 12) description of the main characteristics of the supplementary pension or early retirement scheme for directors; 13) the remuneration statement should not contain commercially sensitive information.		
8.4. The remuneration statement should also summarize and explain the company's policy regarding the terms and conditions of contracts entered into with the executive directors and the members of the management bodies. This should include, inter alia, information on the duration of the contracts with the executive directors and the members of the management bodies, the applied terms of notice of termination of employment and detailed information on termination payment and other payments related to early termination of contracts with the executive directors and the members of management bodies.	YES	We provide information in the annual report in accordance with this recommendation.

8.5. The total amount of remuneration and other benefits to individual directors in the relevant financial year should be disclosed in full in the remuneration statement. This document should include at least the information set out in clauses 8.5.1 to 8.5.4 for each person who served in the company in the position of director during any period of the relevant financial year. 8.5.1. The following remuneration and / or emoluments related information should be provided: 1) the total amount of salary paid or due to the director for the services performed under the relevant financial year, including where appropriate the attendance fees fixed by the annual general shareholders meeting; 2) the remuneration and advantages received from any undertaking belonging to the same group; 3) remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) where such payment is legally allowed, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) compensation receivable or paid to each executive director or the member of the management bodies who has left the office during the preceding financial year; 6) the total estimated value of the benefit considered to be remuneration and which is non-cash benefit provided that such benefit is not to be indicated in accordance with clauses 1 to 5. 8.5.2. The following information regarding the shares and / or rights to participate in share options and / or regarding any other share incentive schemes should be provided: 1) the number and conditions of application of the share options or shares offered by the company during the preceding financial year;	YES	We provide information in the annual report in accordance with this recommendation.
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2) the number of share options realized during the last financial year by indicating the number of shares in each transaction and the selling price, or the value of participation in the share incentive scheme at the end of the financial year; 3) the number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) all changes in terms of current share options in the subsequent financial year. 8.5.3. The following information on supplementary pension schemes should be provided: 1) in case of defined benefit supplementary pension scheme - changes in the directors' accrued benefits under the pension scheme in the relevant financial year 2) in case of defined contribution pension scheme - detailed information of the contributions paid or payable by the company in the relevant financial year. 8.5.4. The amounts paid by the company or any subsidiary or company included in the consolidated financial statements of the company as loans, advance payments and guarantees to each person who served as director during any period of the relevant financial year, including unpaid amounts and interest rates, should be indicated.		
8.6. When remuneration policy provides for variable components of remuneration, companies should set limits on the amount of variable component of remuneration. The fixed component of remuneration should be sufficient for the company to not pay variable component of remuneration in the case where performance criteria are not met.	YES	The remuneration policy of the Company establishes the appropriate limits for the amount of variable component of remuneration. The fixed component of remuneration is sufficient for the company to not pay variable component of remuneration in the case where performance criteria are not met.
8.7. The allocation of variable components of remuneration should be contingent on predefined and measurable performance criteria.	YES	Annual objectives are set both for the sole management body and for other employees of the Company in accordance with staff performance evaluation policy of EPSO-G group of companies.
8.8. When a variable component of remuneration is allocated, the payment of a large part of this variable component of remuneration should be	YES	Variable components of remuneration are paid to employees only after approval of the financial

deferred for a certain period of time corresponding to the criteria of reasonableness. The amount of the variable component of remuneration payment of which is deferred should be determined on the basis of the relative value of variable component of remuneration in comparison with the fixed component of remuneration.		statements during the General Meeting of Shareholders.
8.9. The agreements with the executive directors or the members of the management bodies should include a provision enabling the company to recover a variable component of remuneration that was paid on the basis of the data that subsequently appeared to be manifestly incorrect.	IRRELEVANT	The variable part of remuneration is not paid to the members of the collegiate bodies.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	YES/NO	Upon expiry of contracts with the members of the collegiate bodies no termination payments shall be paid. Termination payments are made to the employees in accordance with the Labour Code of the Republic of Lithuania and the procedure laid down in employment contracts.
8.11. Termination payments should not be paid if the termination of the employment contract is due to inadequate performance.	YES	This recommendation is being implemented.
8.12. In addition, information concerning the preparatory and decision-making process used for determining the remuneration policy for directors should also be disclosed. The information should include, if applicable, the data on credentials and composition of the Remuneration Committee, the names of the non-company consultants whose services were used to determine the remuneration policy and the role of the annual General Meeting of Shareholders.	YES	The annual report includes the recommended to be disclosed information.
8.13. Where remuneration is based on the allocation of shares, the right to the shares should not be granted for at least three years after their allocation.	IRRELEVANT	Remuneration is not based on the allocation of shares.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting and the right to exercise share options or other rights to acquire shares or to be remunerated on the basis of share price movements should	IRRELEVANT	Remuneration is not based on the allocation of shares.

depend on predefined and measurable performance criteria.		
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. T The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	IRRELEVANT	Remuneration is not based on the allocation of shares.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	YES	Remuneration of the members of collegiate bodies non-executive or supervisory directors does not include share options.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend General Meetings of Shareholders and make considered use of their votes regarding directors' remuneration.	YES	Remuneration of the members of the collegiate bodies is established in accordance with the Guidelines for establishing remuneration for the activity in "EPSO-G" UAB and in the bodies of the companies of "EPSO-G" group of companies approved by the sole shareholder of EPSO-G.
8.18. Without prejudice to the role of the bodies responsible for determining directors' remuneration the remuneration policy or any substantial change in the remuneration policy should be included in the agenda of the annual General Meeting of Shareholders. Remuneration statement should be submitted to the annual General Meeting of Shareholders for a vote. The vote may be either mandatory or advisory.	YES/NO	An annual report part of which is also a report on remuneration policy submitted to the ordinary General Meeting of Shareholders for information (in accordance with the Law of the Republic of Lithuania on Companies the shareholders have no competence to approve the annual report).
8.19. Variable remuneration schemes under which directors are remunerated in shares, share options or any other right to acquire shares or to be remunerated on the basis of share price movements, and any substantial change in such schemes, should be subject to the prior approval of the annual General Meeting of Shareholders. he approval should relate to the scheme itself and the shareholders should not be able to decide on the share-based benefits of the individual directors under that scheme. All essential changes to the scheme conditions prior to their application should also be approved by the shareholders by decision of the annual General Meeting of Shareholders. In those cases, shareholders should be informed of the full terms of the proposed changes and should be	IRRELEVANT	The company does not apply remuneration in shares.

given an explanation of the effect of the proposed changes.		
8.20. Approval of the Annual General Meeting of Shareholders should be obtained on the following issues: 1) grant of share-based schemes, including share options, to directors; 2) the determination of their maximum number and the main conditions of the granting process; 3) the period during which options may be realized; 4) the conditions for determining the change in the realization price of each subsequent option, if permitted by law; 5) any other long term incentive schemes for which directors are eligible and which is not offered under similar terms to all other employees. The annual General Meeting of shareholders should also set the deadline within which the body responsible for directors' remuneration may award these types of compensation to individual directors.	IRRELEVANT	The company does not apply remuneration in shares or other financial instruments.
8.21. If such arrangement is permissible under national law or under the Articles of Association of the listed company, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share on the date when the price is determined, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also receive the approval of shareholders.	IRRELEVANT	The company does not apply remuneration in shares or other financial instruments.
Clauses 8.22, 8.19 and 8.20 should not apply to schemes in which participation is offered on similar terms to employees of the company or any of its subsidiary undertaking whose	IRRELEVANT	The company does not apply remuneration in shares or other financial instruments.

employees are eligible to participate in the scheme and which has been approved by the annual General Meeting of Shareholders.		
8.23. Before the Annual General Meeting of Shareholders, which is intended to consider the decision referred to in clause 8.19, the shareholders should be given access to the draft decision and the related information note (these documents should be published on the company's website). This notice should include all the text governing the share-based remuneration schemes or a description of the underlying conditions for these schemes, as well as the names of the scheme's participants. It should also set out the relationship of the schemes with the overall directors' remuneration policy. The draft decision should contain a clear reference to the scheme itself or a summary of its main terms. Information should also be made available to shareholders about how the company intends to provide for the shares needed to meet its obligations under incentive schemes: it should be clearly stated whether the company intends to purchase the necessary shares in the market, whether it holds them in treasury, or whether it will issue new shares. This information should also provide an overview of the costs of the scheme to the company in view of the intended application. The information in this section should be made publicly available on the company's website.	IRRELEVANT	The company does not apply remuneration in shares or other financial instruments.
Principle 9: The role of shareholders in the management of the company The corporate governance framework should recognize the rights of the stakeholders as enshrined in the laws and promote active cooperation between the company and the stakeholders in creating well-being of the company, jobs and financial stability. In the context of this principle the concept of shareholder includes investors, employees, creditors, suppliers, customers, local community and other individuals with interests in a particular company.		
9.1. The corporate governance framework should ensure that the rights of the stakeholders protected by law are respected.	YES	The Board of the Company has approved the transparency and communication policy of EPSO-G group of companies which ensures the rights of stakeholders. The publicity of the company's activities enables the stakeholders to participate in the management of the Company in accordance with the legal acts.
9.2. The corporate governance framework should enable the stakeholders to participate in the management of the company in accordance with	YES	The company follows these recommendations. For example, consultations, negotiations, communications with the representatives of the

the laws. Examples of involvement of the stakeholders in the management of the company could include the participation of the staff team in adopting decisions that are of importance to the company, consultations with the staff team on the issues concerning the company management and other important issues, employee participation in the stock of the company, the involvement of creditors in cases of company insolvency, etc.		company employees relating to the processes of optimization of the Company's activities are carried out. The Company informs its employees on the expected changes in the Company, the financial situation of the Company, etc.
9.3. When the stakeholders are involved in the governance process of the Company, they should be given access to the necessary information.	YES	See comments in clauses 9.1 and 9.2.
Principle 10: Disclosure of information The corporate governance framework should ensure that information on all material issues of the company, including the financial situation, activities and management of the company, is disclosed in a timely and accurate manner.		
10.1. The company should disclose information about: 1) activities and financial results of the company; 2) the objectives of the company; 3) persons holding the ownership or control of the company; 4) the members of the supervisory or management bodies of the company, the head of the company and their remuneration; 5) possible to predict essential risk factors; 6) transactions of the company and related parties, as well as transactions entered into outside of the normal course of business; 7) key issues related to the employees and other stakeholders; 8) corporate governance structure and strategy. This list is considered to be minimal, and companies are encouraged not to limit themselves to the disclosure of the information specified in this list.	YES	This information is published in the annual report of the Company.
10.2. When disclosing the information referred to in clause 1 of the recommendation 10.1, it is recommended that the company, which is the parent company with respect to other companies, disclose information about the consolidated results of the whole group of companies.	YES	The company is a parent company of EPSO-G Group. Therefore, it discloses information about the consolidated results of the whole group of companies.

10.3. When disclosing the information referred to in clause 4 of the recommendation 10.1, it is recommended to provide information on the professional experience, qualifications and potential conflicts of interests of the members of the company's supervisory and management bodies, the head of the company, which could influence their decisions. It is also recommended to disclose the remuneration or other income of the members of the company's supervisory and management bodies, the head of the company received from the company, as it is regulated in more detail in the principle 8.	YES	This information is disclosed in the annual report and on the website of the company.
10.4. When disclosing the information referred to in clause 7 of the recommendation 10.1, it is recommended to disclose information on the relationships of the company and the stakeholders, such as the employees, creditors, suppliers, local community, including the company's policy regarding human resources, employee participation schemes, etc.	YES	This information is disclosed in the annual report and on the website of the company.
10.5. Information should be disclosed in such a way that no shareholders or investors are discriminated against in the manner and extent of obtaining information. Information should be disclosed to everyone at the same time. It is recommended that announcements of material events be announced before or after the trading session of the NASDAQ OMX Vilnius so that all shareholders and investors of the company have equal access to information and to make appropriate investment decisions.	Irrelevant	The company has a sole shareholder
10.6. The ways of disseminating information should ensure impartial, timely and inexpensive, and, in cases specified in the relevant legislation, unpaid access to information by information users. It is recommended to use information technologies for the dissemination of information on a larger scale, for example, to publish information on the company's website. It is recommended that the information be published and posted on the company's website not only in Lithuanian, but also in English, as well as in other languages if it is possible and necessary.	NO	The recommendation is being complied with, except that information is published on the website in Lithuanian. The company does not currently see the need to publish information in English.
10.7. It is recommended to publish on the company's website the annual report of the	YES	See clauses 10.1 and 10.6.

company, a set of financial statements and other periodic reports prepared by the company. There is also a proposal to upload on the company's website notifications of material events of the company and change in the price of the company's shares in the stock exchange.		
Principle 11: Selection of the company's audit company The mechanism for the selection of the company's audit company should ensure the independence of the report and opinion of the audit company.		
11.1. In order to obtain an objective opinion on the company's interim financial statements, an independent audit company should carry out an audit of the company's annual financial statements and its annual report.	YES	An independent audit company carries out an audit of the annual financial statements and evaluates the compliance of the annual report with the financial statements.
11.2. It is recommended that the nomination of audit company be offered to the General Meeting of Shareholders by the Supervisory Board of the company, or by the Board of the company if there is no Supervisory Board in the company.	YES	The Audit Committee to the Supervisory Board participates in the selection process of the external auditor.
11.3. If the audit company has been paid by the company for non-audit services rendered, this should be disclosed to the shareholders. The Supervisory Board of the company should also have this information, or the Board if there is no Supervisory Board in the company, when considering which audit company to nominate for the General Meeting of Shareholders.	YES	The audit company provides non-audit services in accordance with the policy of EPSO-G group of companies of purchase of non audit services from audit company are approved by the Audit Committee. The non-audit services provided by the audit company are reported in the annual report.

ANNEX 2

INFORMATION ON COMPLIANCE WITH TRANSPARENCY GUIDELINES

"EPSO-G" UAB group of companies complies with the Resolution No 1052 of the Government of 14 July 2010 "Regarding the approval of the description of the Guidelines of ensuring transparency of state-owned companies activities" (hereinafter referred to as the Transparency Guidelines). The Transparency Guidelines are compulsory in "EPSO-G" UAB because "EPSO-G" UAB is a state-owned company classified as a large enterprise, as provided by the Law of the Republic of Lithuania on Financial Accountability of Companies. In order to comply with the Transparency Guidelines in "EPSO-G" UAB group of companies, the Transparency and communication policy of "EPSO-G" UAB group of companies has been approved at the group's level. The policy takes full account of the requirements of the Transparency Guidelines and establishes the application thereof for the companies of "EPSO-G" UAB group of companies.

The implementation of the Transparency Guidelines in "EPSO-G" UAB is basically ensured through the information disclosed in the annual report and through information disclosure on the website of "EPSO-G" UAB in a format which is accessible and comprehensible to the stakeholders.

Structured information on the implementation of the Transparency Guidelines in "EPSO-G" UAB:

I. The implementation of the requirements of the governance code of the companies listed on NASDAQ OMX Vilnius regarding information disclosure	
General requirements	
Information on all essential issues of the company, including financial situation, activities and corporate governance, must be disclosed in a timely and accurate manner.	Being implemented
Information should be disclosed in such a way that no shareholders or investors are discriminated against in the manner and extent of obtaining information. Information should be disclosed to everyone at the same time.	Being implemented, except for the irrelevant provisions because "EPSO-G" UAB is a sole shareholder.
It is recommended that announcements of material events be announced before or after the trading session of Vilnius Stock Exchange so that all shareholders and investors of the company have equal access to information and to make appropriate investment decisions.	
It is recommended to publish on the company's website the annual report of the company, a set of financial statements and other periodic reports prepared by the company. There is also a proposal to upload on the company's website notifications of material events of the company and change in the price of the company's shares in the stock exchange.	Being implemented, except for what is relevant for listed companies only.
The ways of disseminating information should ensure impartial, timely and inexpensive, and, in cases specified in the relevant legislation, unpaid access to information by information users. It is recommended to use information technologies for the dissemination of information on a larger scale, for example, to publish information on the company's website. It is recommended that the information be published and posted on the company's website not only in Lithuanian, but also in English, as well as in other languages if it is possible and necessary.	Being implemented except for publication of information in English.
If the audit company has been paid by the company for non-audit services rendered, this should be disclosed to the shareholders. The Supervisory Board of the company should also have this information, or the Board if there is no Supervisory Board in the company, when considering which audit company to nominate for the General Meeting of Shareholders.	Being implemented

Specific requirements regarding information that is to be disclosed	
The company's activities and financial results are disclosed. The parent company discloses consolidated results.	Being implemented
The objectives of the company are disclosed.	Being implemented
Persons owning or managing a company's shareholding are disclosed.	Being implemented
The members of the company's supervisory and management bodies, the head of the company and their remunerations are disclosed. It is recommended to provide information on the professional experience, qualification and potential conflicts of interests of the members of the company's supervisory and management bodies and of the head of the company which could influence their decisions. It is also recommended to disclose the remuneration or other income of the members of the company's supervisory and management bodies and of the head of the company received from the company.	Being implemented
The possible to predict essential risk factors are disclosed.	Being implemented
Transactions of the company and related persons as well as transactions made outside the normal course of business are disclosed.	Being implemented
Key issues related to the employees and other stakeholders are disclosed. It is recommended to disclose information on the relationships of the company and the stakeholders, such as the employees, creditors, suppliers, local community, including the company's policy regarding human resources, employee participation schemes, etc.	Being implemented
The management structure and strategy of the company are disclosed.	Being implemented
The governance report is published on annual basis (information on own governance structure and practices):	Being implemented
essential information on the Company's governance procedure, for example, this could include information on: common governance framework, internal control and risk management systems , rights of the shareholders, management and supervisory bodies and their committees, administration or other key issues related to the corporate governance.	Being implemented
The powers of each committee defining its role and indicating its rights and obligations;	Being implemented
Internal organization and operational procedures of Collegial bodies, also the significant changes resulting from the evaluation of own performance carried out by Collegial bodies should be specified;	Being implemented

The independent members of Collegial bodies are announced. When a particular Collegial bodies member fails to meet one or more criteria for the assessment of independence set out in this Code, the company should disclose the reasons for which it considers that member nonetheless independent.	Being implemented
The minutes of the General Meeting of Shareholders are published (in Lithuanian and English and / or in other foreign languages). Incomplete volumes of documents can be made publicly available on the website of the Company if their public disclosure could harm the company or thus business secrets of the company would be disclosed.	Not being implemented because "EPSO-G" UAB has a sole shareholder who is aware about the decisions.
The report on remuneration policy is published (the remuneration and other benefits of the members and the head of the collegiate bodies received from the company). Not only as part of the company's annual report, but also on the company's website.	Being implemented
A report on how the company follows the governance code of the companies listed on NASDAQ OMX Vilnius is disclosed.	Being implemented
The transparency guidelines provide for online publication of the following information:	
The objectives and tasks of the company set by the Ministry of Energy ;	Being implemented
financial results;	Being implemented
operating results;	Being implemented
current number of employees;	Being implemented
annual wage fund;	Being implemented
monthly salary of executives and their deputies;	Being implemented
procurements and investments that have been executed during the financial year, being exuted and the planned ones.	Being implemented
Annual Report and Financial Statements	
Accounts are kept in accordance with the International Financial Reporting Standards.	Being implemented
The annual financial statements audited in accordance with the international auditing standards.	Being implemented
The annual report is made publicly available on the website by the 30th day of April.	Being implemented
The following information is published in the annual report:	Being implemented
the operational strategy and objectives (financial and non-financial), if this does not comprise a business secret of a state-owned enterprise (if the business strategy and objectives of the	Being implemented

state-owned enterprise contain information that is considered a business secret, the briefed operating strategy and objectives should be indicated (provided), excluding this information);	
the compliance of the operating results achieved with the operating objectives of the state-owned company;	Being implemented
the key events that are essential for the activities of the state-owned company and that have occurred during the reporting period;	Being implemented
information on the market of services provided or products manufactured, if this does not comprise a business secret;	Being implemented
main customers and their main groups, if this comprise a business secret. If state-owned companies disclose segment information, the main customers are presented by individual segments;	Irrelevant
investments during the reporting period, the largest investment projects being carried out or planned;	Being implemented
the total annual wages fund, the average monthly salary according to current positions and / or units;	Being implemented
social, environmental initiatives and policies being implemented;	Being implemented
information on compliance with the provisions of the Transparency Guidelines: it shall be indicated how they are implemented, which provisions are not complied with and why;	Being implemented
the main financial indicators describing the activities (profitability, liquidity, asset use efficiency), their change over 3 years;	Being implemented
management bodies;	Being implemented
information on the audit of the annual financial statements (audit entity, remuneration for performance of the audit);	Being implemented
other important information that has been revealed before the publication of the annual report and having an impact on the activities of the state-owned company;	Being implemented
information and reports to be disclosed by the listed companies in accordance with the Law of the Republic of Lithuania on Financial Accountability and the governance code of the companies listed on NASDAQ OMX Vilnius in their annual report;	Being implemented
dividend policy;	Being implemented
information on the implementation of the operational strategy and objectives (financial and non-financial).	Being implemented
Information on the specific obligations being performed, the independent auditor's reports of the annual financial statements are made publicly available on the website by the 30th day of April.	No specific obligations are established

The following information shall be enclosed to the annual report submitted to the Ministry of Energy:	Being implemented
information of the wages of their executives in the previous year,	Being implemented
performance indicators used to determine the variable component of the monthly salary of the executives, execution of these indicators, the variable component of the monthly salary established for the executives (in euros and in percentage of the fixed component of the monthly salary of the executives) and the paid variable component of the monthly salary (in euros and in percentage of the fixed component of the monthly salary of the executives).	Being implemented
Interim report	
The state-owned companies of category 1 or 2 are obliged to prepare a 6-month interim report and make it publicly available on the website by the 31st day of August. The interim report summarizes the most important information on the indicators describing the state-owned company's activities and their changes compared to the previous periods.	Being implemented
The 6-month interim financial statements are prepared and made publicly available online by the 31st August.	Being implemented