

**AMBER GRID AB**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017  
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING  
STANDARDS AS ADOPTED BY THE EUROPEAN UNION,  
PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT**

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## Independent auditor's report

To the shareholders of Amber Grid AB

### Report on the audit of the financial statements

#### Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Amber Grid AB ("the Company") as at 31 December 2017, and of its financial performance and its 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 financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statements of profit or loss and comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the 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 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 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 Statement.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company 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.

The non-audit services that we have provided to the Company, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 25 to the financial statements.

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



## Our audit approach

### Overview

#### Materiality

Overall Company's materiality is EUR 1 172 thousand which represents 5% of adjusted profit before tax.

#### Key audit matters

- Revenue recognition
- Valuation of property, plant and equipment

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in 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.

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

### 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 materiality for the 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 1 172 thousand (2016: EUR 1 200 thousand)

#### How we determined it

5% of profit before tax adjusted for one-off property, plant and equipment revaluation decrease

#### Rationale for the materiality benchmark applied

We have applied this benchmark, as profit before tax is the key measure used both internally by management and, we believe, externally by stakeholders, including the shareholders, regulator and creditors in evaluating the performance of the Company. We chose 5%, which is within the range of acceptable quantitative materiality thresholds. We further adjusted it for one-off items of non-recurring nature represented by property, plant and equipment revaluation decrease recognised in the profit or loss for the year 2017 following the change in the accounting policy from cost to revaluation model.



We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 58 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.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Revenue recognition</b></p> <p><i>Refer to Note 2.16 and Note 17 'Revenue' of the financial statements.</i></p> <p>The Company's revenue in 2017 amounts to EUR 64.3 million and its major part relates to provision of regulated services (gas transmission and transit).</p> <p>The Company recognises revenue from regulated services based on tariffs approved by the National Commission for Energy Control and Prices and meter reading at the end of each reporting period. Therefore, revenue recognition process involves only limited management's judgement. However, since the audit procedures over revenue recognition required significant time and resource due to its magnitude, it was considered a key audit matter.</p>	<p>We reviewed the revenue recognition accounting policy for all material revenue streams and agreed that it complies with the International Financial Reporting Standards as adopted by the European Union. We assessed the consistency of the application of the revenue recognition policy by reconsidering the accounting policy for the different sources of the Company's revenues.</p> <p>We audited revenue recognition through a combination of controls testing and substantive testing.</p> <p>We applied sample based testing in evaluating design and operating effectiveness of key controls in relation to the recognition of revenue, by focusing on automated and manual controls over approved bill rates in the system and generating customer bills based on validated quantity of transmitted gas and approved rates. We found no material misstatements from our testing.</p> <p>We selected a sample of sales transactions conducted during the year and accounts receivable balances outstanding at the year end and either obtained confirmations of the transactions with and balances from the Company's customers or, where no confirmations were received, reconciled these transactions and balances to the issued invoices to the customers and subsequent receipts of payments from the customers. No material exceptions were noted from our testing.</p> <p>We tested whether revenue had been recognised in the correct period by selecting a sample of credit notes issued after the year end, and checking the financial period to which they were related. No exceptions were noted from our testing.</p> <p>Our work also included testing a sample of manual journals which did not identify any items that could not be substantiated.</p>



### ***Valuation of property, plant and equipment***

As described in the Note 4 and Note 6 of the financial statements, during the year 2017 the Company 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 financial position (EUR 241.9 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 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 Company based on current rules for regulated services.

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 Company and its business activities, as well as our accumulated knowledge related to the industry where the Company 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 operations during years 2018 – 2022;
- adjustments made to cash flows regarding the grants for the key gas network projects
- adjustments made to cash flows regarding capital expenditures;
- discounted perpetuity value beyond 2022 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.



### **Reporting on other information including the annual report**

Management is responsible for the other information. The other information comprises the annual report, including the corporate governance 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 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 annual report, we considered whether the annual report includes the disclosures required by 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 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 annual report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Company presented the social responsibility report as a separate report.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the 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 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 or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 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 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 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.

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 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  
23 March 2018

AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017  
(All amounts are in EUR thousands unless otherwise stated)

Statement of financial position

	Notes	As at 31 December 2017	As at 31 December 2016 (restated)	As at 1 January 2016 (restated)
<b>ASSETS</b>				
<b>A. Non-current assets</b>				
I. Intangible assets	5	244,654	285,799	293,640
II. Property, plant and equipment	6	1,008	631	801
II.1. Land		241,973	284,493	292,617
II.2. Buildings		125	125	113
II.3. Structures and equipment		5,464	6,016	6,306
II.4. Plant and machinery		174,971	213,964	221,243
II.5. Motor vehicles		50,111	52,968	57,395
II.6. Other property, plant and equipment		999	1,100	1,216
II.7. Construction in progress		2,058	2,902	3,718
III. Non-current financial assets		8,245	7,418	2,626
III.1. Investments in subsidiary	1	1,673	675	222
III.2. Non-current trade receivables	8	675	675	222
		998	-	-
<b>B. Current assets</b>				
I. Inventories and prepayments		35,544	42,583	98,397
I.1. Inventories	7	2,168	1,515	3,041
I.2. Prepayments		2,028	1,360	2,904
II. Amounts receivable	8	140	155	137
II.1. Trade receivables		26,559	25,444	37,001
II.2. Other receivables		7,485	6,858	7,442
III. Prepaid income tax		19,074	18,586	29,559
IV. Other financial assets	9	-	-	-
V. Cash and cash equivalents	10	91	1,658	31,386
		6,726	13,966	26,969
<b>Total assets</b>		<b>280,198</b>	<b>328,382</b>	<b>392,037</b>

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The accompanying explanatory notes form an integral part of these financial statements.

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Statement of financial position (continued)

	Notes	As at 31 December 2017	As at 31 December 2016 (restated)	As at 1 January 2016 (restated)
<b>EQUITY AND LIABILITIES</b>				
<b>C. Equity</b>				
I. Share capital	1	172,021	202,810	194,664
II. Reserves	11	51,731	51,731	51,731
II.1. Legal reserve		130,151	130,151	126,955
II.2. Other reserves		5,173	5,173	5,166
III. Retained earnings (deficit)		124,978	124,978	121,789
D. Accounts payable and liabilities		(9,861)	20,928	15,978
I. Amounts payable after one year and non-current liabilities		108,177	125,572	197,373
I.1. Non-current borrowings	12	62,709	89,901	119,426
I.2. Deferred revenue	13	59,333	82,222	112,889
I.3. Non-current employee benefits	14	1,501	1,535	1,569
I.4. Deferred income tax liability	19	321	426	419
II. Amounts payable within one year and current liabilities		1,554	5,718	4,549
II.1. Current borrowings	12	45,468	35,671	77,947
II.2. Current portion of non-current borrowings	12	-	-	-
II.3. Current portion of non-current employee benefits	14	17,889	11,444	25,121
II.4. Trade payables	15	91	80	76
II.5. Advance accounts received		9,934	5,694	8,562
II.6. Income tax liability		725	5	1,261
II.7. Payroll-related liabilities		142	876	316
II.8. Other payables and current liabilities	16	1,422	1,422	826
		15,265	16,150	41,785
<b>Total equity and liabilities</b>		<b>280,198</b>	<b>328,382</b>	<b>392,037</b>

The accompanying explanatory notes form an integral part of these financial statements.

Commerce Director (Acting  
General Manager)

Vytautas Ruolia

23 March 2018

Chief Accountant

Dzintra Tamulienė



23 March 2018

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Profit (loss) statement

	Notes	2017	2016
I. Revenue	17	64,322	66,742
II. Expenses		(76,038)	(41,978)
II.1. Cost of natural gas		(7,948)	(7,144)
II.2. Depreciation and amortisation	5, 6	(14,437)	(15,871)
II.3. Employee benefits and related social security contributions		(7,894)	(7,957)
II.4. Repair and technical maintenance expenses		(5,596)	(5,327)
II.5. Taxes other than income tax		(1,811)	(1,843)
II.6. Telecommunications and IT maintenance expenses		(687)	(707)
II.7. Loss on revaluation of non-current assets		(35,507)	-
II.8. Other expenses		(2,158)	(3,129)
III. Operating profit (loss)		(11,716)	24,764
IV. Financing activity	18	(339)	(484)
IV.1. Income		29	77
IV.2. Expenses		(368)	(561)
V. Profit (loss) before income tax		(12,055)	24,280
VI. Income tax	19	2,194	(3,352)
VI.1. Current year income tax		(1,970)	(2,183)
VI.2. Deferred income tax		4,164	(1,169)
VII. Net profit (loss)		(9,861)	20,928
Basic and diluted earnings (loss) per share (EUR)	20	(0.06)	0.12

The accompanying explanatory notes form an integral part of these financial statements.



Commerce Director (Acting General Manager)	Vytautas Ruolia		23 March 2018
Chief Accountant	Dzina Tamulienė		23 March 2017

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Statement of comprehensive income

	2017	2016
I. Net profit (loss)		
II. Other comprehensive income	(9,861)	20,928
II.I. will be reclassified subsequently to profit or loss	-	-
II.II. will not be reclassified subsequently to profit or loss	-	-
III. Total comprehensive income (loss)	(9,861)	20,928

The accompanying explanatory notes form an integral part of these financial statements.

Commerce Director (Acting General Manager)	Vytautas Ruolia		23 March 2018
Chief Accountant	Dzintra Tamulienė		23 March 2018

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Statement of changes in equity

Notes	Share capital	Legal reserve	Other reserves	Retained earnings (deficit)	Total
<b>At 31 December 2015</b>	<b>51,731</b>	<b>5,166</b>	<b>121,789</b>	<b>15,978</b>	<b>194,664</b>
Transfer from other reserves	-	-	3,189	(3,189)	-
Transfers to legal reserve	-	7	-	(7)	-
Dividends declared	-	-	-	(12,782)	(12,782)
<i>Total transactions with shareholders</i>		7	3,189	(15,978)	(12,782)
Total comprehensive income	-	-	-	20,928	20,928
<b>At 31 December 2016</b>	<b>51,731</b>	<b>5,173</b>	<b>124,978</b>	<b>20,928</b>	<b>202,810</b>
Dividends declared	-	-	-	(20,928)	(20,928)
<i>Total transactions with shareholders</i>		-	-	(20,928)	(20,928)
Total comprehensive income (loss)	-	-	-	(9,861)	(9,861)
<b>At 31 December 2017</b>	<b>51,731</b>	<b>5,173</b>	<b>124,978</b>	<b>(9,861)</b>	<b>172,021</b>

The accompanying explanatory notes form an integral part of these financial statements.

Commerce Director (Acting  
General Manager)

Vytautas Ruolia

23 March 2018

Chief Accountant

Dzina Tamulienė

23 March 2018



**AMBER GRID AB, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania**  
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**Statement of cash flows**

	<b>Note</b>	<b>2017</b>	<b>2016 (restated)</b>
<b>I. Cash flows from operating activities</b>			
I.1. Net profit (loss)		(9,861)	20,928
Adjustments for non-cash items and other corrections:			
I.2. Depreciation and amortisation	5, 6	14,437	15,871
I.3. Loss (profit) on disposal and write-off of property, plant and equipment, doubtful trade receivables and inventories		(11)	15
I.4. Loss on revaluation of property, plant and equipment	6	35,507	-
I.5. Impairment of property, plant and equipment, financial assets, doubtful trade receivables and inventories	7, 8	24	1,101
I.6. Income tax expenses (benefit)	19	(2,194)	3,352
I.7. Interest (income)	18	(29)	(2)
I.8. Interest expenses	18	367	557
I.9. Amortisation of deferred revenue		(41)	(51)
I.10. Elimination of other non-cash items		-	(75)
		<b>38,199</b>	<b>41,696</b>
Changes in working capital:			
I.11. Decrease in inventories	7	(570)	702
I.12. (Increase) in trade receivables	8	(662)	2,577
I.13. (Increase) in other receivables and prepayments		(716)	(5,441)
I.14. (Decrease) increase in trade payables		(90)	(367)
I.15. Increase in other payables and current liabilities		(189)	(26,287)
I.16. (Increase) in other financial assets		1,567	29,728
I.17. Income tax (paid)		(2,704)	(1,622)
Total changes in working capital		<b>(3,364)</b>	<b>(710)</b>
Net cash flow from operating activities		<b>34,835</b>	<b>40,986</b>
<b>II. Cash flows from investing activities</b>			
II.1. (Acquisition) of property, plant and equipment and intangible assets	5, 6, 0	(8,020)	(13,871)
II.2. Proceeds on disposal of non-current assets		12	13
II.3. Grants received	13,21	3,874	17,950
II.4. (Acquisition) of investments in joint ventures		-	(452)
II.5. Loans granted		(120)	-
II.6. Interest received	18	4	2
Net cash flows (used) in investing activities		<b>(4,250)</b>	<b>3,642</b>

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The accompanying explanatory notes form an integral part of these financial statements.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017  
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Statement of cash flows (continued)

	Notes	2017	2016 (restated)
III. Cash flows from financing activities			
III.1. Dividends (paid)			
III.2. Proceeds from borrowings		(20,999)	(12,787)
III.3. (Repayments) of borrowings		-	-
III.4. Interest (paid)	12	(16,444)	(44,344)
III.5. Other cash flows from (used in) financing activities		(402)	(575)
Net cash flows from (used in) financing activities		20	75
IV. Net increase (decrease) in cash and cash equivalents		(37,825)	(57,631)
V. Cash and cash equivalents at the beginning of the year		(7,240)	(13,003)
VI. Cash and cash equivalents at the end of the year		13,966	26,969
		6,726	13,966

The accompanying explanatory notes form an integral part of these financial statements.

Commerce Director (Acting General Manager)	Vytautas Ruolia		23 March 2018
Chief Accountant	Džintra Tamulienė		23 March 2018

**Notes to the financial statements**

**1 General information**

Amber Grid AB ("the Company") is a public limited liability company registered in the Republic of Lithuania. Its registered office address is as follows:

Savanorių pr. 28,  
LT – 03116, Vilnius,  
Lithuania.

Amber Grid AB was registered on 25 June 2013 as a result of unbundling of natural gas transmission activity together with assets, rights and obligations attributed thereto. The Company has been actively operating since 1 August 2013. The Company continues the same activity as the one when it was part of Lietuvos Dujos AB, all assets and liabilities were initially recognised by the Company at carrying amounts reported for by the transferor (i.e. Lietuvos Dujos AB) at the time of transfer.

The legal, functional and organisational unbundling of natural gas transmission activity was effected through the establishment of Amber Grid AB. To ensure full compliance with the requirements of Chapter 8 of the Lithuanian Law on Natural Gas, the separation of control of Amber Grid AB was expected to be implemented by 31 October 2014. The decision on control separation was adopted by the Company's shareholders, as described below.

On 13 January 2015, the National Control Commission for Prices and Energy (hereinafter "the Commission") concluded that the unbundling of transmission activity of Amber Grid AB was in compliance with the provisions of the Law on Natural Gas. After obtaining a positive decision from the European Commission, on 10 April 2015 the Commission granted to the Company an energy operator licence No L2-3 (GDP) to engage in natural gas transmission activity in the territory of Lithuania.

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

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

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

As at 31 December 2017, the Company had 100 (2016: 95) agreements for gas transmission services with the users of the gas transmission system (natural gas consumers, natural gas distribution system operators, natural gas suppliers supplying gas to the systems of gas consumers). The Company also had 3 (2016: 3) agreements for natural gas balancing services with the natural gas suppliers trading in natural gas but not transporting gas via the transmission system.

**AMBER GRID AB**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (All amounts are in EUR thousands unless otherwise stated)

**1 General information (continued)**

All the shares of the Company are ordinary registered shares with the par value of EUR 0.29 each. As at 31 December 2017 and 2016, all the shares had been fully paid. The Company did not hold its own shares. As from 1 August 2013, the Company's shares have been traded on stock exchange and quoted on the Baltic Secondary List of NASDAQ Vilnius (ISIN - LT0000128696; LEI code 097900BGMP0000061061 Ticker - AMG1L).

As at 31 December 2017 and 2016, the Company's shareholders were as follows:

	Number of shares held	Interest held (%)
EPSO-G UAB (company code 302826889, A. Juozapavičiaus 13, Vilnius)	172,279,125	96.58
Other shareholders	6,103,389	3.42
	178,382,514	100.00

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

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 2017, 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.

GET Baltic UAB is a licensed natural gas market operator with a status of Registered Reporting Mechanism (RRM) provided by the Agency for the Cooperation of Energy Regulators (ACER). The Company is the administrator of the electronic trade system in the Lithuanian, Latvian, and Estonian bidding areas. The system is engaged in trade in short-term and long-term natural gas products.

The Company's investment in subsidiary GET Baltic UAB was accounted for at cost in the Company's financial statements for the years ended 31 December 2017 and 2016.

In line with the exception defined in Article 6(1) of the Lithuanian Law on Consolidated Accounts of Entities, the subsidiary was not included in the consolidated financial statements as it was not material for the Company because its assets at the end of the financial year did not exceed 5% of the Company's total assets, and its net sales revenue in the reporting year did not exceed 5% of the Company's net sales revenue during the same period.

The financial statements of GET Baltic UAB as at 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

These financial statements were approved by the Company's management on 23 March 2018. The Company's shareholders have a statutory right to approve the financial statements or not to approve them and require that management prepare a new set of financial statements.

In 2017, the average number of employees on payroll at Amber Grid AB was 355 (2016: 359).

**AMBER GRID AB**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (All amounts are in EUR thousands unless otherwise stated)

**1 General information (continued)**

GET Baltic UAB data as at 31 December 2017 and 2016:

Year	Registered office address	Company's ownership interest (%)	Profile of activities
2017	Savanorių pr. 28, Vilnius	100	Licensed activities of natural gas market operator with a status of Registered Reporting Mechanism (RRM) provided by the Agency for the Cooperation of Energy Regulators (ACER). The Company is the administrator of the electronic trade system in the Lithuanian, Latvian, and Estonian bidding areas, which is engaged in trade in short-term and long-term natural gas products
2016	Savanorių pr. 28, Vilnius	100	Licensed activities of natural gas market operator – organisation of trade in natural gas on the natural gas exchange

Get Baltic UAB condensed statement of financial position as at 31 December 2017 and 2016:

**ASSETS**

	At 31 December 2017	At 31 December 2016
<b>A. Non-current assets</b>	<b>450</b>	<b>171</b>
I. Intangible assets	447	170
II. Property, plant and equipment	3	1
<b>B. Current assets</b>	<b>911</b>	<b>2,953</b>
I. Prepayments	10	1
II. Amounts receivable	277	787
III. Cash and cash equivalents	624	2,165
<b>Total assets</b>	<b>1,361</b>	<b>3,124</b>

**EQUITY AND LIABILITIES**

<b>C. Equity</b>	<b>338</b>	<b>251</b>
I. Share capital	580	580
II. Reserves	-	-
III. Accumulated loss	(242)	(329)
<b>D. Accounts payable and liabilities</b>	<b>1,023</b>	<b>2,873</b>
I. Non-current liabilities	-	-
II. Current liabilities	1,023	2,873
<b>Total equity and liabilities</b>	<b>1,361</b>	<b>3,124</b>

**AMBER GRID AB**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (All amounts are in EUR thousands unless otherwise stated)

**1 General information (continued)**

Get Baltic UAB condensed profit (loss) statement for the years ended 31 December 2017 and 2016:

	2017	2016
I. Total revenue	334	115
II. Total expenses	(243)	(327)
III. Profit (loss) before income tax	91	(212)
IV. Income tax	4	-
V. Net profit (loss)	87	(212)

Get Baltic UAB condensed statement of comprehensive income for the years ended 31 December 2017 and 2016:

	2017	2016
I. Net profit (loss)	87	(212)
II. Other comprehensive income	-	-
II.I. will be reclassified subsequently to profit or loss	-	-
II.II. will not be reclassified subsequently to profit or loss	-	-
III. Total comprehensive income (loss)	87	(212)



## 2 Accounting policies

Presented below are the principal accounting policies adopted in the preparation of the Company's financial statements for the year 2017:

### 2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter the "EU").

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

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.

#### a) 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 for the first time for the financial year ended 31 December 2017:

Disclosure initiative – Amendments to IAS 7 (effective for annual periods beginning on or after 01 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. Reconciliation of movements in liabilities arising from financing activities is disclosed in Note 12.

*Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12* (effective for annual periods beginning on or after 1 January 2017). 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 amendments have no significant impact on the financial statements of the Company.

#### b) New standards, amendments and interpretations that are not yet effective

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2017 or later and that have not been adopted when preparing these financial statements:

IFRS 9, Financial Instruments: Classification and measurement (effective for annual periods beginning on or after 1 January 2018; adopted by the EU). The main features of the new standard are as follows:

- 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).

2 Accounting policies (continued)

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 will apply IFRS 9 starting from 1 January 2018 using the modified retrospective approach. According to the Company, the standard will have no impact on the classification of the Company’s financial assets as at 31 December 2017: loans and amounts receivable will continue to be carried at amortised cost. 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.*

*In the opinion of the Company, the standard will have no material impact on the measurement of financial assets and financial liabilities.*

IFRS 15, *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018; adopted by the EU). 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.

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

*The Company will apply IFRS 15 starting from 1 January 2018 using the modified retrospective approach. In the opinion of the Company, the requirements of the new standard will have no impact on revenue recognition.*

*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.

## 2 Accounting policies (continued)

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 does not expect the amendments to have a significant impact on the financial statements.*

*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 profit (loss) 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 will apply IFRS 16 starting from 1 January 2019. The Company will capitalise the obligations under non-cancellable operating lease contracts in the statement of financial position.*

*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 amendments will have no impact on the Company's financial statement.*

*Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts – Amendments to IFRS 4* (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply the temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. *The amendments will have no impact on the Company's financial statement.*

*Annual improvements to the 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)); adopted by the EU on 7 February 2018). 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.

**2 Accounting policies (continued)**

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.

*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.

*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 amendments will have no impact on the Company's financial statement.*

*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. *This IFRS will have no impact on the Company's financial position or results of operations.*

*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.

## 2 Accounting policies (continued)

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 is assessing the impact of the new interpretation on its financial statements.*

*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 a 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 is assessing the impact of the amendments on its financial statements.*

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

Other IFRSs, their amendments and improvements, IFRIC interpretations that are not yet effective are not expected to have a significant impact on the Company or are not relevant to the Company.

### 2.2 Presentation currency

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

### 2.3 Investments in subsidiary

A subsidiary is an entity controlled by the parent company. Investments in subsidiaries are accounted for in the parent company's balance sheet at cost less impairment loss, when the carrying amount of investment reported in the parent company's balance sheet exceeds the recoverable amount.

## 2 Accounting policies (continued)

When a decision is made to sell the subsidiary and there is an active search for a buyer, and it is probable that the sale will occur within one year after the balance sheet date, the investment in subsidiary is classified as current assets held for sale.

### 2.4 Intangible assets

The Company's intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of asset can be measured reliably.

The Company applies the following useful lives to its intangible assets: four years with a finite useful life.

After initial recognition, intangible assets with finite lives are stated at revalued amount less accumulated amortisation and impairment losses, if any. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The useful lives, residual values and amortisation method are reviewed annually to ensure they are consistent with the expected pattern of economic benefits from items of non-current intangible assets. Intangible assets mainly consist of software and licences used in the Company's activities.

### 2.5 Property, plant and equipment

Property, plant and equipment is stated at revalued amount less accumulated depreciation and impairment losses (Note 4).

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, whereas 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.



## 2 Accounting policies (continued)

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

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'.

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

Land	
Buildings	25–60 years
Structures and installations	18–55 years
Plant and machinery	5–20 years
Motor vehicles	6 years
Other property, plant and equipment	4–6 years

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

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

Construction in progress is stated at cost. This includes the cost of building, structures and equipment and other directly attributable costs. Construction in progress is not depreciated until the construction of asset is completed and the asset is put into operation.

### 2.6 Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement", financial assets are classified as financial assets at fair value (change in value is recognised in profit or loss), held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the date of the transaction, i.e. the date on which a commitment is made to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs for investments not carried at fair value through profit or loss.

#### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. Investments that are intended to be held to maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit (loss) statement when the investments are derecognised or impaired, as well as through the amortisation process.

#### Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are carried at acquisition costs which must reflect their fair value. Current receivables are subsequently carried at amortised cost using the effective interest method less impairment losses, if any. Gains and losses are recognised in the profit (loss) statement when the assets are derecognised or impaired, as well as through the amortisation process.

Impairment allowance for doubtful receivables is evaluated when the indications leading to the impairment of amounts receivable are noticed and the carrying amount of the receivables is reduced through the use of an allowance account. Impaired loans and amounts receivable are written-off when they are assessed as uncollectible.

## 2 Accounting policies (continued)

### 2.7 Derecognition of financial assets and liabilities

#### Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its 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 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 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 Company could be required to repay.

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 2.8 Inventories

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

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value.

#### Acquisition cost of inventories

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

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

The acquisition cost of inventories which consist of natural gas contained in the gas pipelines is determined using the weighted average costing method. The acquisition cost of one unit of energy of natural gas (kWh) is determined by applying the weighted average costing method using the following formula:

acquisition cost of one unit of energy of natural gas (kWh) = (remaining amount of natural gas at the beginning of the period (quantity \* price) + purchases of natural gas over the period (quantity \* price)) / quantity of natural gas (remaining amount of natural gas at the beginning of the period + purchases of natural gas over the period).

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

**2 Accounting policies (continued)**

**2.9 Cash and cash equivalents**

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

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

**2.10 Borrowings**

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings, except capitalised interest (Note 2.11).

**2.11 Borrowing costs**

The Company borrows funds and uses them for the acquisition of qualifying assets. The Company has to therefore determine the amount of borrowing costs eligible for capitalisation by applying the capitalisation rate for costs incurred in the acquisition of qualifying assets. The capitalisation rate has to be the weighted average of borrowing costs related to the Company's past due borrowings, except for borrowings specifically intended for acquiring qualifying assets. Borrowing costs specifically intended for acquiring qualifying assets are capitalised separately. The amount of the Company's borrowing costs capitalised over the period cannot exceed the amount of borrowing costs incurred over the same period.

Other interest and borrowing costs in the profit (loss) statement are immediately charged to expenses when incurred, regardless of whether they constitute a special purpose loan or not.

**2.12 Grants**

Grants mean financial and material support rendered by state and municipal authorities, international organisations and foundations and other third parties for specific activities. Assets received free of charge are also allocated to the group of grants.

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

Grants may be of two types:

- asset-related grants;
- income-related grants.

Grants received from the state or the European Union in the form of non-current assets or intended for the purchase of non-current assets are considered as asset-related grants. The carrying amount of non-current assets is reduced by the amount of grants. For the purpose of the statement of profit or loss and other comprehensive income, grants are recognised over the useful life of the asset concerned by reducing depreciation expenses.

Accumulated grants receivable are accounted for other receivables when, according to the agreement, the European Commission commits to fund strategic projects and there is strong evidence the funding will be received.

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

For the purpose of the profit (loss) statement, income-related grants are recognised when related expenses are incurred (or income is not earned) for the compensation of which the grant was allocated by increasing other income (or reducing related expenses). If no connection can be established between grants and incurred or deferred expenses

**2 Accounting policies (continued)**

(or unearned income), they are recognised as income during the period they are received or when the Company complies with all the conditions related to the allocation of grants as established in the respective grant agreement and there is a reasonable assurance that the grant will be received.

**2.13 Long-term employee benefits**

Defined benefit plan - post employment benefits

According to the collective agreement, each employee leaving the Company at the retirement age is entitled to a one-time payment. Employment benefits are recognised in the statement of financial position and reflect the present value of future payments at the date of the statement of financial position. The above-mentioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognised immediately in the profit (loss) statement. They will not be reclassified to profit or loss in future periods.

The past service costs are recognised in the profit (loss) statement immediately.

Since 2018, the Company's collective agreement does not provide long-term employee benefits at the Company.

**2.14 Income tax**

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

As from 1 January 2010, income tax rate of 15% has been established for companies operating in the Republic of Lithuania.

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

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 tax asset and liability is measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the date of the statement of financial position.

Deferred tax asset have been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

**2.15 Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

2 Accounting policies (continued)

Finance lease

Finance leases that transfer to the Company substantially all the risks and rewards of ownership of the leased item, are capitalised at the commencement of the lease. The Company recognises finance leases as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of finance lease is the interest rate implicit in the finance lease agreement, when it is possible to determine it, in other cases, Company's incremental interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets acquired under the finance leases are depreciated. The depreciation policy for assets acquired under finance leases is consistent with that for depreciable assets that are owned. The assets acquired under finance leases cannot be depreciated over a period longer than the lease term, unless the Company, according to the lease contract, obtains ownership at the end of the lease term.

Operating lease

Leases where the lessor retains all significant risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

**2.16 Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax and discounts. Revenue is recognised on an accrual basis, i.e. when earned (production is sold or services are rendered), regardless of the time receivables are received.

Based on the provisions of the Lithuanian Energy Ministry's Order No 1-245 of 27 December 2013 (subsequent amendments: Order No 1-94 of 23 April 2014, Order No 1-255 of 14 October 2014, Order No 1-167 of 25 June 2015, Order No 1-187 of 17 July 2015) *On the approval of the procedure for accounting of natural gas*, the gas energy value (or the heating value/calorific value) was introduced for the purpose of quantitative accounting for trade in natural gas in Lithuania. Before that, the trade in natural gas used to be accounted in volume units (cubic metres).

The Company's revenue includes as follows:

- revenue from gas transmission and related services;
- grants recognised as revenue (as described in Note 2.12);
- revenue from LNGT administration;
- other income;
- revenue from financing activities.

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

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

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

**2 Accounting policies (continued)**

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

Other income

Gain from sale and lease of property, plant and equipment, as well as default charges and fines to be received from contractors for delay in the execution of works, are recognised by the Company as other income.

Finance income

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

**2.17 Foreign currencies**

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

**2.18 Impairment of assets**

Financial assets

Financial assets are reviewed for impairment at each financial reporting date.

For financial assets carried at amortised cost, whenever, based on events that have occurred, it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the profit (loss) statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the impairment was recognised. Such reversal is recorded in the profit (loss) statement under the same caption where the impairment losses have been recognised. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been, had the impairment not been recognised.

Other assets

Other assets of the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the profit (loss) statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased significantly. The reversal is accounted under the same caption of the profit (loss) statement as the impairment loss.



**2 Accounting policies (continued)**

**2.19 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

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

Assets and liabilities disclosed at fair value in the financial statements consist of cash and cash equivalents, including trade and other receivables, trade payables and other payables, and borrowings. Management estimated that the fair value of borrowings as at 31 December 2017 and 2016 approximated their carrying amount, as they were subject to variable interest rates. The fair value of other financial assets and financial liabilities approximated their carrying amount.

**2.20 Use of accounting estimates in the preparation of the financial statements**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management of the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation for property, plant and equipment (Note 2.5, Note 4, and Note 6) and deferred income tax asset (Note 2.14 and Note 19). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

**2.21 Contingencies**

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

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

**2.22 Subsequent events**

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

**2.23 Inter-company offsetting**

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

**3 Segment reporting**

The management considers and analyses the natural gas transmission activity pursued by the Company as a single segment, and accordingly, the Company acts as one segment.

All the Company's non-current assets are located in Lithuania, where the Company carries on its activities.

**3 Segment reporting (continued)**

In 2017, the Company generated 74.15% (2016: 75.71%) of its total revenue from the system users in Lithuania, and 24.21% (2016: 24.14%) from gas transportation to the Kaliningrad Region of the Russian Federation.

As at 31 December 2017, there were three customers each of which generated revenues in excess of 10% of the Company's total revenue. These revenues totalled EUR 44,759 thousand. They are as follows:

Customer A – EUR 18,618 thousand;  
Customer B – EUR 15,579 thousand;  
Customer C – EUR 10,562 thousand.

As at 31 December 2016, there were five customers each of which generated revenues in excess of 10% of the Company's total revenue. These revenues totalled EUR 55,398 thousand. They are as follows:

Customer A – EUR 16,068 thousand;  
Customer B – EUR 15,072 thousand;  
Customer C – EUR 10,365 thousand;  
Customer D – EUR 6,990 thousand;  
Customer E – EUR 6,903 thousand.

**4 Changes in accounting policies and adjustment of comparative figures**

Before 31 December 2017, property, plant and equipment was carried at acquisition cost, less accumulated depreciation and accumulated impairment losses. Starting from 31 December 2017, based on changes in the accounting policy made to ensure consistency with the principles of accounting of property, plant and equipment as applied by the EPSO-G UAB group, the Company's property, plant and equipment is stated at revalued amount, less accumulated depreciation and impairment losses. In the opinion of the Company's management the recognition of property, plant and equipment at revalued amount will result in a more fair presentation of its economic value. The Company applied an exception established by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* to account for the change in the accounting policy as a revaluation in the year when the policy is changed. The impact of the change in accounting policy to basic and diluted earnings per share was a decrease of 0.2 euros per share.

Starting from 2017, the Company changed 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. Also, the management has further assessed the substance of the cash flows from grants received to finance the acquisition of property, plant and equipment, and has determined that these cash flows should be presented within investing cash flows, close to cash outflows on acquisition of the property, plant and equipment; thus the presentation will be consistent in the cash flow statement and statement of financial position. This change was applied retrospectively and comparative figures were adjusted. This change had no impact on the profit (loss) statement. The impact of this change on the items of the statement of financial position and statement of cash flows is presented in the table below.

**AMBER GRID AB**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
(All amounts are in EUR thousands unless otherwise stated)

	Balances before change in accounting policies as at 31 December 2016	Effect of change in accounting policies	Balances after change in accounting policies as at 31 December 2016	Balances before change in accounting policies as at 1 January	Effect of change in accounting policies	Balances after change in accounting policies as at 1 January 2016
<b>Non-current assets</b>	<b>348,039</b>	<b>(62,915)</b>	<b>285,124</b>	<b>354,689</b>	<b>(61,271)</b>	<b>293,418</b>
Intangible assets	631	-	631	801	-	801
Property, plant, and equipment	347,408	(62,915)	284,493	353,888	(61,271)	292,617
Land	125	-	125	113	-	113
Buildings	6,244	(228)	6,016	6,544	(238)	6,306
Structures and equipment	269,909	(55,945)	213,964	278,615	(57,372)	221,243
Plant and machinery	55,565	(2,597)	52,968	60,078	(2,683)	57,395
Motor vehicles	1,100	-	1,100	1,216	-	1,216
Other property, plant and equipment	3,328	(426)	2,902	4,230	(512)	3,718
Construction in progress	11,137	(3,719)	7,418	3,092	(466)	2,626
Deferred revenue	64,450	(62,915)	1,535	62,885	(61,271)	1,569
<b>Net cash flows (used) in investing activities</b>	<b>(14,308)</b>	<b>17,950</b>	<b>3,642</b>	<b>(53,069)</b>	<b>9,089</b>	<b>(43,980)</b>
<b>Net cash flows from (used in) financing activities</b>	<b>(39,681)</b>	<b>(17,950)</b>	<b>(57,631)</b>	<b>49,435</b>	<b>(9,089)</b>	<b>40,346</b>

**5 Intangible assets**

Movement in intangible assets account during the reporting period and the previous period (excluding assets for which grants were received) is as follows:

	Patents, licences	Computer software	Other Intangible assets	Total
<b>Net book amount at 31 December 2015</b>	<b>173</b>	<b>581</b>	<b>47</b>	<b>801</b>
Additions	44	102	-	146
Write-offs	-	-	-	-
Amortisation	(92)	(210)	(14)	(316)
<b>At 31 December 2016</b>	<b>125</b>	<b>473</b>	<b>33</b>	<b>631</b>
Cost	450	1,129	97	1,676
Accumulated amortisation	(325)	(656)	(64)	(1,045)
<b>Net book amount at 31 December 2016</b>	<b>125</b>	<b>473</b>	<b>33</b>	<b>631</b>
Additions	20	734	-	754
Offsets of additions against grants	-	(90)	-	(90)
Write-offs	-	-	-	-
Amortisation	(63)	(210)	(14)	(287)
<b>At 31 December 2017</b>	<b>82</b>	<b>907</b>	<b>19</b>	<b>1,008</b>
Cost	82	907	19	1,008
Accumulated amortisation	-	-	-	-
<b>Net book amount at 31 December 2017</b>	<b>82</b>	<b>907</b>	<b>19</b>	<b>1,008</b>

The Company's part of property, plant and equipment with the cost of EUR 0 thousand as at 31 December 2017 (2016: EUR 81 thousand) has been fully depreciated but is still in use.

**AMBER GRID AB**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
(All amounts are in EUR thousands unless otherwise stated)

**6 Property, plant and equipment**

The movement in property, plant and equipment during the reporting and previous reporting periods (excluding assets for which grants were received) is as follows:

	Land	Buildings	Structures and equipment	Machinery and equipment	Motor vehicles	Other property, plant and equipment	Construction in progress	Total
<b>Net book amount at 31 December 2015 (restated)</b>	<b>113</b>	<b>6,306</b>	<b>221,243</b>	<b>57,995</b>	<b>1,216</b>	<b>3,718</b>	<b>2,626</b>	<b>292,617</b>
Additions	11	-	1	147	256	387	6,873	7,675
Disposals and write-offs	-	-	(7)	-	-	(22)	-	(29)
Reclassified from inventories	-	-	-	-	-	477	-	477
Reclassified to inventories	-	-	(12)	-	-	-	-	(12)
Reclassifications	1	-	1,308	257	30	(67)	(1,529)	-
Impairment	-	(25)	(102)	-	-	-	(552)	(679)
Depreciation charge	-	(275)	(8,467)	(4,831)	(402)	(1,591)	-	(15,556)
<b>31 Dec 2016</b>	<b>125</b>	<b>6,016</b>	<b>213,964</b>	<b>52,968</b>	<b>1,100</b>	<b>2,902</b>	<b>7,418</b>	<b>284,493</b>
Cost	125	9,051	364,899	94,817	4,988	18,588	7,418	499,887
Accumulated depreciation	-	(3,035)	(150,935)	(41,849)	(3,888)	(15,686)	-	(215,393)
<b>Net book amount at 31 December 2016 (restated)</b>	<b>125</b>	<b>6,016</b>	<b>213,964</b>	<b>52,968</b>	<b>1,100</b>	<b>2,902</b>	<b>7,418</b>	<b>284,494</b>
Additions	-	-	3	244	262	251	6,460	7,220
Disposals and write-offs	-	-	-	-	-	(24)	-	(24)
Reclassified from inventories	-	-	-	-	-	-	-	-
Reclassified to inventories	-	-	-	-	-	(61)	-	(61)
Reclassifications	-	-	3,572	1,814	-	247	(5,633)	-
Revaluation (loss)	-	(289)	(35,162)	(55)	-	-	-	(35,506)
Depreciation	-	(263)	(7,406)	(4,860)	(363)	(1,257)	-	(14,149)
<b>At 31 December 2017</b>	<b>125</b>	<b>5,464</b>	<b>174,971</b>	<b>50,111</b>	<b>999</b>	<b>2,058</b>	<b>8,245</b>	<b>241,973</b>
Cost	125	5,464	174,971	50,111	999	2,058	8,245	241,973
Accumulated depreciation	-	-	-	-	-	-	-	-
<b>Net book amount at 31 December 2017</b>	<b>125</b>	<b>5,464</b>	<b>174,971</b>	<b>50,111</b>	<b>999</b>	<b>2,058</b>	<b>8,245</b>	<b>241,973</b>

The amounts of grants deducted from the carrying value of the Property, plant and equipment is as follows:

	Land	Buildings	Structures and equipment	Machinery and equipment	Motor vehicles	Other PP&E	Construction in progress	Total
2016	-	-	-	-	-	(30)	(3,545)	(3,575)
2017	-	-	-	-	-	-	(4,414)	(4,414)

The Company's property, plant and equipment with the acquisition cost of EUR 0.4 thousand as at 31 December 2017 (31 December 2016: EUR 17,286 thousand) was fully depreciated but still in use.

During 2017, borrowing costs (interest) capitalised (included in the cost of non-current assets) amounted to EUR 35 thousand (2016: EUR 27 thousand). The annual interest capitalisation rate in 2017 was 0.438% (2016: 0.432%).

As at 31 December 2016 the Company has applied cost model for property, plant and equipment and the management has assessed whether there were any impairment indicators present at that date. Based on management's assessment there were no impairment indicators noted as at 31 December 2016.

**6 Property, plant and equipment (continued)**

In view of the accounting principles applied in respect of property, plant and equipment by the EPSO-G UAB group, the Company started to record property, plant and equipment at the revalued amount instead of recognising these assets at cost. Due to the specific character of assets used in the Company's activities, 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 Company's management has performed the valuation with the involvement of the internal Company's experts and external advisors, where considered to be required. The fair value of the cash generating unit, i.e. the total property, plant and equipment of the Company, was estimated. As at 31 December 2017, the Company 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:

- It is not expected that excess profit resulting from operational efficiency would be retained, as the tariffs for system services will in the future be reduced by the amount of excess profit;
- Adjustments were made with respect to the projected return on assets 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 assets 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 O3-510 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 the Company.

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 based on management's assessment such an excess in value will not generate future revenue for the Company based on current rules for regulated services.

The recoverable amount of the Company's non-current assets is mostly affected by changes in the discount rate, rate of return on assets set by the National Commission for Energy Control and Prices (the Commission) and changes in the regulatory environment.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurement:

6 Property, plant and equipment (continued)

Fair value as at 31 December 2017 *	Unobservable inputs	Estimate for the inputs	Range of possible estimated inputs for sensitivity	Relationship of unobservable inputs to fair value
272,986	Post tax discount rate	5.1%	4,85% - 5,35%	The higher the discount rate, the lower the fair value
	Rate of return on regulated assets during regulation period 2019 - 2022	3.9%	3.8% - 4.5%	The higher the return rate, the higher the fair value
	Rate of return on regulated assets beyond 2022	6%	5,7% - 6,3%	The higher the return rate, the higher the fair value
	Terminal growth	1%	0% - 2%	The higher the growth rate, the higher the fair value

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

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

Sensitivity to changes in discount rate by percentage points:

Change in discount rate	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+0,25%	233,251	(39,734)	-
-0,25%	242,021	(30,965)	-

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

Sensitivity to changes in return on investments during 2019–2022 by percentage points:

Change in rate of return on investments (regulated assets) during regulation period 2019 - 2022	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+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 National Commission for Energy Control and Prices 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 National Commission for Energy Control and Prices will make adjustments to the rate of return on investments.

6 Property, plant and equipment (continued)

Sensitivity to changes in return on investments with regard to perpetuity cash flows by percentage points:

Change in return on investments with regard to perpetuity cash flows	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+0,3%	247,984	(25,001)	-
-0,3%	226,973	(46,012)	-

While discounting cash flows beyond 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 by percentage points:

Change in stable growth rate	Value of PP&E valued using the income method, EUR '000	Effect on profit before tax, EUR '000	Effect on statement of comprehensive income / revaluation reserve before tax, EUR '000
+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.

The major construction in progress items of the Company as at 31 December 2017 and 2016 were as follows:

Items	Before offset against grants as at 31	After offset against grants as at 31	Before offset against grants as at 31	After offset against grants as at 31
Implementation of the gas interconnection Poland-Lithuania in the territory of Lithuania	6,517	3,998	6,262	3,744
Modernisation of the Panevėžys compression station	1,150	605	1,861	959
Installation of control device releasing and receiving chambers	3,530	1,776	-	-
Reconstruction of gas distribution stations in Jonava and Alytus	2,282	1,146	-	-
Replacement of valve units of the gas transmission pipelines	-	-	1,765	1,765
Construction of the gas transmission pipeline Vilnius-Kaunas and the connection Kaunas-Šakiai	551	551	551	551
Automation of the maintenance of a cathodic protection of the gas transmission pipelines by installing a remote monitoring and management system	146	77	430	215
Other	892	672	848	764
*Less: impairment of construction in progress	(580)	(580)	(580)	(580)
	14,488	8,245	11,137	7,418

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

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**7 Inventories**

	<b>At 31 December 2017</b>	<b>At 31 December 2016</b>
Raw materials, spare parts and other inventories	618	708
Natural gas	1,814	1,074
Assets held for sale	14	13
Inventories, gross	2,446	1,795
Less: write-down allowance	(418)	(435)
	<b>2,028</b>	<b>1,360</b>

Change in the inventories of natural gas as at 31 December 2017 resulted from the increase in the purchase price of natural gas.

The acquisition cost of the Company's inventories stated at net realisable value as at 31 December 2017 amounted to EUR 618 thousand (31 December 2016: EUR 708 thousand). Inventory write-down was included in other expenses.

In 2017, the Company reclassified the emergency reserve inventories equal to EUR 61 thousand from non-current assets to current assets, i.e. the category 'Raw materials, spare parts and other inventories' which meets the criteria of current assets (Notes 2.5 and 6). In 2016, the Company reclassified the emergency reserve inventories from current assets' category 'Raw materials, spare parts and other inventories' to non-current assets. The inventories reclassified met the criteria of non-current assets for the amount of EUR 477 thousand.



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**8 Amounts receivable**

	At 31 December 2017	At 31 December 2016
<b>Non-current trade receivables</b>		
Other trade receivables	998	-
<b>Non-current trade receivables and other receivables</b>		
Amounts receivable for natural gas transmission	7,499	6,859
Other trade receivables	43	15
Less: impairment allowance for amounts receivable	(57)	(16)
<b>Total trade receivables</b>	<b>8,483</b>	<b>6,858</b>
Receivable and accrued LNG terminal funds for administration (Note 2.16)	14,186	13,279
Grants receivable	4,124	3,488
Accrued revenue for natural gas transportation	575	1,676
Other receivables	189	143
	<b>27,557</b>	<b>25,444</b>

Non-current trade receivables amounting to EUR 998 thousand comprise the payment for the connection of Intergaz UAB to be paid by 31 December 2021. The fulfilment of obligations is secured by the issued guarantee by bank. Trade receivables are interest free and typically they have to be settled within 15 calendar days. The major portion of amounts receivable were settled in the beginning of January 2018. In 2017, impairment of EUR 41 thousand was established in respect of Geoterma UAB, a producer of thermal energy. See Note 23 "Off-balance sheet commitments and contingencies" for more information about the receivable amount from Geoterma UAB.

As at 31 December 2017, the balance of receivable LNG terminal funds for administration included a past due receivable amount of EUR 3,914 thousand (31 December 2016: EUR 3,834 thousand), whereof a past due receivable amount of EUR 3,745 thousand from Achema AB (2016: EUR 3,394 thousand), a past due receivable amount of EUR 66 thousand from Lietuvos Cukrus UAB, and a past due receivable amount of EUR 65 thousand from Geoterma UAB. See Note 23 "Off-balance sheet commitments and contingencies" for more information about the receivable amounts from Achema AB and Geoterma UAB.

Movement in the impairment allowance for amounts receivable and other receivables:

	Individually impaired
Balance at 31 December 2017	57
Balance at 31 December 2016	16

The ageing analysis of the Company's trade receivables and other receivables that were not impaired as at 31 December 2017 and 2016:

	Trade receivables and other receivables not past due	Trade receivables and other receivables past due					Total
		Less than 30 days	31 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	
At 31 December 2017	23,598	2,057	882	-	29	991	27,557
At 31 December 2016	21,484	1,937	1,052	-	-	971	25,444

**9 Other financial assets**

As at 31 December 2017, the Company's other financial assets consisted of cash collected from the additional natural gas supply security component to be included in the natural gas transmission price, referred to as the LNG terminal funds. These funds are received from the system users, kept in line with the requirements of legal acts in a separate bank account for the LNG terminal funds and designated for the payment to the recipients of the LNG terminal funds – i.e. the LNG terminal operator (Klaipėdos Nafta AB), the designated supplier (Litgas UAB), and Amber Grid AB –

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**9 Other financial assets (continued)**

to cover the administration expenses of the LNG terminal funds. Based on the Commission's Resolution No O3E-145 of 15 May 2017, the additional natural gas supply security component to be included in the natural gas transmission price was established. The latter price has been applied to the users with effect from 1 July 2017.

**10 Cash and cash equivalents**

	At 31 December 2017	At 31 December 2016
Cash at bank	6,726	13,966
	<b>6,726</b>	<b>13,966</b>

The Company keeps its cash balances in bank accounts. As at 31 December 2017, cash balance declined mainly as a result of the repayment of a loan prior to its maturity and the Company's treasury management aimed at minimum cash balances. Consequently, upon the occurrence of favourable market conditions, the Company would invest cash balances in short-term deposits. As at 31 December 2017, the Company had no deposits.

As at 31 December 2017, the Company's cash balances were kept in the accounts of the banks whose long-term foreign currency credit rating was not lower than "A1" based on Moody's, not lower than "A" based on Standard&Poor's, and not lower than "A" based on Fitch Ratings. These thresholds fall within a high investment-grade.

The table below presents the long-term foreign currency credit ratings of the banks in which the Company kept its cash balances as at 31 December 2017:

Bank	Cash balances in bank accounts at 31 December 2017	Rating agency		
		Moody's	Standard& Poor's	Fitch Ratings
SEB Bankas AB <sup>1)</sup>	928	Aa3	A+	AA-
Swedbank AB <sup>1)</sup>	2,087	Aa3	AA-	AA-
Danske Bank A/S Lithuania Branch	900	A2	A	A
OP Corporate Bank plc Lithuania Branch	2,111	Aa3	AA-	
Luminor Bank AB <sup>2)</sup>	700			

<sup>1)</sup> The ratings assigned to the parent banks as at 31 December 2017.

<sup>2)</sup> Luminor Bank AB was founded on 1 October 2017 after the merger of Nordea and DNB bank branches in the Baltic countries. As at 31 December 2017, rating agencies had not assigned a rating to Luminor Bank AB.

**11 Reserves**

Legal reserve

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

The Company's legal reserve amounts to EUR 5,173 thousand and represents 10% of the share capital (in 2016: EUR 5,173 that amounted to 10%).

Other reserves

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

**12 Borrowings**

In February and April 2017, the Company repaid the long-term loan (EUR 16,444 thousand) prior to its maturity to Swedbank AB. After this prepayment, the outstanding balance of the loan received from Swedbank AB amounted to EUR 52,222 thousand.

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**12 Borrowings (continued)**

On 22 December 2015, the Company signed an agreement with the European Investment Bank regarding a loan for maximum amount of EUR 28,000 thousand for the term of 20 years. The agreement expired on 21 December 2017. As at 31 December 2017, the loan was not used.

On 1 March 2017, the Company signed an overdraft agreement for the amount of up to EUR 10,000 thousand to balance its working capital. As at 31 December 2017, the credit line (overdraft) was not used.

	At 31 December 2017	At 31 December 2016
<b>Non-current borrowings</b>		
Borrowings from local credit institutions	34,333	57,222
Borrowings from international financial institutions	25,000	25,000
<b>Current borrowings</b>		
Current portion of non-current borrowings	17,889	11,444
	<b>77,222</b>	<b>93,666</b>

As at 31 December 2017, the Company's borrowings were with weighted average annual interest rate of 0.438% (31 December 2016: 0.432 %) tied to 3-6 month EURIBOR. Variable interest rate depends on 3-6 month EURIBOR.

Analysis of borrowings by contractual maturity:

	At 31 December 2017	At 31 December 2016	At 31 December 2017	At 31 December 2016
	Borrowings with a fixed interest rate	Borrowings with a fixed interest rate	Borrowings with a floating interest rate	Borrowings with a floating interest rate
2017	-	-	-	11,444
2018	-	-	17,889	22,888
2019	-	-	23,976	23,976
2020	-	-	13,618	13,618
2021	-	-	2,174	2,174
2022	-	-	2,174	2,174
2023	-	-	2,174	2,174
2024	-	-	2,174	2,174
2025	-	-	2,174	2,174
2026	-	-	2,174	2,174
2027	-	-	2,174	2,174
2028	-	-	2,174	2,174
2029	-	-	2,174	2,174
2030	-	-	2,173	2,174
	-	-	<b>77,222</b>	<b>93,666</b>

All borrowings of the Company are denominated in the euro, therefore outstanding balances of borrowings as at 31 December 2017 and 2016 were denominated in the euro and were not affected by changes in exchange rates. The Company's borrowings are neither secured with third party guarantees, nor by assets pledged as collateral.

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

	Cash	Borrowings	Total
<b>Net debt as at 31 December 2016</b>	13,966	(93,666)	(79,700)
(Decrease) in cash and cash equivalents	(7,240)	-	(7,240)
Loan (received)	-	-	-
Loan repaid	-	16,444	16,444
Other non-cash changes	-	-	-
<b>Net debt as at 31 December 2017</b>	<b>6,726</b>	<b>(77,222)</b>	<b>(70,496)</b>

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**13 Deferred revenue**

	Deferred revenue	Income-related grants	Total
Balance at 31 December 2016	1,535	-	1,535
Received/receivable	-	7	-
Amortisation	(34)	(7)	(41)
Balance at 31 December 2017	1,501	-	1,501

Deferred revenue 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).

**14 Non-current employee benefits**

As at 31 December 2017, the Company's employee benefit obligations related to one-time payments to employees leaving the Company at the retirement age amounted to EUR 412 thousand (31 December 2016: EUR 413 thousand). There were no other non-current employee benefit obligations related to long-service of employees at the Company provided in the collective agreement of 2018 (31 December 2016: 93 thousand).

Key assumptions used in assessing the Company's non-current employee benefit obligations are given below:

	At 31 December 2017	At 31 December 2016
Discount rate	1.5%	1.5%
Annual employee turnover rate	6%	5%
Annual salary growth	2%	2%
Average time to retirement (years)	19.18	19.77

**15 Trade payables**

	31 December 2017	31 December 2016
Trade payables under the investment programme (new constructions)	1	8
Trade payables under the investment programme (reconstructions)	8,152	3,814
Payables to service providers	907	828
Payables to repair service providers for non-current assets	352	381
Payables to natural gas suppliers	522	663
	9,934	5,694

The above-mentioned trade payables are non-interest bearing and most of them are typically settled over 30 to 60 days.

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**16 Other payables and current liabilities**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Payable LNG terminal funds for administration (Note 2.16)	11,356	11,468
Accrued LNG terminal funds for administration *	2,924	3,696
Payable real estate tax	432	423
Payable value added tax	286	165
Other payables	267	398
	<b>15,265</b>	<b>16,150</b>

\* 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 issues a VAT invoice to the Company for the additional natural gas supply security component to be included in the natural gas transmission price.

**17 Revenue**

The Company's revenue includes as follows:

	<b>At 31 December 2017</b>	<b>At 31 December 2016</b>
Income from natural gas transmission in the territory of Lithuania	57,013	59,878
Income from balancing services in the transmission system	6,964	6,613
Grants recognised as income	41	51
Income from administration of the LNG terminal funds	114	145
Other income	190	55
	<b>64,322</b>	<b>66,742</b>

**18 Financing activity**

	<b>At 31 December 2017</b>	<b>At 31 December 2016</b>
Interest income	9	2
Interest on late payment	20	75
Other	-	-
Total income from financing activity	29	77
Interest expenses on borrowings	368	557
Other expenses of financing activity	-	4
Total expenses of financing activity	368	561
Net result of financing activity	<b>(339)</b>	<b>(484)</b>

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**19 Income tax**

	At 31 December 2017	At 31 December 2016
<b>Deferred income tax assets:</b>		
Loss on revaluation and impairment of property, plant and equipment	23,466	19,057
Accrued vacation reserve	56	51
Accrual for non-current employee benefits	62	75
Balance of unused income tax relief	1,134	2,708
<b>Deferred income tax assets before impairment allowance</b>	<b>24,718</b>	<b>21,891</b>
Less: impairment allowance		-
Less: deferred income tax asset offset against deferred income tax liability	24,718	21,891
<b>Deferred income tax assets, net</b>	<b>-</b>	<b>-</b>
<b>Deferred income tax liabilities:</b>		
Difference between carrying amount and tax base of property, plant and equipment	(26,272)	(27,609)
<b>Deferred income tax liability, net</b>	<b>(1,554)</b>	<b>(5,718)</b>

According to the provisions of the Law on Corporate Income Tax ("the Law") effective from 1 January 2009, income tax relief may be applied to investments in qualifying fixed assets. When calculating current income tax for the year 2017, the Company took advantage of the income tax relief and reduced the income tax expenses for the year 2017 by the total amount of EUR 1,955 thousand (2016: EUR 2,157 thousand).

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

When estimating the components of deferred income assets and liabilities in 2017 and 2016, the Company applied income tax rate of 15%.

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

	At 31 December 2017	At 31 December 2016
Profit (loss) before income tax	(12,055)	24,280
Income tax (expenses) at the effective income tax rate	1,808	(3,642)
Non-deductible expenses	18	(157)
Income tax relief	477	521
Other	(94)	(72)
Adjustments to previous year income tax	(15)	(2)
<b>Income tax benefit (expenses)</b>	<b>2,194</b>	<b>(3,352)</b>

**20 Earnings per share**

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

	At 31 December 2017	At 31 December 2016
Net profit (loss) attributable to the shareholders (EUR '000)	(9,861)	20,928
Weighted average number of shares (thous.)	178,383	178,383
<b>Earnings (loss) per share (EUR)</b>	<b>(0.06)</b>	<b>0.12</b>

## 21 Cash flows from investing and financing activities

When calculating cash flows from investing activities in 2017, the Company took into consideration as follows: the change in amounts payable for non-current assets amounting to EUR 4,331 thousand; the reclassification of emergency inventories at the warehouse from non-current assets to current assets amounting to EUR 61 thousand; and capitalised borrowing costs (interest) of EUR 35 thousand (2016: the change in amounts payable for non-current assets amounting to EUR 2,502 thousand; the reclassification of emergency inventories at the warehouse from current assets to non-current assets amounting to EUR 477 thousand; and capitalised borrowing costs (interest) of EUR 27 thousand).

When calculating the grants received in the cash flows from investing activities in 2017, the Company took into consideration the change in grants received amounting to EUR 635 thousand (2016: the change in grants received amounting to EUR 14,402 thousand).

## 22 Financial assets and liabilities and risk management

### Liquidity risk

The Company's policy is to maintain sufficient amount of cash and cash equivalents or have available funding to meet its commitments. Liquidity risk is managed by the Company by making regular short-term and long-term cash flow forecasts. In view of the forecasts, the Company adopts decisions to ensure its solvency, if and when necessary. The Company's liquidity ratios (after eliminating the effects of the administrated LNG terminal funds) were as follows as at 31 December 2017 and 2016:

	At 31 December 2017	At 31 December 2016
Current ratio	0.68	1.35
Quick ratio	0.62	1.28

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2017 and 2016 based on the undiscounted contractual payments (scheduled payments including interest):

	Within 20 calendar days	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest-bearing borrowings and liabilities	-	124	18,096	42,606	17,841	78,667
Other current liabilities	11,356 <sup>1)</sup>	780	-	-	-	12,136
Trade payables	-	9,934	-	-	-	9,934
<b>Balance at 31 December 2017</b>	<b>11,366</b>	<b>10,838</b>	<b>18,096</b>	<b>52,606</b>	<b>17,841</b>	<b>100,737</b>
Interest-bearing borrowings and liabilities	-	140	11,714	63,555	20,131	95,540
Other current liabilities	11,468*	652	-	-	-	12,120
Trade payables	-	5,694	-	-	-	5,694
<b>Balance at 31 December 2016</b>	<b>11,468</b>	<b>6,486</b>	<b>11,714</b>	<b>63,555</b>	<b>20,131</b>	<b>113,354</b>

<sup>1)</sup> Amounts payable to the beneficiaries of the LNG terminal funds.

### Credit risk

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

## 22 Financial assets and liabilities and risk management (continued)

The Company's exposure to credit risk arises from cash at bank and cash invested in short-term instruments. The level of exposure depends on the credibility of the selected bank. To manage this risk, the Company has approved the procedure for financial risk management.

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

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

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

### Interest rate risk

As at 31 December 2017 and 2016, the Company had borrowings with variable interest rates. The Company's exposure to interest rate risk arises from variable interest rates that are linked to EURIBOR. Given the current situation in the market of interbank offered rates, during 2017 and 2016 the Company did not enter into any transaction on financial instruments that would be used to manage the interest rate risk.

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

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

	Increase in EURIBOR, b.p.	Impact on profit before tax, EUR '000
At 31 December 2017	+100	(750)
At 31 December 2016	+100	(937)

### Natural gas price risk

The Company 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.

### Concentration risk

The Company is exposed to significant concentration of credit risk, as the credit risk exposure is distributed among the Company's 10 major customers whose liabilities represented 91% of the Company's total trade receivables as at 31 December 2017 (31 December 2016: 90%). However, in the event of loss of customers and lower volumes of transported gas, the prices for gas transportation services would increase as per the Methodology for Setting the Prices Regulated by the State in the Natural Gas Industry approved by the Commission.

### Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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



**23 Off-balance sheet commitments and contingencies**

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. Therefore, the Company is not exposed to credit risk as regards the disputed amounts.

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.

Contingencies related to commitments to purchase non-current assets

As at 31 December 2017, the Company had agreements on purchase of non-current assets that are not recognised in these financial statements in the amount of EUR 13,496 thousand (31 December 2016: EUR 16,150 thousand).

**24 Related-party transactions**

The parties are defined as related when one party has the possibility to control the other party or has significant influence over the other party in making financial and operating decisions.

The related parties of the Company as at 31 December 2017 and 2016 were as follows:

- GET Baltic UAB (subsidiary of Amber Grid AB);
- EPSO-G UAB (parent company);
- LITGRID AB (subsidiary of EPSO-G UAB);
- Baltpool UAB (subsidiary of EPSO-G UAB);
- Tetas UAB (subsidiary of Litgrid AB);
- Litgrid Power Link Service UAB (subsidiary of Litgrid AB);
- Duomenų Logistikos Centras UAB (associate of Litgrid AB Group);
- Lit Pol Link Sp.z.o.o. (entity jointly controlled by Litgrid AB and Polish electricity network operator PSE S.A.);
- Management.

**AMBER GRID AB**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
(All amounts are in EUR thousands unless otherwise stated)

**24 Related-party transactions (continued)**

The table below presents the balances and transactions with related parties as at 31 December 2017 and 2016:

	<b>Purchases</b>	<b>Sales</b>	<b>Amounts receivable</b>	<b>Amounts payable</b>
<b>2017</b>				
GET Baltic UAB	3,648 <sup>1)</sup>	17	122	261
EPSO-G UAB	84	-	-	-
	<b>3,732</b>	<b>17</b>	<b>122</b>	<b>261</b>
<b>2016</b>				
GET Baltic UAB	134	7	1	1
EPSO-G UAB	11	-	-	10
	<b>145</b>	<b>7</b>	<b>1</b>	<b>11</b>

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

The Company does not treat the entities controlled by the Government as a single client, because there is no significant economic integration between these entities. The Company provides gas transmission services to the entities controlled by the Government, and all transactions with them are concluded on the arm's length basis. Accordingly, for the purpose of related-party disclosures, the Company disclosed only the transactions with Epso-G group companies.

On 30 March 2017, Amber Grid AB and GET Baltic UAB signed a loan agreement according to which Amber Grid AB can grant a loan to GET Baltic UAB of up to EUR 200 thousand (two hundred thousand euro). The loan is subject to variable annual interest rate of 1 month EURIBOR + a steady 1.5 (one and five tenths) per cent margin. The repayment date of the loan is 31 March 2018.

As at 31 December 2017, Amber Grid AB had granted a loan of EUR 120 thousand (one hundred twenty thousand euro) to GET Baltic UAB.

There were no guarantees given or received in respect of the related-party payables and receivables, settlement occurred in cash in the period from 15 to 30 days. As at 31 December 2017, the Company did not establish any provision for impairment in respect of the related-party receivables.

**Payments to management**

In 2017, payments to the Company's management amounted to EUR 385 thousand (2016: EUR 365 thousand). The Management consists of the head of administration of his/her four deputies. During 2017 and 2016, the management of the Company did not receive any loans, guarantees, no other payments were made or calculated, no transfers of property were made.

In 2017, payments to the Company's management amounted to EUR 32 thousand (2016: EUR 15 thousand).

**25 Non-audit services**

Non-audit services the Company received in 2017 from the audit company were as follows:

	<b>Amount (excl. VAT)</b>
Services	
Assurance and other related services	2
Other services	3
	<b>5</b>

**26 Capital management**

The Company is required to maintain its equity ratio at not less than 50% of its share capital, as imposed by the Lithuanian Law on Companies. As at 31 December 2017 and 2016, the Company was in compliance with this requirement. There were no other internally or externally imposed capital requirements on the Company.

**27 Subsequent events**

On 24 January 2018, the State Property Fund postponed the privatisation of Geoterma, a no longer operative.

In January 2018, the Company repaid the loan (EUR 6,444 thousand) prior to its maturity to Swedbank AB.



**AB AMBER GRID**  
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**Vilnius**  
**2018**

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## 1. GENERAL INFORMATION

The reference period for the annual report covers the year 2017.

### 1.1. BACKGROUND

Name	AB Amber Grid (hereinafter referred to as “Amber Grid” or the “Company”)
Legal form	Public company
Date of registration and register	25 June 2013, Register of Legal Entities
Legal entity code	303090867
Administrator of the Register of Legal Entities	State Enterprise Centre of Registers
Authorised capital	EUR 51,730,929.06
Registered office address	Savanorių pr. 28, LT-03116 Vilnius
Phone	+370 5 236 0855
Fax	+370 5 236 0850
Email address	<a href="mailto:info@ambergrid.lt">info@ambergrid.lt</a>
Website	<a href="http://www.ambergrid.lt">www.ambergrid.lt</a>

Amber Grid, the gas transmission system operator, is a company that plays an important role in safeguarding the national security of Lithuania. It is responsible for the transmission of natural gas and maintenance of gas pipelines, and for securing safe and reliable functioning and development of the gas transmission system. Amber Grid ensures natural gas transportation to system users through high pressure pipeline, maintenance and development of natural gas infrastructure. The infrastructure managed by the company encompasses gas transmission pipelines, gas compressor stations, and gas metering and gas distribution stations.

Amber Grid controls 100% of the authorized capital of UAB GET Baltic. UAB GET Baltic is a company that has a natural gas market operator's license, organises and conducts trading on a natural gas exchange. More information on UAB GET Baltic is available on its website [www.getbaltic.com](http://www.getbaltic.com).

**MISSION:** contribute actively to the development of an integrated European gas transmission system, and to create conditions for the development of a competitive gas market in order to safeguard the national strategic interests.

**VISION:** to create favourable conditions for the functioning of the regional gas market within an integrated European gas network by taking proactive measures and through cooperation with the gas transmission system operators across the Region.

## 1.2. PERFORMANCE INDICATORS

	2017	2016	2015
<b>Quantities of transported natural gas</b>			
Quantity of gas transported to domestic exit points, GWh	24,290	23,336	26,183
Quantity of gas transported to adjacent transmission systems <sup>1</sup> , GWh	28,262	23,985	22,808
Number of systems users at the end of the period	100	95	89
<b>System operated by the Company</b>			
Length of gas transmission pipelines, km	2,115	2,115	2,113
Number of gas distribution stations and gas metering stations, pcs.	69	70	69
<b>Employees</b>			
Number of employees at the end of the period	346	357	360

## 1.3. THE MAIN EVENTS

### January 2017

In 2017, natural gas transmission prices to systems users of Lithuania, on average, fell by 7.8% compared to the prices in 2016. The drop in gas transmission prices was mostly affected by higher income received from more effective use of gas transmission system in 2016 and lower than planned costs in relation to the implemented investment projects.

On 18 January 2017, Amber Grid and the Polish gas transmission system operator GAZ-SYSTEM S.A. in cooperation with the Innovation and Network Executive Agency (INEA) of the European Union (EU) executed amendments to trilateral EU grant agreements under the *Connecting Europe Facility* (CEF) for the preparatory works and construction of the Gas Interconnection Poland-Lithuania (GIPL). Amendments to the agreements of the EU financial support for the GIPL project were initiated when the Polish gas transmission system operator GAZ-SYSTEM S.A. faced problems while conducting preparatory works of the GIPL project and offered to change the route of the pipeline in the territory of Poland. For this reason, the scope of the GIPL project in the territory of Poland as well as the implementation deadlines changed. Given the aforementioned, the Government of the Republic of Lithuania adopted a decision in autumn 2016 to reschedule the completion date of the GIPL project in the territory of Lithuania to 31 December 2021.

### April 2017

On 25 April 2017, the General Meeting of Shareholders of Amber Grid approved the 2016 profit allocation project according to which the amount of EUR 20,928,000 were planned to be paid out in dividends.

Natural gas transmission system operators of the Baltic countries Amber Grid, Conexus Baltic Grid AS and Elering AS signed agreements with UAB GET Baltic on the implementation of the implicit capacity allocation model at interconnections points in-between the three Baltic states.

### May 2017

On 30 May 2017, Amber Grid signed an agreement with the public institution Lithuanian Business Support Agency (LBSA) on the EU financial assistance to the project "Acquisition of a Mobile Gas Compressor Designed for

<sup>1</sup> Transmission systems of Latvia and Kaliningrad Region of the Russian Federation

Repumping Gas". To implement the project, 50% of the required funds were allocated from the EU financial support; the estimated total investment of the project amounts to EUR 1.14 million.

#### **June 2017**

On 26 June 2017, the natural gas transmission system operators of the Baltic Energy Market Interconnection Plan (BEMIP) region announced Gas Regional Investment Plan for 2017 (BEMIP GRIP 2017) which included investment projects on the planned gas infrastructure of regional significance for 10 years in the period from 2017 to 2026.

#### **July 2017**

On 1 July 2017, operators of the natural gas transmission system of the Baltic countries Amber Grid, Conexus Baltic Grid AS and Elering AS started using the implicit capacity allocation model so as to distribute short-term natural gas transmission capacity at interconnection points among the Baltic countries in a more efficient manner and to increase the integration of the Baltic countries as well as the competitiveness of the regional gas market. Distribution of capacity is linked to the trade in gas in the natural gas exchange by GET Baltic, UAB. At the same time trading market areas of GET Baltic, UAB natural gas exchange started operating in Latvia and Estonia and the exchange became regional.

#### **September 2017**

On 19 September 2017, Amber Grid signed an agreement with LSBA on the EU financial assistance to the project "Implementation of the system of gas transmission system's remote technological control and of data collection of gas metering devices". To implement the project, 50% of the required funds were allocated from the EU financial support; the estimated total investment of the project amounts to EUR 2.4 million.

#### **October 2017**

Operators of the transmission system of the Baltic countries and Finland prepared and performed a public consultation on the principles of management of transmission capacity in the common Baltic states' market, alternatives for setting up a market operator and concepts of a model of common balancing zone.

#### **November 2017**

On 21 November 2017, Amber Grid signed an agreement with LSBA on the EU financial assistance for modernisation of the natural gas transmission system – "Reconstruction of Individual Sections of the Gas Transmission Pipeline Vilnius-Panevėžys-Riga". To implement the project, 50% of the required funds were allocated from the EU financial support; the estimated total investment of the project amounts to EUR 6.78 million.

On 21 November 2017, the National Commission for Energy Control and Prices (NCC) approved the prices of services of natural gas transmission which came into force on 1 January 2018. In 2018, prices of natural gas transmission to the users of Lithuania's system in terms of a unit of quantity of transmitted energy reduced by 36.5% on average compared to the prices of 2017, namely, it dropped to EUR 1.13 / MWh.

### **1.4. MEMBERSHIP**

The Company is a member of ENTSOG ([www.entsog.eu](http://www.entsog.eu)), a member of association "Polish and Lithuanian Chamber of Commerce" and a member of the National Lithuanian Energy Association:



- ENTSOG was established on the basis of Regulation No. 715/2009 of the European Parliament and of the Council as an organisation intended for the cooperation of operators of gas transmission systems on the level of the European Community.
- Association “Polish and Lithuanian Chamber of Commerce” is a bilateral organisation of economic cooperation between Lithuania and Poland. The association collects information for its members on business opportunities in both countries, cooperates with organisations and individuals that ensure business management and development, organise conferences and thematic events.
- National Lithuanian Energy Association was set up in 2016. The association develops a common position of the energy sector, represents the interests of its members in state authorities, public and international organisations, aims at having the conditions of Lithuania’s electrical energy and gas supply developed and improved for the users in the country, and advance of the economic and technical energy sector promoted.

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## 2. OPERATIONAL ENVIRONMENT

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### 2.1. OPERATIONAL ENVIRONMENT AND FORECASTS

The growth in activity of the Lithuanian economy in 2017 was reflected in the indicators of natural gas consumption in the country – in 2017, the quantity of natural gas transported to the domestic exit point (to the consumers in Lithuania) amounted to 24.3 TWh or 4% more than in 2016. Demand for gas mostly increased in the field of fertilisers – by 16% compared to the year 2016.

Referring to the forecasts of the Bank of Lithuania, in 2018, the development of the economy should be contributed to by growing investments, in particular, due to the increase in the finances from the EU support funds, however, the deteriorating demographic situation in the country, lack of skilled labour force and increasing wages will reduce the development of consumption in the sector and the growth of the entire industry. These trends should be reflected in the use of natural gas and in the dynamics of operational costs of the sector.

The tightened requirements of the EU environmental policy, promotion of use of renewable energy sources in the energy sector and its development as well as more efficient of energy resources decrease the consumption of natural gas in Lithuania. Since 2012, the quantity of electrical power transmitted for the needs of the Lithuanian market has reduced by 28%. Based on the Company's forecasts, the declining trend should continue and remain the same for a few coming years – this should be largely determined by the emergence of new biofuel and waste incineration capacity in centralised heat industry (mainly Vilnius co-generation power plant), and later, in 2020-2021, the demand for gas in the country should become more stable.

Similar trends of reducing demand for natural gas are seen throughout the region of the Eastern Baltic countries – Finland, Estonia, Latvia and Lithuania. Since 2012, the demand for gas in the region has shrunk by 30%.

In 2016, Prime Ministers of the Baltic countries made a political decision pursuant to which all ministries responsible for the energy sector in the countries of the region were commissioned, in cooperation with the regulatory authorities of the region and operators of the transmission system, to integrate gas markets of the Baltic countries and Finland by 2020 by harmonising legal and regulatory environment and ensuring that gas infrastructure sufficient for operation of a single gas market be developed. This initiative will provide appropriate conditions for gas trade in the region and for larger cross-border gas flows and more effective use of the gas infrastructure and will promote competitiveness in the gas market of the Baltic countries.

At the end of 2017, the Seimas of the Republic of Lithuania received a renewed National Energy Independence Strategy for consideration. This document on the energy policy set the goal to increase the share of renewable energy sources (RES) (including biomethane and other gas produced from RES) in the final total energy consumption of the country: to 30% in 2020, to 45% in 2030, to 80% from 2050, and to stop using natural gas in the sectors of electricity, heat and cooling.

### 2.2. REGULATORY ENVIRONMENT

No material changes in the regulatory environment that would have significantly affected the performance and results of the Company were recorded in 2017. Given the processes taking place while creating and

developing natural gas market in the Eastern Baltic region, also taking into consideration the fact that as of 2019 the new regulation period is to start, it is estimated that at that time the regulatory environment will change and will affect the Company's performance and decision-making.

### 3. STRATEGY

#### 3.1. STRATEGIC DIRECTIONS, GOALS AND RESULTS

Early 2017, the Company's Management Board approved the long-term strategy of Amber Grid for 2017–2021 based on the integration into a single regional natural gas market, on efficiency, modernisation and development of the infrastructure. The strategy document presented general data on the company's activity, forecasts, assessment of the changes in the environment, and the changes in the market situation – everything that has a potential impact on the long-term Company's strategy.

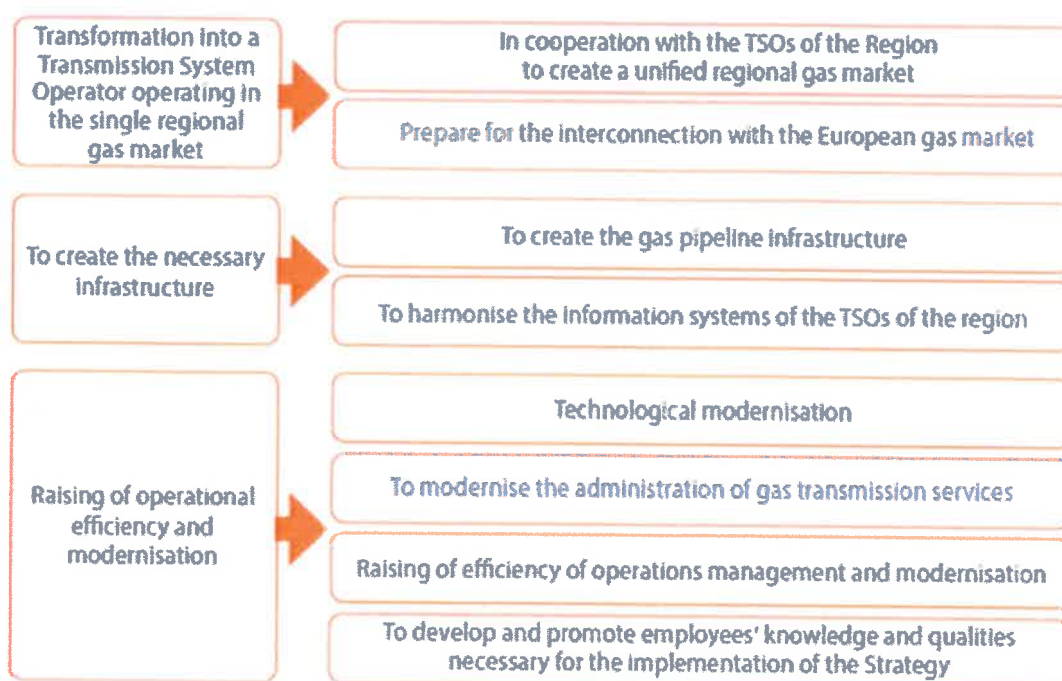
Guided by the corporate vision and the strategic objectives as set by the State of Lithuania and the shareholder – to increase the corporate value and to ensure strategic interests in the gas sector – AB Amber Grid has focused on the following three strategic directions:

- transformation into a transmission system operator operating in a single regional gas market;
- creation of the necessary infrastructure;
- increasing of efficiency and modernisation.

Strategic directions of Amber Grid are in line with the strategic directions outlined by the main shareholder UAB EPSO-G – development of regional operation and ensuring the success of strategic projects, operational efficiency, creative and progressive organisation.

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

Figure 1. Interface of AB Amber Grid's strategic directions and objectives.



In respect of some of the corporate strategic objectives specific measurement (target) indicators have been set out based on which the Company will evaluate performance in the short term and in the long term. To attain its objectives and thus approach the implementation of the Company's vision and mission, Amber Grid continuously measures and controls the progress achieved.

In 2017, considerable focus was put on the development of a single market and continuous works were conducted. In 2017, natural gas operators of the Baltic countries signed a cooperation agreement on the implementation of a model of implicit allocation of cross-border capacity, and as of July 2017 this model was successfully applied in the natural gas trading platform of Lithuania, Latvia and Estonia. In addition, to make the single market properly function and have general explicit rules, operators of transmission system of the Baltic states and Finland prepared concepts of transmission capacity management principles in a single market of the Baltic countries, alternatives for establishment of a market operator and common balancing zone model and conducted a public consultation in relation to them.

Seeking to create a single infrastructure – to properly prepare for construction works of the GIPL project documents for public tenders in need of the required infrastructure and contracts for work was drawn up, project partners were consulted and negotiated on the agreement to enable the project executors to adopt a final decision to invest and announce public tenders.

To achieve operational efficiency, an integrated project management system has been successfully implemented, projects, programmes and their projects portfolio is managed in accordance with the established and approved procedure and methodology.

The Company has continuously looked for innovative methods aimed at operational improvement. In 2017, a system for the improvement of operational and management processes started to be deployed. The system will encompass process description, modelling, analysis, efficiency, compatibility, evaluation and control.

### **3.1. STRATEGIC INFRASTRUCTURE PROJECTS**

In 2017, Amber Grid carried out the following strategic gas transmission infrastructure projects:

- Gas Interconnection Poland-Lithuania (GIPL), and
- Capacity enhancement of Latvia-Lithuania interconnection.

These strategic infrastructure projects have been included in the Second List of the EU Projects of Common Interest which was announced in November 2017, also in the Ten-year Network Development Plan (TYNDP) of the *European Network of Transmission System Operators for Gas* (ENTSOG), in the Regional Gas Investment Plan 2017 of the Baltic Energy Market Interconnection Plan (BEMIP), in the Natural Gas Transmission System Operator's Ten Year (2016-2025) Plan on the Development of the Network, and in National Plan on the Implementation of Priority Projects of Electricity and Natural Gas Transmission Infrastructure approved by Resolution No. 746 of the Government of the Republic of Lithuania of 10 May 2017 (the National Plan).

#### **GAS INTERCONNECTION POLAND-LITHUANIA (GIPL)**

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

#### Objectives of the project:

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



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

On 18 January 2017, the Company and GAZ-SYSTEM S.A. in cooperation with INEA executed amendments to the trilateral EU grant agreements under the CEF for the preparatory works (Preparatory Works of the Gas Pipeline Interconnection Poland-Lithuania Before the Issuance of Construction Permits”) and construction of GIPL (Construction of the Gas Pipeline Interconnection Poland-Lithuania Including Additional Infrastructure). The amendments were initiated when the Polish gas transmission system operator GAZ-SYSTEM S.A. faced problems while conducting preparatory works of the GIPL project and offered to change the route of the pipeline in the territory of Poland. For this reason, the scope of the GIPL project in the territory of Poland as well as the implementation deadlines changed. The deadline for the completion of the project was extended to 31 December 2021. The 700 mm diameter gas transmission pipeline will connect compressor stations of both countries – Jauniūnai, Lithuania, and Hołowczyce, Poland.

The total length of the planned pipeline will be shorter than previously planned (503 km), the pipeline in the territory of Lithuania will be 165 km long.

Apart from the EU financial assistance to the GIPL project, its construction will be co-financed by Lithuania, Latvia and Estonia based on the cross-border cost allocation solution and will cover part of the infrastructure costs in territory of Poland.

#### ENHANCEMENT OF LATVIA-LITHUANIA INTERCONNECTION

The aim of the project is to increase the capacity of the gas systems’ interconnection Latvia-Lithuania, ensure safe and reliable natural gas supply and achieve a more effective use of the infrastructure and better integration of the gas markets of the Baltic States (Map 2). In this way better conditions will be provided for the use of the Latvian Inčukalns underground gas storage facility.



Map 2. Project of Enhancement of Latvia-Lithuania Interconnection.

The Company in cooperation with the Latvian natural gas transmission system operator Conexus Baltic Grid AS, submitted a joint request for the funding for a feasibility study under the CEF. In November 2017, public tender for the purchase of services of the feasibility study and cost-benefit analysis for the enhancement of gas interconnection Latvia-Lithuania was announced. After the completion of the feasibility study in Q3 2018 it will become clear in what capacity and with what deadlines the project will have to be implemented. Project promoters are Conexus Baltic Grid AS and Amber Grid.

### 3.2. EUROPEAN UNION FINANCIAL ASSISTANCE

In 2017, Amber Grid and LSBA signed three agreements on the project of infrastructure of natural gas transmission provided for in the National Plan. To implement them, 50% of the required amount was allocated as the EU financial assistance in accordance with the Operational Programme for the European Union Funds' Investments in 2014–2020:

- on the investment project “Acquisition of a Mobile Gas Compressor Designed for Repumping Gas” – installation of equipment required for effective maintenance and management of the transmission system and reduction of emissions; the total value of the project amounts to EUR 1.14 million;
- on the investment project “Implementation of the System of Gas Transmission System’s Remote Technological Control and of Data Collection of Gas Metering Devices” – development of advanced system of remote control of technological processes of gas transmission by installing modern software and hardware as well as advanced infrastructure components; the total value of the project amounts to EUR 2.14 million;
- on the investment project “Reconstruction of Individual Sections of the Gas Transmission Pipeline Vilnius-Panevėžys-Riga” – modernisation of natural gas transmission system by use of smart technology and increase of safety and reliability of the natural gas transmission system; the total value of the project amounts to EUR 6.78 million.

The total amount of all infrastructure project agreements signed with LSBA in 2017 is EUR 10 million.



### 3.3. REGIONAL MARKET

The Company and the members of the East-Baltic Transmission System Operator Coordination Group which unites operators of the Baltic and Finnish transmission system participated in the development of the principles of management of transmission capacity in a single Baltic market, alternatives of establishment of the market operator and a model of common balancing zone. In October 2017, the conceptual models were displayed for public consultation and following the assessment of the market participants in December they were approved by in the Regional Gas Market Coordination Group. The performed model analyses will be used in 2018 when preparing balancing rules of the common market and when preparing the rules for transportation of the Baltic transmission system operators.

On 1 July 2017, the Company along with the Latvian and Estonian transmission system operators started using the model of implicit capacity allocation in cross-border connection points in the Baltic countries. In January 2017, the national regulatory institutions accepted the idea of implementation of this model in the Baltic states. It is a gas integration measure of the transitional period aimed at increasing the competitiveness of the gas markets and at promotion of cross-border trade in gas. It is estimated that the regional gas market should be launched in 2020.



## 4. OPERATIONS

### 4.1. TRANSMISSION SYSTEM

The natural gas transmission system is composed of gas transmission pipelines, gas compressor stations, gas distribution stations, gas metering stations, anti-corrosion facilities designed for protection of pipelines, data transmission and connection systems and other assets attributed to the transmission system. The Lithuanian gas transmission system is connected to the gas transmission systems of the Republic of Latvia, Republic of Belarus, Kaliningrad District of the Russian Federation, and Klaipėda LNG terminal (Map 4).

The Company uses 66 gas distribution stations (GDS), 3 gas metering stations (GMS) and 2 gas compressor stations (GCS). The length of maintained pipelines amounts to 2,115 km, diameter – from 100 to 1,220 mm. Design pressure of most of the transmission system amounts to 54 bars.

In 2017, a small portion of the gas transmission pipeline (0.2 km) not far from UAB Villon in Vilnius district was disconnected from the transmission system and was transferred for a consideration to the distribution system operator ESO. Also, in 2017, two GDSs were dismantled: next to UAB Villon in Vilnius district and in Miežiškiai in Panevėžys district. After liquidation of these GDSs, the existing gas consumers continue using gas from Vilnius and Panevėžys gas distribution systems.



Map 4. Natural Gas Transmission System in Lithuania.

## 4.2. MAINTENANCE, RECONSTRUCTION AND MODERNISATION

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

Late 2016, a repeated internal diagnostics of the 169.6 km long section Vilnius-Panevėžys-Riga of the pipeline (DN700) was performed. In 2017, for the first time, internal diagnostics of the 160 km long section Šakiai-Jurbarkas-Tauragė-Klaipėda (DN400) was performed. During the winter period of 2017, when gas flows were bigger than in summer, cleaning of pipelines cavity in the section of 51.6 km long (DN400) leading to Alytus GDS, in the section of 48.6 km long (DN400) leading to Marijampolė GDS and in the section Panevėžys-Šiauliai-Klaipėda of 169 km long (DN300/ DN350) was carried out. In addition, defects identified during the diagnostics in the pipeline Vilnius-Panevėžys-Riga (DN700), in the pipeline leading to Kaliningrad (DN700) with a parallel pipeline (looping) leading to Jonava GDS (DN800) were removed.

In 2017, designing for reconstruction of the 14 km long section next to Kiemėnai of the gas transmission pipeline Riga-Panevėžys-Vilnius (DN700) was performed.

In 2017, the Company performed reconstruction and modernisation of the following:

- installation of the launching (starting) of the control device and of the intake chamber, and implementation of expedient technological management of gas transmission system, stage 1 (support of the EU structural funds received):
  - at branches to Jonava GDS (DN400) and line II of Jonava GDS (DN500);
  - at the branch to Girininkai GDS (DN300);
  - at the branch to Palanga GDS (DN250);
  - in strand II of the pipeline Panevėžys-Šiauliai (DN1000);
  - at the branch to Naujoji Akmenė GDS (DN300 and DN250);
- reconstruction of Jonava GDS and Alytus GDS (support of the EU structural funds received);
- gas filters-scrubbers replaced at Šakiai GMS and 2 ultrasound gas metering devices installed;
- worn taps and tap nodes of the gas transmission pipeline replaced;
- 2 chromatographers, which measure the amounts of sulphur compounds in gas, installed in Šakiai GMS and Kiemėnai GMS;
- Modernisation of air supply system in Panevėžys gas compressor station and installation of emission reduction equipment completed and modernisation of management facilities continued using the support from the EU structural funds;
- 36 cathode stations installed (in 2016 – 31 pcs.) with telemetric systems (support of the EU structural funds received); this enables remote monitoring of devices which protect pipelines from corrosion and management of their parameters.

It is estimated that in the beginning of 2018 the mobile gas compressor will start to be used which is design for re-pumping gas in-between individual sections of the transmission system. It will make the maintenance and management of the transmission system more effective and will ensure reduction of emissions.

## 4.3. MARKET OF PROVIDED SERVICES

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

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

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

#### **4.4. CLIENTS**

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

#### **4.5. PROVIDED SERVICES**

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

- Natural gas transmission in the territory of Lithuania;
- Balancing of natural gas flows in the transmission system;
- Administration of funds intended to compensate for the costs of construction and fixed operating costs of the LNG terminal, its infrastructure and the connector and the reasonable costs of the natural gas supply incurred by the supplier appointed in 2016.

##### **4.5.1. NATURAL GAS TRANSMISSION**

#### **AMOUNTS OF NATURAL GAS TRANSMITTED**

In 2017, for the Lithuanian and Baltic countries' consumers as many as 14,659.3 GWh of natural gas from Belarus and 12,360.4 GWh from Klaipėda LNG terminal were injected to the transmission system managed by the Company. The LNG terminal supplied 45.3% of the amount required for the aforementioned consumers. In 2017, 272 GWh of natural gas were transported to Lithuania from Latvia.

In 2017, as many as 24.290 GWh of natural gas were transported to the internal exit point for Lithuania's consumers. Compared to 2016, when 23,336.2 GWh of natural gas were transported, the transmitted amounts increased by 4.1%. The amount of gas supplied to the system users from the transmission system to Latvia via Kiemēnai GMS was 5.5 times higher than in 2016 and amounted to 2,598.3 GWh (in 2016 – 473.9 GWh) of natural gas.

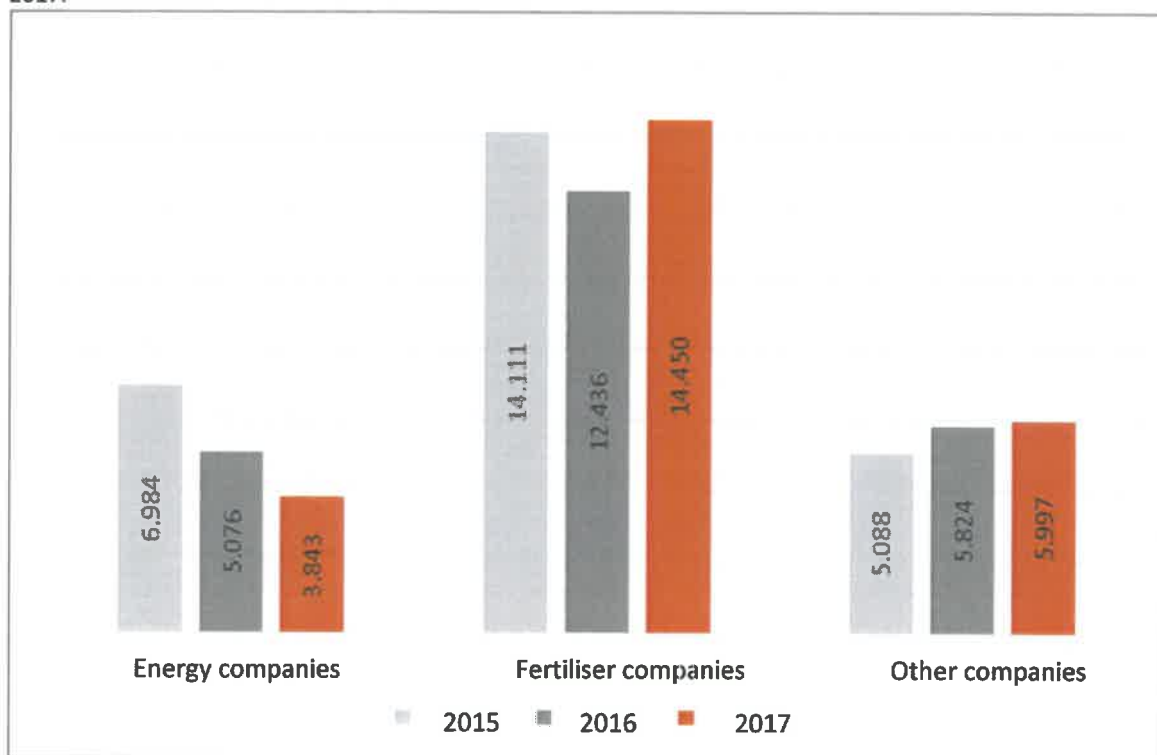
In the reference period, 25,663.8 GWh of natural gas were transported to Kaliningrad Region of the Russian Federation (in 2016 – 23,511.2 GWh).

In 2017, the biggest amount of gas transported to Lithuania from Belarus per day was 221 GWh (in 2016 – 223.8 GWh), to Kaliningrad Region of the Russian Federation – 111.9 GWh (in 2016 – 99.3 GWh), from Klaipėda LNG terminal – 102.8 GWh (in 2016 – 90.1 GWh), the biggest amount of gas supplied to the Lithuanian consumers per day was 118.9 GWh (in 2016 – 128.3 GWh).

At the end of 2017, the Company had concluded 100 natural gas transmission service agreements with natural gas transmission system users (natural gas users, natural gas distribution system operators, importers, natural gas supply companies which supply gas to consumer systems) of which 64 system users used transmission capacity in the reference period. The Company had 3 natural gas balancing agreements with market participants which trade in natural gas in a virtual market area but do not transport it via the transmission system.

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

Pic. 1. Amounts of Transmitted Natural Gas By to Natural Gas Transmission System Users in Lithuania, GWh, 2015–2017.



#### NATURAL GAS PRICE REGULATION

Prices for natural gas transmission services are subject to regulation.

As of 1 January 2017, the Company was subject to the price caps set by the National Commission for Energy Control and Prices (NCC) in October 2016 for the natural gas transmission services provided by the Company

at the transmission system's entry<sup>2</sup> and exit<sup>3</sup> points. Price caps can be annually adjusted by decision of the NCC in accordance with the procedure established in the Methodology for Setting of State-Regulated Prices in the Natural Gas Sector (Methodology).

In addition, as of 1 January 2017 the natural gas transmission service prices set for the transmission system's entry and exit points by the Board of the Company and approved by the NCC at the end of autumn of 2016 that did not exceed the established price caps were in force. In 2017, transmission service prices charged to users of the Lithuanian system calculating per unit of transmitted energy amount were on average 7.8% lower compared to prices charged in 2016.

As part of adjustments of the set level of the Company's revenue from transmission activity for 2017, by its decision dated 31 October 2017 the NCC approved the price caps for the system's entry and exit points for 2018. Given that, on 14 November 2017, the Company's Board adopted a decision on new natural gas transmission prices charged as of 1 January 2018. The decision was accepted by the NCC in its meeting of 21 November 2017. The average price for the gas transmission to the Lithuanian consumers per unit of transmitted quantity as set by the Company's Board and approved by the NCC for 2018 is EUR 1.13 / MWh and compared to the price set for 2017 (EUR 1.78 / MWh), it reduced by 36.5%. The most important factors affecting the decrease in the natural gas transmission prices in 2018 include savings of the Company's regulated operational costs of the period 2014–2016 and additional income received due to more efficient use of the transmission system on 2017 for short-term capacities and exceeded long-term capacity.

Prices set in all entry points to the Lithuanian transmission system and entered into force as of 2018 are the same and remain on the same level as in 2017. Given the fact that in recent years gas flows at certain cross-border points have not demonstrated the nature of seasonality and seeking to promote the development of Lithuania's and whole Eastern Baltic region's natural gas market, at all entry points and exit point to the Republic of Latvia (Kiemēnai) prices for short-term (quarter, monthly, daily) transmission capacity were set without application of seasonality factors and have been on average lower than in 2017. This type of pricing will have a promoting effect on cross-border gas flows.

More details on the prices for natural gas transmission in effect as of 1 January 2018 are available on the Company's website [www.ambergrid.lt](http://www.ambergrid.lt) (under the heading *Transportation Services in Tariffs / Prices*).

To develop a common natural gas market in Eastern Baltic Region (encompassing Lithuania, Latvia, Estonia and possibly (after the launch pipeline inter-connection between Estonia and Finland) Finland) national regulatory authorities of the Baltic countries and Finland signed guidelines on a common pricing model for entry-exit points in the Eastern Baltic Region on 27 November 2017. Pricing of natural gas transmission services will be modified due to the integration of natural gas market of the Eastern Baltics by setting prices at entry point in the single market zone (at first in the Baltic countries only, later, possibly in Finland as well) jointly. More details can be found on the website of the NCC [www.vkekk.lt](http://www.vkekk.lt).

#### 4.5.2. BALANCING OF NATURAL GAS FLOWS IN THE TRANSMISSION SYSTEM

Amber Grid ensures the balancing of natural gas flows in the transmission system. Following the Rules for Balancing the Natural Gas Transmission System, the Company purchases balancing gas from a gas market

<sup>2</sup> Point of interconnection of Lithuania's transmission system with the systems of Belarus, Latvia and LNG terminal in Klaipėda.

<sup>3</sup> Points of interconnection of the Lithuanian transmission system with the systems of Latvia and the Kaliningrad Region of the Russian Federation and the domestic exit point (including the points of interconnection of the Lithuanian transmission system with the gas distribution systems or gas consumers' systems).



participant if the market participant has caused a surplus of gas in the transmission system and sells balancing gas to a gas market participant if the market participant has caused a shortage of gas in the transmission system.

In 2017, due to disbalance caused by the system users, the Company purchased 5.4 GWh and sold 297.2 GWh of natural gas of which 288.1 GWh were sold for balancing of the flows of the natural gas transmission to the Kaliningrad Region.

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

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

In order to ensure compliance with the Republic of Lithuania Law on LNG terminal and its implementing legal acts, the Company collects, administers and pays out the LNG terminal funds to the terminal's operator (AB Klaipėdos Nafta) and the designated supplier (UAB LITGAS) in accordance with the procedure prescribed in laws.

By its Resolution No. O3W-145 of 15 May 2017, the NCC established an additional component related to the natural gas supply security to be included in the natural gas transmission tariff for 2017 to be charged as of 1 July 2017 and by its Resolution No. O3E-583 of 7 December 2017 – a new additional component related to natural gas supply security which is to be charged to natural gas system users for natural gas consumption capacity required for ensuring their daily maximum needs of natural gas in delivery points to be charged as of 1 January 2018.

Referring to Letter No. R2-(D)-3349 of the NCC dated 15 December 2017 "Regarding Proportions of Allocation of Liquefied Natural Gas Terminal Funds to their Beneficiaries", proportions (percentage units) were established based on which LNG terminal funds administered by Amber Grid must be allocated and paid out to LNG terminal funds recipients on a monthly basis.

In 2017, judicial disputes took place with AB Achema with regard to non-paid LNG terminal funds. The second civil case on non-paid LNG terminal funds (for the period from 01-09-2013 to 31-12-2013 and the period from 03-12-2014 to 30-04-2015) has been suspended until the final procedural decision is passed in case No. T-417/16 considered by the EU General Court. With regard to the third civil case, preparation of case consideration by means of preparatory documents has been in place.

Also, administrative courts consider cases in which Amber Grid is involved as a third party:

- Six cases on the basis of claims files by AB Achema with regard to annulment of NCC's decisions. Consideration of all administrative cases has been suspended because a complaint by AB Achema has been considered in the EU General Court (in case No. T-417/16);
- 1 case on the basis of a complaint by AB Achema against the Republic of Lithuania with regard to payment of damages in the amount of EUR 15,329,728.69 incurred while providing state aid not harmonised with the European Commission. The case has been considered in the first instance court, the complaint by AB Achema has been rejected. AB Achema appealed against; this action has not been considered yet.

#### 4.6. ON-GOING AND PLANNED PURCHASES AND INVESTMENTS

In 2017, the Natural Gas Transmission System Operator's Ten Year (2016-2025) Plan on the Development of the Network was drawn up which was approved by the NCC early 2018. The plan provided for the amount of investments in gas transmission system expansion projects in the next decade which is EUR 192.8 million. It is estimated that in the next ten years, the amounts of gas consumed in Lithuania will reduce, however, cross-border gas flows to other Baltic countries will increase and the possibility to transport gas in new directions – via pipeline between Poland and Lithuania – will occur.

More details on planned investments are provided on the website of the Company [www.ambergrid.lt](http://www.ambergrid.lt) (under the heading *Transmission System*, subheading *Development of The Transmission System* in section *Gas Transmission System Development Plan*).

On 28 June 2017, transmission system operators of the BEMIP region published 2017 Regional Gas Investment Plan (BEMIP<sup>4</sup> GRIP 2017), which included investment projects from 2017 to 2026. BEMIP GRIP presents regional gas market expansion, regional initiatives, analysis of development of gas demand and supply and possible contribution of infrastructure projects to such development. The plan focuses a lot on locations that are not connected to the network and on low-scale liquefied natural gas services.

BEMIP GRIP 2017 can be found on the website of Amber Grid [www.ambergrid.lt](http://www.ambergrid.lt) (under the heading *Transmission System*, subheading *Development of The Transmission System* in section *Regional Investment Plan*), also on the website of ENTSOG.

#### 4.7. THE COMPANY'S RESEARCH AND DEVELOPMENT ACTIVITIES

In cooperation with other members of the East-Baltic Transmission System Operator Coordination Group which is composed of transmission system operators of the Baltic countries and Finland, the Company participated in the preparation of the concepts of transmission capacity management principles in a single Baltic market, alternatives of establishment of a market operator and common balancing zone model. In October 2017, the conceptual models were made public for public consultation, and in December 2017 following the evaluation of comments by the market participants and their suggestions, the Regional Gas Market Coordination Group approved them. Based on analyses of the models, in 2018, the rules for balancing the common zone and use of the transmission system will be developed.

On 1 July 2017, the Company, jointly with the Latvian and Estonian transmission system operators started using implicit capacity allocation model in cross-border connection points in the Baltic countries the implementation of which was accepted by the national regulatory authorities. This model is a transitional period measure of integration of Baltic countries' gases which is aimed at increasing the competitiveness of the gas markets and promoting cross-border trade in gas.

#### 4.8. CORPORATE OPERATIONAL PLANS AND FORECASTS

It is planned that the joint regional natural gas market of the Baltic countries and Finland (after the launch of the pipeline interconnection Estonia-Finland) which will connect individual markets into one common market which will remove cross-border transmission fees, gas system balancing and distribution of transmission

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<sup>4</sup> BEMIP (*Baltic Energy Market Interconnection Plan*) regional gas investment plan involves: Energinet.dk (Denmark), Elering, AS (Estonia), Gasum, Oy (Finland), Conexus Baltic Grid, AS (Latvia), AB Amber Grid (Lithuania), GAZ-SYSTEM S.A. (Poland) and Swedegas, AB (Sweden).

capacity will be conducted in a centralised manner, trade in gas will take place in on virtual market area; it will start working as of 2020. It will help attract global gas supply and trade companies and offer consumers attractive prices for gas supply services, will increase the competitiveness in the natural gas market and also the competitiveness of the natural gas product.

It is estimated that in 2018 the Company will transport about 23 TWh of natural gas to the domestic exit point for the Lithuanian system users, from 1 to 2 TWh – to the Republic of Latvia, and about 25 TWh – to the Kaliningrad Region of the Russian Federation. About half of the amount of natural gas intended for the users of Lithuania and other Baltic countries is planned to be obtained from Klaipėda LNG terminal.



## 5. FINANCIAL RESULTS

### 5.1. FINANCIAL INDICATORS<sup>5</sup>

	2017	2016	2015
<b>Financial results (thousand EUR)</b>			
Revenue	64,322	66,742	55,800
EBITDA <sup>6</sup>	38,252	41,765	30,121
Profit (loss) before tax	(12,055)	24,280	14,687
Net profit (loss)	(9,861)	20,928	15,978
Cash flows from main operations	34,835	40,986	28,889
Investments	12,386	13,119	49,497
Net financial debt	70,496	79,700	111,041
<b>Profitability ratios (%)</b>			
EBITDA margin	59.47	62.58	53.98
Profit (loss) margin before tax	(18.74)	36.38	26.32
Net profit (loss) margin	(15.33)	31.36	28.63
Return on assets (ROA)	(3.40)	6.30	4.91
Return on equity (ROE)	(5.26)	10.53	7.41
<b>Liquidity ratios</b>			
Current ratio	0.68	1.35	1.56
Quick ratio	0.62	1.28	1.48
<b>Leverage ratios (%)</b>			
Equity to total assets ratio	64.69	64.70	55.43
Financial debt to equity ratio	44.89	46.18	70.09
Debt ratio	35.31	35.22	61.96
<b>Market values ratios</b>			
Price/earnings ratio (P/E), times	(25.33)	10.65	13.29
Net earnings (loss) per share, Eur	(0.06)	0.12	0.09

<sup>5</sup> The Company's financial indicators were calculated after elimination of the assets or liabilities generated by the LNG terminal funds and after reduction of the value of non-current assets by the amount of obtained/obtainable grants.

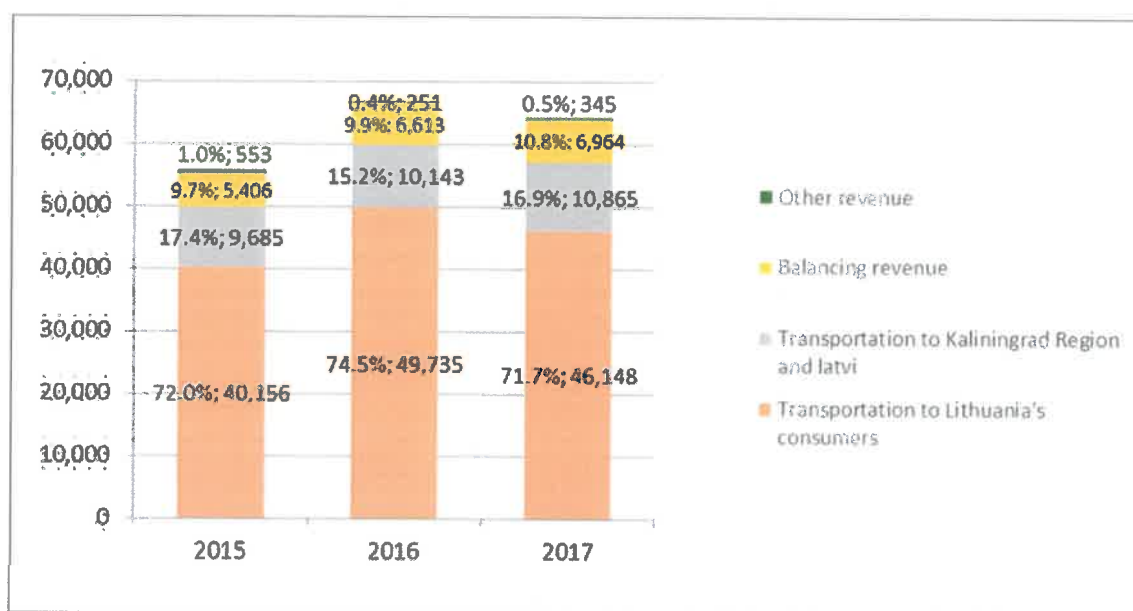
<sup>6</sup> Profit (loss) before tax + financial operational costs – financial operational income + depreciation and amortisation costs + impairment costs + asset write-offs.

The financial statements for 2017 drawn up by the Company reflect the operating results of UAB GET Baltic, a subsidiary of the Company, which were accounted at acquisition cost.

## 5.2. REVENUE

In 2017, the Company's revenue totalled EUR 64,322 thousand and compared to 2016 reduced by 3.6%. Revenue for natural gas transmission services accounted for 88.6% of all revenue. Revenue for natural gas transmission services reduced due to lower prices and reduced booked long-term capacities. Balancing income increased due to the increase in the demand for technical balancing. Other revenue – revenue for administration of LNG terminal funds and other –totalled EUR 345 thousand in 2017 (Pic. 2).

Pic. 2. Revenue Structure, 2015–2017, %; EUR thousand



Balancing revenue includes:

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

The Company is obliged to administer the LNG terminal funds under the law. For more information and disclosures about the calculation of the LNG terminal funds, see the Company's financial statements for 2017.

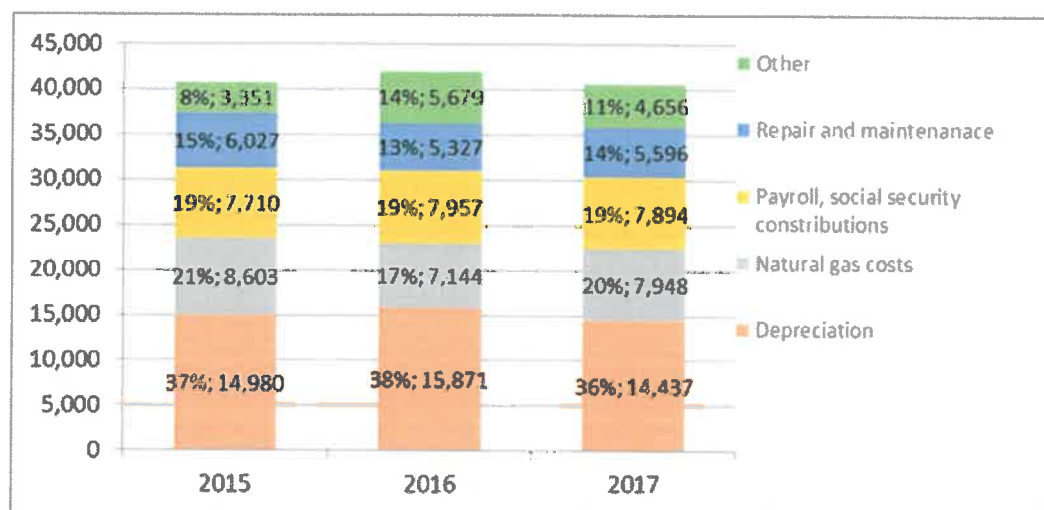
## 5.3. COSTS

In 2017, the Company's costs (after elimination of non-current assets' impairment costs amount to EUR 35,507 thousand) totalled EUR 40,531 thousand, which is 3.4% less compared to 2016. The change in the costs was determined by reduced depreciation and other costs.

In 2017, depreciation and amortisation costs of non-current assets amounted to EUR 14,437 thousand and accounted for 35.6% of total costs, and reduced by 9% compared to 2016 (Pic. 3). Reduction in depreciation and amortisation costs was determined by the level of investments which was lower than these costs. Natural gas costs amounted to EUR 7,948 thousand (19.6% of all costs) and increased by 11.3% compared to 2016 due to the growth in gas cost price. The Company purchased natural gas for technological needs, for

balancing gas flows for system users and other gas market participants involved in the balancing of transmission system and technical balancing. Payroll and social security costs amounted to EUR 7,894 thousand (19.5% of all costs). Repair and maintenance costs amounted to EUR 5,596 thousand (13.8% of total costs) and increased by 5% compared to 2016.

Pic. 3. Cost Structure (calculated after elimination of 2017 assets' impairment costs), 2015–2017, %; EUR thousand



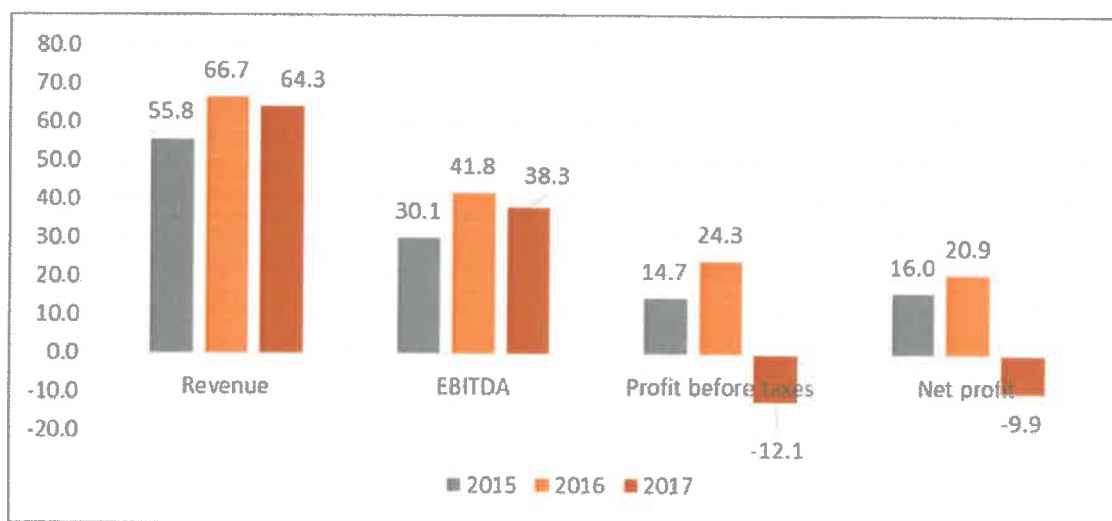
#### 5.4. OPERATING RESULTS

Due to revaluation of non-current assets conducted at the end of 2017 and impairment of accounted for EUR 35,507 thousand, the Company's performance in 2017 was loss making. The 2017 loss before tax amounted to EUR 12,055 thousand (in 2016 – profit was EUR 24,280 thousand (Pic. 4)), and net loss totalled EUR 9,861 thousand (in 2016 – net profit was EUR 20,928 thousand (Pic. 4)). If the impact of this impairment was not evaluated, the 2017 net profit would have amounted to EUR 20,320 thousand.

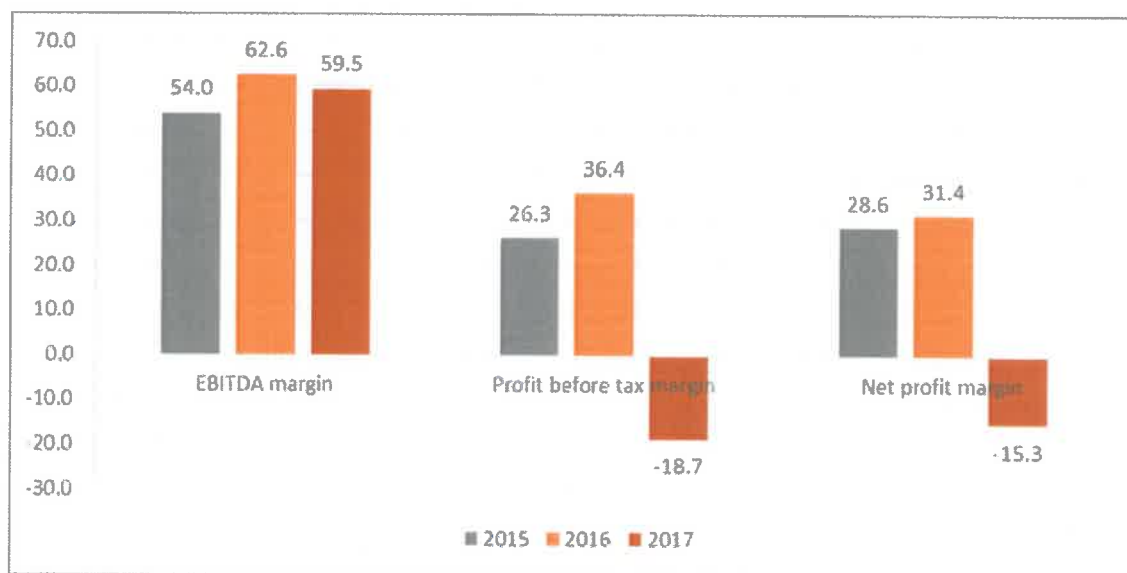
The Company's earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 38,252 thousand and reduced by 8.4% compared to 2016 (EUR 41,765 thousand).

Non-current assets' impairment was determined by estimated changes in regulatory environment when from 2019 a new regulation period for natural gas transmission prices will start (according to forecast, lower regulated ROI established by NCC) and higher than established by the NCC ROI earned in the regulation period 2014-2018.

Pic. 4. Financial Results, EUR thousand, 2015–2017.



Pic. 5. Profitability, %, 2015–2017.



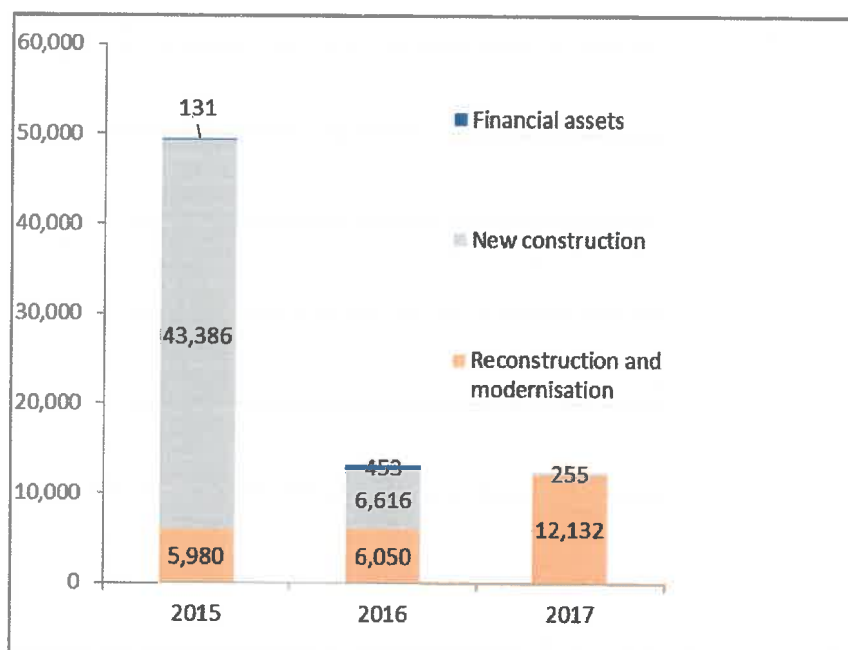
## 5.5. INVESTMENTS

In 2017, investments totalled EUR 12,386 thousand (in 2016 – EUR 13,119 thousand) (Pic. 6).

In the process of maintenance and development of the natural gas transmission network the Company makes consistent infrastructure investments. Investments in the transmission system development reduced to EUR 255 thousand due to rescheduling of the GIPL project (in 2016 – EUR 6,616 thousand).

Investments in reconstruction and modernisation doubled compared to 2016 (EUR 6,050 thousand) and amounted to EUR 12,132 thousand. The increase was determined by reconstruction projects of gas transmission pipelines and gas distribution stations carried out in 2017.

Pic. 6. Investment Structure, EUR thousand, 2015–2017.



## 5.6. ASSETS

At the end of 2017, the value of assets amounted to EUR 280,198 thousand: non-current assets accounted for 87.3%, current assets – for 12.7% of the total Company's assets.

Non-current assets reduced by 14.4% or by EUR 41,145 thousand in 2017 and totalled EUR 244,654 thousand mostly due to revaluation of non-current assets performed at the end of 2017 and impairment of the accounted for EUR 35,507 thousand. Current assets amounted to EUR 35,544 thousand, i.e. reduced by 16.5%. Current assets decrease was determined by halved balance of cash.

## 5.7. EQUITY AND LIABILITIES

Due to loss accounted for in 2017 and paid out dividends for the previous financial period, the Company's equity reduced by 15.2% and at the end of the reference period amounted to EUR 172,021 thousand. At the end of the reference period equity accounted for 61.4% of the total Company assets.

In 2017, amounts payable and liabilities reduced by 13.9% or EUR 17,395 thousand and at the end of the reference period amounted to EUR 108,177 thousand. Reduction in payables and liabilities was determined by reduced financial debts and decrease in deferred income tax liability.

On 31 December 2017, the Company's financial debt amounted to EUR 77,222 thousand and reduced by EUR 16,444 thousand in the reference period. Ratio of financial liabilities to credit institutions to equity amounted to 44.9%.

## 5.8. CASH FLOWS

In 2017, the Company's cash flows from the main activity amounted to EUR 34,835 thousand (in 2016 – EUR 40,986 thousand). To purchase non-current assets, EUR 8,020 thousand was used (in 2016 – EUR 13,871 thousand), for the to pay out dividends – EUR 20,999 thousand (in 2016 – EUR 12,787 thousand).

In 2017, to finance investment projects, the amount of EUR 3,874 thousand of EUR support was obtained from EU Structural Funds. In 2017, loans in the amount of EUR 16,444 thousand were repaid.

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

Other information is disclosed in the notes to the audited financial statements of Amber Grid for 2017.

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

On 28 January 2018, the NCP accepted the Natural Gas Transmission System Operator's Ten Year (2016-2025) Plan on the Development of the Network according to which the planned amount of investments totals EUR 192.8 million.

#### **5.11. INFORMATION ABOUT ANY FINANCIAL ASSISTANCE**

The financial assistance (support) policy is provided in the Social Responsibility Report 2017. The Company provided no other form of financial assistance in the reference period.

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

Information on related-party transactions is disclosed in the Company's financial statements for 2017.

As at 31 December 2017, the Company was party to the following significant contracts entitling the counterparties to respective contracts to terminate transactions concluded with the Company following any changes in the Company's control: the loan agreement of 30 December 2014 with Swedbank, AB, and the loan agreement of 19 August 2015 with the Nordic Investment Bank. The terms of the aforesaid contracts are deemed to constitute two-way confidential information of the parties to respective contracts, and their disclosure could inflict damage on the Company.

As regards any other significant contracts that would either come into force, change or expire in an event of any changes in Company's control, as at 31 December 2017, the Company was not party to any such contracts.

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

#### **5.13. INFORMATION ON DIRECTLY MATERIAL DIRECTLY AND INDIRECTLY MANAGED STAKES**

On 31 December 2017, the Company controlled 100% of its subsidiary's UAB GET Baltic shares. More details on the controlled company are provided in the Company's financial statements.

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## 6. RISKS AND THEIR MANAGEMENT

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### 6.1. RISKS AND THEIR MANAGEMENT

The Company is exposed to the following key risks: macroeconomic factor-related risk, regulatory risk, gas purchase prices fluctuation risk, concentration risk, competition risk, technology risk, corruption and financial risks.

Information on concentration, gas purchase price and financial risks (liquidity, credit, interest rate fluctuation) is disclosed in the Company's financial statements for 2017.

#### MACROECONOMIC RISKS

Lithuania's economic situation and its economic development trends as well as integration of the Baltic gas transmission systems into the single EU gas system, and the price for natural gas (as a product) charged to the end users – all these factors have impact on the volumes of gas transmission and on investments in the development of gas transmission pipelines. The reducing quantity of natural gas transmission in Lithuania that has been observed for a few recent years has a negative effect on the Company's financial results. The Company's activities are subject to regulation and, accordingly, the Company takes all measures under the supervision of the NCC that are required to ensure the stability of its operations and sustainable development.

#### REGULATORY RISK

Regulatory risk is closely related to changes in legal and regulatory environment and decisions made by the regulatory authorities. Recently, there has been a growing number of new regulations and other legislation regulating the natural gas sector in the EU that are applicable to the EU Member States; processes of development of the natural gas market in the Eastern Baltic region has taken place; therefore, the influence of regulatory decisions of the EU institutions and regulatory authorities of the Eastern Baltic region on the Company's operations and results has been increasing. The tariffs for natural gas transmission services and the investments in natural gas transmission systems are regulated by the State. The Company collaborates with the regulatory authorities directly, takes part in drafting legal acts, actively presents its position, and assesses the impact on its performance.

#### COMPETITION RISK

The Company's performance is affected by the competition in the fuel market. A considerable decline in the demand for natural gas is expected to occur amount the companies in the energy industry as a result of efficiency improvement of the thermal energy generation processes and use of the alternative fuel types (biomass, solar, wind, geothermal energy). The use of the alternative technology (based on renewable energy sources) is promoted by the EU and national strategic documents which project a larger share of the alternative energy sources in the overall energy balance leading to a smaller share of fossil fuel.

The decline in the quantities of natural gas transportation may also be driven by factors other than those related to the transition to the alternative fuel types. Implementing the tasks set in view of the defined strategic directions (*Transformation into the transmission system operator operating in a single gas market;*



*Development of the necessary infrastructure*), the Company seeks to mitigate the risks and consequences of lower natural gas consumption and gas transportation levels in the future.

## **TECHNOLOGICAL RISK**

On 27 December 2016, Amber Grid and UAB Elsis TS signed an agreement on the implementation of the *Pipeline Integrity Management System (PIMS)* software for ensuring safety and integrity of pipelines. To conduct respective works UAB Elsis TS employed British subcontractors: ATP which will install software (PIMS Lider), and PIMS of London which will develop a risk assessment model.

In 2017, in implementing PIMS the following was carried out:

- Specification of Amber Grid risk management model (setting risk assessment algorithms, development of a matrix of threat assessment, evaluation of measures aimed at reducing threat impact and possibilities, drawing up Bow-tie risk management reports);
- Detailed analyses and projections (detailed specification of IS and architecture, detailed designing of IS, preparation of a set of requirements for the IS infrastructure);
- Preparation of descriptive documentation (procedures and processes regulating operations of Amber Grid using the newly developed PIMS IS).

It is estimated that using PIMS, the Company will assess technological risk of functioning of the transmission system components and will be able to plan its funds for the maintenance in a more efficient and targeted manner.

## **CORRUPTION RISK**

Given the measures that Company takes to reduce the likelihood of manifestation of corruption, the conclusion was drawn that the possibility of corruption in the operations of Amber Grid is minimal.

## **6.2. INTERNAL CONTROL OF THE COMPANY**

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

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

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



## 7. GOVERNANCE

### 7.1. INFORMATION ON COMPLIANCE WITH THE GOVERNANCE CODE

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

### 7.2. SHARE CAPITAL

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

There were no changes in the Company's ownership structure in 2017. UAB EPSO-G retained its 96.58% shareholding in the Company and was the only shareholder holding more than 5% of the Company's shares. UAB EPSO-G has a casting vote in the decision-making process at the General Meeting of Shareholders.

### 7.3. SHARES AND SHAREHOLDER RIGHTS

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

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

In 2017, the Company did not acquire its own shares and had no transactions relating to acquisition of disposal of its own shares.

### 7.4. SHAREHOLDERS

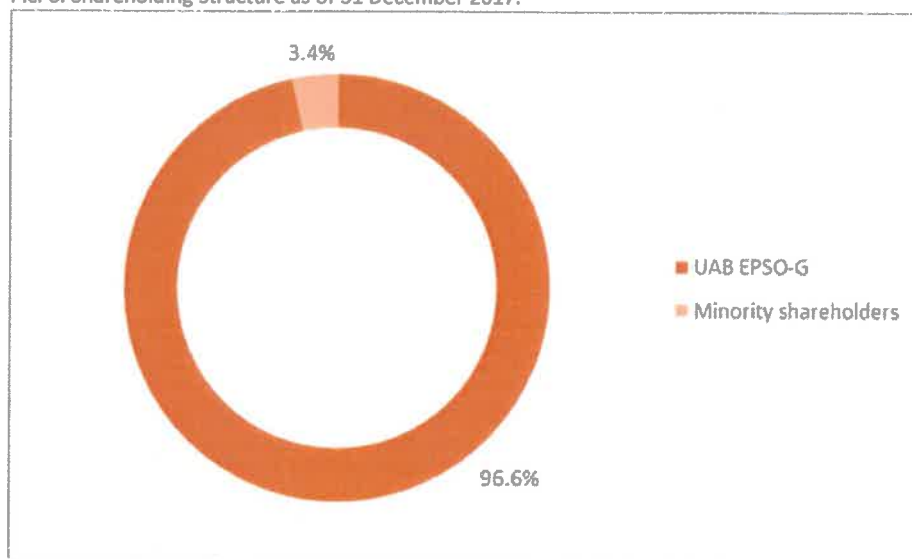
As at 31 December 2017, Amber Grid had 1,525 shareholders (Lithuanian and foreign natural and legal persons), including one shareholder holding more than 5% of the Company's shares.

Table 2. Shareholders of the Company

Shareholder	Registered office address / legal entity code	Number of shares owned, pcs.
UAB EPSO-G	A. Juozapavičiaus g. 13 Vilnius, Lithuania/ 302826889	172,279,125
Minority shareholders		6,103,389
In total:		178,382,514

The Company's shareholding structure is provided in Picture 6 below.

Pic. 6. Shareholding Structure as of 31 December 2017.



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

## 7.5. DETAILS ON TRADING IN SECURITIES ON REGULATED MARKETS

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

Table 3. Main Details on Amber Grid Shares.

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

In 2017, the trading turnover in the Company's shares was EUR 1.17 million with 873,105 shares transferred under the transactions. The Company's share price dynamics is presented in Table 4, and details on the price and turnover of the Company's shares (in 2015–2017) are provided in Pic. 7.

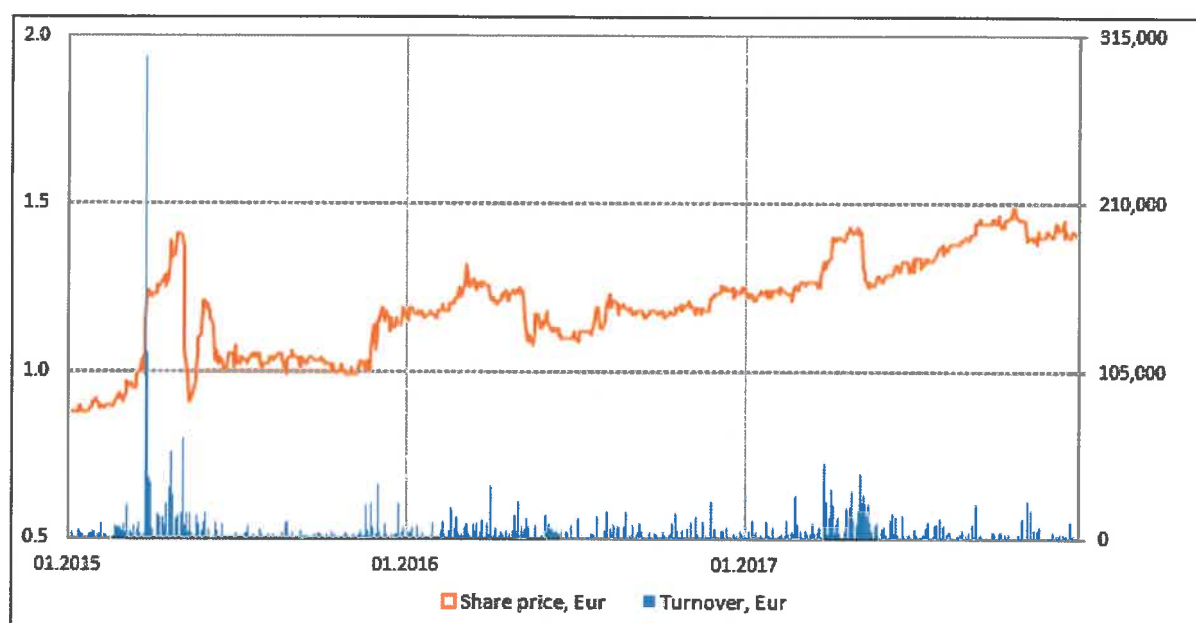
Table 4. Share Price Dynamics at NASDAQ Vilnius, 2015–2017.

Opening price, 01-01-2015	Highest price per share, 30-04-2015	Lowest price per share 16-01-2015	Weighted average price per share	Closing price, 30-12-2015
0.898 Eur	1.41 Eur	0.877 Eur	1.132 Eur	1.19 Eur

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

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

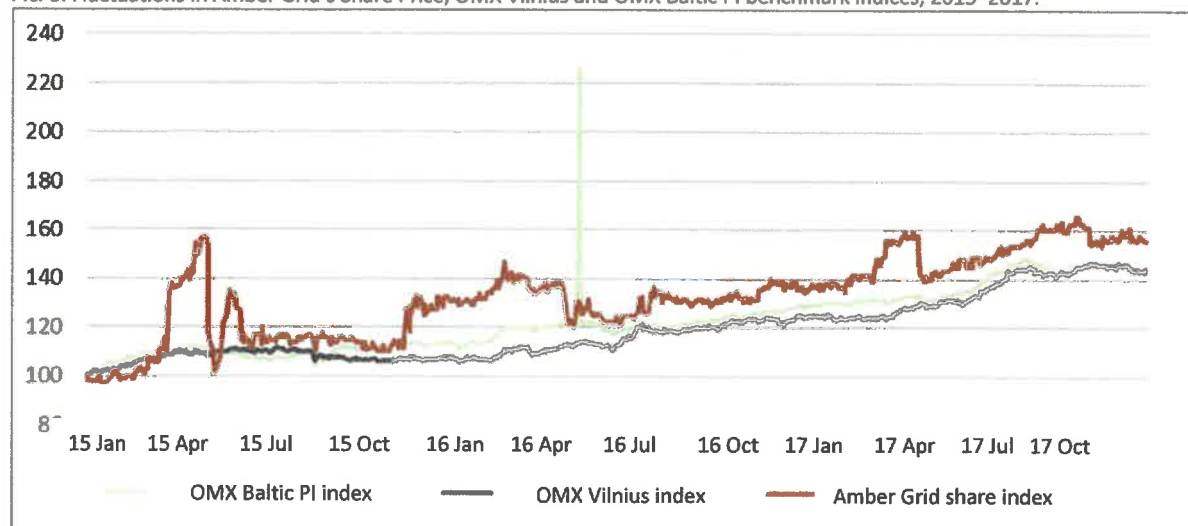
Pic. 7. Amber Grid Share Price and Turnover, 2015–2017.



As at 29 December 2017, Amber Grid's stock capitalisation amounted to EUR 249.74 million. The price per share on the stock exchange and the capitalisation increased by 12.9% in 2017.

In 2017, the benchmark indices OMX Baltic PI and OMXV calculated at NASDAQ Stock Exchange which reflect changes in stock prices of companies listed on the Baltic and Vilnius Stock Exchanges increased by 12.98% and 16.97% respectively. The fluctuations in the Company's share price, OMX Vilnius and OMX Baltic PI benchmark indices during 2015–2017 are shown in Picture 8.

Pic. 8. Fluctuations in Amber Grid's Share Price, OMX Vilnius and OMX Baltic PI benchmark indices, 2015–2017.



## 7.6. DIVIDENDS

At the General Meeting of Shareholders held on 25 April 2017, the Company's shareholders decided to pay out dividends in the amount of EUR 20,928,070 or EUR 0.11732131 per share.

By decision of the Company's Management Board dated 22 August 2017, the Company joined the Dividend Policy of UAB EPSO-G approved by its Management Board on 14 July 2017, and the Company has applied it entirely.

The Dividend Policy of UAB EPSO-G directly linked the size of payable dividends with the efficiency of use of equity – the bigger benefit the Company gives to a shareholder, the bigger share of profit it can allocate for further development or for the implementation of any other important projects. The Dividend Policy is publicly available on the website [www.ambergrid.lt](http://www.ambergrid.lt) (heading *About Us* section Governance).

## 7.7. AGREEMENT WITH INTERMEDIARIES OF PUBLIC TRADING IN SECURITIES

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

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

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

## 7.8. MANAGEMENT STRUCTURE

In performing its activities, the Company complies with the law on Companies, the Law on Securities, the Company's Articles of Association and other legislation of the Republic of Lithuania. The powers of the General Meeting of Shareholders, the rights of shareholders and the exercise of such rights are defined in the Law on Companies and the Articles of Association of the Company which are available on the Company's website: [www.ambergrid.lt/en/about-us/investors-relations/bylaws](http://www.ambergrid.lt/en/about-us/investors-relations/bylaws).

The Articles of Association provide for the following management bodies:

- The Board and,
- The head of the Company – General Manager.

The Company's Board consists of 5 (five) members elected by the General Meeting of Shareholders for the term of office of 4 (four) years in accordance with the procedure prescribed in the Law on Companies. The principle of proper representation of the rights of all shareholders must be followed in the election of the Board Members. Therefore, in proposing candidates to the Board Members, at least 2 (two) candidates

should be from management of the parent company, at least 2 (two) candidates – from the Company's management, and at least 1 (one) candidate must be independent as determined according to the criteria set out in the Governance Code and applicable legal acts. Any shareholder of the Company has the right to put up a candidate for the independent member of the Board. The Board Members elect the chairman of the Board from among themselves. The members of the Board may be re-elected for the next terms of office. A Board Member may remain in the office for not more than 2 (two) full terms in succession. The powers of the members of the Board and the remit of the Head of the Company are defined in the Law on Companies and in the Articles of Association of the Company.

The following persons cannot be elected as members of the Board:

- A person who is a member of a supervisory body, a management body or a member of administration in an energy company engaged in the electricity generation and/or supply operations or who participates in management or supervision of such companies otherwise;
- A member of the Supervisory Council of UAB EPSO-G;
- A person who is a member of a supervisory body, a management body or a member of management in a company controlled by the Company or its associated company according to a definition provided in the Articles of Association;
- Public servants and employees of institutions regulating entities that are energy service providers or exercising state supervision over the energy sector;
- Other persons who cannot work in this position under the current legislation.

The remit of the Board is in line with the remit of the board established in the Law on Companies, however, according to the Articles of Association the Board has the following additional powers:

- The Board considers and approves the Company's strategy, operating plan and report on the implementation of the operating plan, annual budget and annual operating targets, sponsorship and charity provision procedures, list of essential terms and conditions of transactions, procedure for the conclusion of transactions to be approved by the Board list of information deemed to be a trade/industrial secret of the Company and confidential information and the principles of use/storage of such information in the Company, job description for the General manager and his/her remuneration, annual targets and other terms and conditions of an employment contract; the Board incentivises and imposes sanctions on the General Manager; common documents of the Group of Companies are defined in the Articles of Association (guidelines, policies, codes, etc.) and the scope of application thereof to the Company; decision on the issue of bonds (except for convertible bonds); decision on the establishment and removal of the Company's branches and representative offices and on approval of and amendments to their regulations as well as appointment and recall of their heads; participation of the Company in any association or another amalgamation of legal entities; decision on the Company's acting as a founder or member of another legal entity; decision on the increase/decrease in the number of shares/interests; approves the main terms and conditions of share agreements; decisions on the transfer of companies controlled by the company and/or the Company's associated companies as an asset or a material part thereof, in the cases where the book value of the asset transferred is equal to or smaller than 1/20 of the authorised capital;
- The Board sets the gas transmission prices and prices for other services regulated by the State as well as their price setting methodology;
- The Board approves the standard terms and conditions of agreements directly related to the TSO's activities such as agreement on connection to the gas system, on the natural gas transmission service, on natural gas balancing; and decides on the conclusion of such transactions in deviation from the approved terms and conditions;
- The Board decides on the purchase of goods, services or works for an amount exceeding EUR 2,000,000, and where the acquisition is from the only supplier – for an amount exceeding



EUR 1,000,000, on the purchase of goods, services or works from controlled or associated companies for an amount exceeding EUR 1,000,000, except for gases where goods listed on an exchange are being purchased for process or balancing needs, and on the purchase of goods, services or works from the parent company – irrespective of the amount: on the use of any non-current asset valued at over EUR 2,000,000 for the purposes of investment, transfer, lease, mortgage or pledge; on standing surety of guaranteeing the fulfilment of third party's obligations exceeding EUR 2,000,000; on the acquisition of non-current assets or their production for the price exceeding EUR 2,000,000; on transactions on borrowing of funds if the amount to be borrowed exceeds EUR 2,000,000, also on lending of funds; on conclusion of settlement agreements or agreements of withdrawal of a claim (counter-claim, complaint) or taking of an equivalent procedural action whereby a dispute is effectively ended, in judicial/arbitration proceedings in which the Company has filed a claim or a claim has been filed against the Company in the amount exceeding EUR 1,000,000; also decision on the filing of a claim (counter-claim, complaint) which initiates a dispute with a national price-regulating authority irrespective of the value, on non-imposition of contractual penalties and/or other contractual sanctions on the Company's counterparties provided that the amount of the penalty of another sanction exceeds EUR 100,000; adopts decision on the launching or terminating of specific activity, entering into gas transportation agreements with third (non-EU) countries, any other agreements/transactions the value of which exceeds EUR 1,000,000, if no funds have been allocated for them in the annual budget of the Company, and agreements with the Company's shareholder(s) owning more than 1% of the Company's shares.

The following decisions of the Board require a consent of the General Meeting of Shareholders according to the Company's Articles of Association:

- Assignment, pledging or other encumbrance of the shares/interests in the Company or the rights attached to them, or any other rights of a member in a legal entity;
- Transfer of a company controlled by the Company and/or associated with the Company, as an asset, or any material part thereof, if the book value of the asset transferred exceeds 1/20 of the Company's authorised capital;
- Assignment, mortgage, changing the legal status, other encumbrance or disposal of any facility or installation owned by the Company of a special strategic importance for the national security as defined in the Republic of Lithuania Law on Enterprise and Facilities of Strategic Importance for National Security and Other Enterprises Important for Ensuring National Security and related legal acts, if the value of the facility/installation exceeds 1/20 of the authorised capital of the Company;
- Encumbrance of the shares in directly or indirectly controlled companies that own the facilities referred to above or which develop control, use or dispose of such facilities on any grounds, or of the voting rights attached to them; increase or decrease of the authorised capital of such companies or other actions that may change the structure of the authorised capital of the company (e.g., issue of convertible bonds) and decisions on reorganisation, separation, restructuring, liquidation, transformation of such companies or other actions that may change their legal status;
- Investment, transfer, lease (determined for each type of transaction), pledge or mortgage (determined as the sum of transactions) of a non-current asset of the Company the book value of which exceeds 1/5 of the Company's authorised capital;
- Standing surety for or guaranteeing the discharge of other persons obligations the value of which exceeds 1/5 of the Company's authorised capital;
- Acquisition of non-current assets at the price which exceeds 1/5 of the Company's authorised capital in the implementation of projects of extraordinary national significance and/or economic projects important for the State as defined in the applicable legislation.

Apart from the remit according to the law and the additional powers set out above, the General Meeting of Shareholders has the right, according to the Articles of Association, to decide on the appointment of a Board

Member, setting of the ceiling for the annual remuneration budget for the Board Members and remuneration to specific Board members, conclusion of agreements with the Board Members on activities in the Board setting the standard terms and conditions thereof and appointment of a person authorised to sign such agreement on behalf of the Company.

In 2017, 19 Board meetings were held.

Detailed CVs of the Board Members and the Heads of the Company are publicly available on the website of Amber Grid [www.ambergrid.lt](http://www.ambergrid.lt).

Information about the members of the Board, the Managing Director and the Chief Accountant of Amber Grid is presented in Table 5 below.

Table 5. Information about the Members of the Board, the General Manager and the Chief Accountant

Position	Full name	Start of term of office	End of term of office	Participation in the issuer's capital	
				Share of authorised capital held, %	Share of voting rights held, %
Chairperson of the Board	Nemunas Biknius	April 2016	April 2020	0.001055	0.001055
Board Member	Saulius Bilys	April 2016	April 2020	–	–
Independent Board Member	Nerijus Datkūnas	April 2016	April 2020	–	–
Board Member	Vytautas Ruolia	April 2016	April 2020	–	–
Board Member	Rimvydas Štilinis	April 2016	April 2020	–	–
General Manager	Saulius Bilys	June 2013	–	–	–
Chief Accountant	Dzintra Tamulienė	June 2013	–	–	–

In the reference period, payments to the members of the Company's Board amounted to EUR 32,000, of them, the amount calculated for being paid out to the independent Board Member was EUR 12,000.

Total remuneration of the Company's General Manager and Chief Accountant during the reporting period amounted to EUR 169,200, and the average wage per person (General Manager and Chief Accountant) amounted to EUR 84,600.

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

The Company has no branches or representative offices.

### **7.9. INFORMATION ON RELATED-PARTY TRANSACTIONS, MATERIAL ARRANGEMENTS AND DETRIMENTAL TRANSACTIONS**

Information on related-party transactions is disclosed in the Company's financial statements for 2017.

As at 31 December 2017, the Company was party to the following significant contracts entitling the counterparties to respective contracts to terminate transactions concluded with the Company following any changes in the Company's control: the loan agreement of 30 December 2014 with Swedbank, AB, and the loan agreement of 19 August 2015 with the Nordic Investment Bank. The terms of the aforesaid contracts are deemed to constitute two-way confidential information of the parties to respective contracts, and their disclosure could inflict damage on the Company.

As regards any other significant contracts that would either come into force, change or expire in an event of any changes in Company's control, as at 31 December 2017, the Company was not party to any such contracts.

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

### **7.10. INFORMATION ON INTERNAL AND EXTERNAL AUDIT**

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

Audit of the Company's financial statements for 2016 and 2017 was conducted by an external audit firm PricewaterhouseCoopers.



## 8. STAFF

As at 31 December 2017, the Company had 346 employees, and on 31 December 2016 – 357 employees<sup>7</sup> (organisational structure of the Company is provided in Annex 1). Employee structure by group is provided in Table 5 below.

Table 5. Number of Employees in 2016–2017

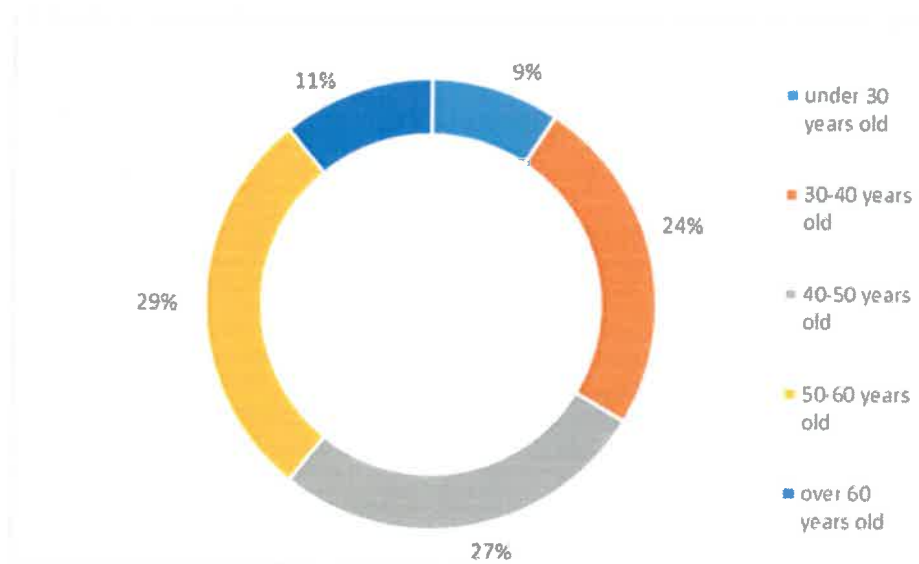
Position groups	Number of employees as at 31 December 2017	Number of employees as at 31 December 2016
General Manager	1	1
Executives	4	4
Medium-level managers	28	29
Expert specialists	195	196
Workers	118	127
IN TOTAL	346	357

In 2017, the Company's employee turnover rate was 6.2%, in 2016 – 5.3%.

In 2017, the average age of the Company's employees was 45.3 years (Pic. 9), and the average service record was – 13.6 years (Pic. 10). Employees with higher educational attainment accounted for 54% of the Company's total workforce (Pic. 11).

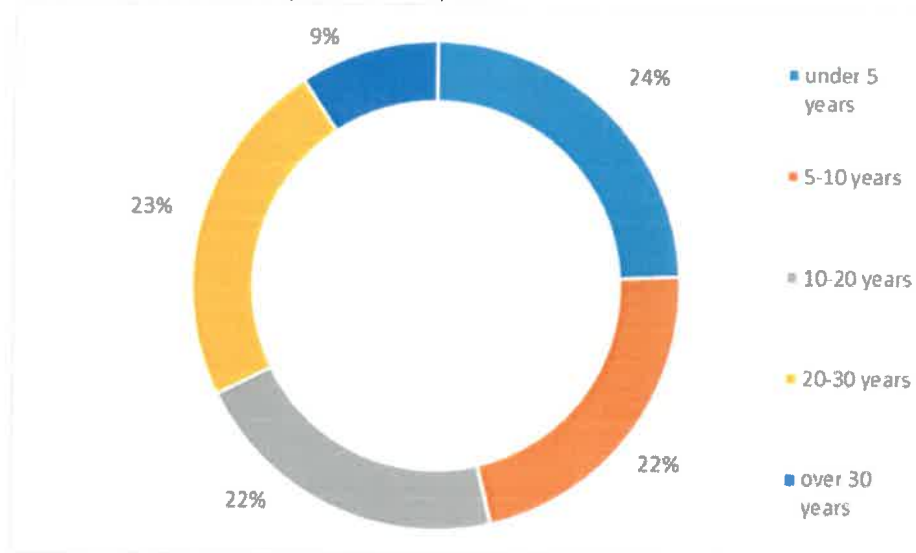
Due to the specificity of the energy sector, men account for the largest part of the Company's workforce – 283 (82%) and women – 63 (18%) (Table 6).

Pic. 9. Employee Structure by Age Groups, 2017.



<sup>7</sup> The number of employees recorded on 31 December 2016 recalculated without including those employees who were on parental leave.

Pic. 10. Employee Structure by Service Record, 2017.



Pic. 11. Employee Structure by Education, 2017.

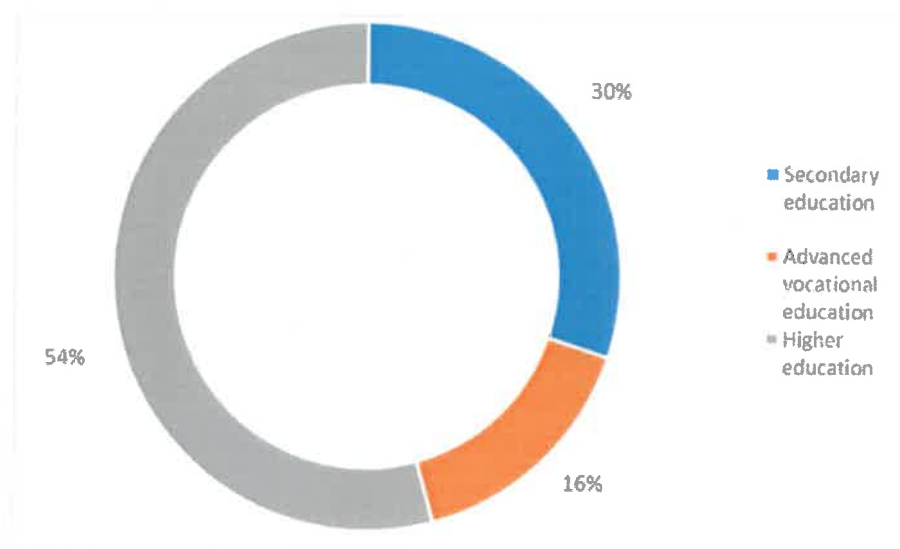


Table 6. Employee Structure by Gender, 2016 – 2017.

	As of 31 December 2017, %	As of 31 December 2016, %
Male employees	82	82
Female employees	18	18

In 2017, a project on the assessment of the Company's staff performance continued. The project is needed to ensure effective management; it incorporates the Company's and the staff's personal objectives, shows every single employee's contribution to the attainment of common goals, it provides conditions for planning employees' career, increasing their motivation and ensuring objective and reasonable promotion of employees. The Company's staff performance management policy is available on [www.ambergrid.it](http://www.ambergrid.it).

Amber Grid is subject to the common EPSO-G Group Remuneration Policy which applies to all employees of the Company. Remuneration policy is approved and amended by decision of the Company's Board taking

into consideration recommendations brought forward by the EPSO-G Remuneration and Appointment Committee. The EPSO-G Remuneration and Appointment Committee periodically assessed the provisions of the remuneration policy, its efficiency, implementation and application.

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

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

The Company's Remuneration policy is publicly announced on the website [www.epsog.lt](http://www.epsog.lt).

Average monthly pay of the Company's employees by group is presented in Table 7.

Table 7. Average Monthly Pay by Employee Group, 2016–2017

Position group	Average monthly pay, EUR (before tax), 2017 <sup>8</sup>	Average monthly pay, EUR (before tax), 2016 <sup>9</sup>
General Manager	9,605	9,562
Executives	5,519	5,195
Medium level managers	2,738	2,408
Expert specialists	1,426	1,257
Workers	1,008	879
Average	1,462	1,280

### Policy of Remuneration to Collegial Members and Management

Principles of remuneration to management bodies in EPSO-G Group is laid down in the Guidelines on Remuneration for Performance in Company Bodies of the Group approved by the decision of the sole shareholder of UAB EPSO-G. Decisions adopted at the General Meeting of Shareholders held on 26 April 2016 determined the maximum annual remuneration budget allocated for payment for the performance of the Board Members of the Company, also approved hourly and maximum monthly pay as well as approved terms and conditions of agreements concluded with the Board Members on the Activity in the Board. In accordance with the decision of the General Meeting of Shareholders dated 26 April 2016, an hourly rate of EUR 50.00 (fifty) (before tax) was established to the members of the Board for work in the Company's Board, however, not exceeding EUR 1,000 (one thousand euros) (before tax) per month. Board Members who are also

<sup>8</sup>Average monthly pay to medium-level managers, specialists and workers increased in 2017 compared to 2016 mostly due to the change in the policy of payment of a variable constituent – its payment to the aforementioned employees was linked to the assessment of their annual performance in terms of attainment of annual goals; for the year 2016, it was paid after annual interviews in 2017. This variable constituent payment policy has been applied to the executives since 2013.

<sup>9</sup> Average monthly to managers and other employees for 2016 was adjusted in accordance with the structure of these employees by group in 2017.

employees of the enterprise that owns the Company's controlling interest, namely, of UAB EPSO-G, are not paid for performance in the Board.

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

### **COLLECTIVE AGREEMENT**

Amber Grid collective agreement was updated and signed with a newly elected Works Council of the Company. The collective agreement expired on 31 December 2017. In June 2017, on the initiative of 113 employees of the Company, Amber Grid trade union was set up which took over the rights and duties of the Works Council. In August 2017, negotiation over a new collective agreement between the employer and the trade union started. The negotiation is estimated to complete and a new collective agreement is planned to be signed in the first half-year of 2018.

### **TRAINING**

Amber Grid encourages its employees to improve their qualification and enhance the available competence; it:

- organises in-house training;
- provides opportunities to join important projects run by the Company;
- participates in external trainings and conferences.

As many as 227 Company's employees participated in compulsory vocational training and attestation after which they were issued certificates permitting them to conduct special works. In 2017, 338 certificates were issued/extended.

General competence training courses were attended by 194 employees in 2017. One employee of the Company gains about 7 hours of training on average. As many as 304 Company's employees participated in trainings which accounts for almost 87% of all employees.

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## 9. SOCIAL RESPONSIBILITY, ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

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Amber Grid defines its responsibility by and in its activities refers to the following documents:

- Code of Organisational Culture;
- Remuneration Policy;
- Corruption Prevention Policy;
- Acquisitions Policy;
- Social Responsibility Policy;
- Ethical Employment and Working Conditions Policy;
- Environmental Protection and Safety and Health at Work Policy;
- Equal Opportunities Policy;
- Procedure of Sponsorship by AB Amber Grid;
- Collective Agreement of AB Amber Grid.

### 9.1. PRINCIPLES AND PRIORITIES OF SOCIAL RESPONSIBILITY

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

Sustainable business development is understood by the Company as the totality of targeted economic, social and environmental actions aimed at increasing general well-being of the public in the professional area and at reducing permitted limits of impact on the environment in the sense defined in the National Sustainable Development Strategy approved by the Government of the Republic of Lithuania.

#### **CORRUPTION RISK**

The Company has zero tolerance to any form of corruption, inappropriate acceptance of benefit, its provision, offering, promise or demand by abusing the occupied position. The anti-corruption notion of Amber Grid involves offering and accepting inappropriate privileges, trading in influence, inappropriate influence in protecting and promoting relatives, spouses or friends, because our goal is to avoid any impact by any personal interests or personal benefit on our decisions.

Any violations of the provisions of legal acts or standards of conduct committed by the Company's managers and employees, violations of economic operations and accounting, bribery, trade in impact, abuse, conflicts of interest, nepotism and cronyism, breach of the requirements of transparency, equal rights, non-discrimination, proportionality and impartiality in conducting public procurements may be reported by email [sauga@ambergrid.lt](mailto:sauga@ambergrid.lt) or phone +370 666 06 084; +370 5 2327787. This information is available solely to the

Company's employee responsible for corruption prevention who guarantees absolute confidentiality of the person making such report. No reports or complaints were received in 2017.

## **HUMAN RIGHTS**

The Company pursues Ethical Employment and Equal Opportunities policies approved in 2017 which emphasise that any form of discrimination is strictly forbidden (Convention No. 100, 111 of the International Labour Organisation). The Company guarantees equal rights to all its employees and does not tolerate any discrimination in the field of employment, remuneration, training, career, labour relations termination or retirement for the reason of employees' race, nationality, gender, sexual orientation, age, political views and any other aspects due to which any discrimination could be caused, does not tolerate any threatening, harassment or exploitation among employees.

## **9.2. ENVIRONMENTAL PROTECTION AND SAFETY OF EMPLOYEES**

Amber Grid principles and commitments related to environmental protection and safety and health at work are established in the Environmental Protection and Safety and Health at Work Policy. The provisions of the policy form the basis for as efficiently as possible reducing any impact of the Company's operation on the environment at ensuring safety and health of employees at work. Principles of prevention, safety, environmental sustainability must be followed by all stakeholders and their groups involved in the activities of Amber Grid.

### **MANAGEMENT SYSTEM**

The Company has implemented environmental and safety and health at work management system which complies with the requirements of international standards ISO 14001 and OHSAS 18001. The system has been integrated into the Company's planning, organisation and governance processes. Management of environmental protection and safety and health at work entrenched in the Standards helps ensure continuous reduction of impact on the environment, safety and health of professional risk employees and implementation of the requirements set to performance by international and the Republic of Lithuania legislation, regulations and other normative documents.

To improve environmental and working conditions the Company continuously invests in new facilities, production process technology, information management and other measures.

On 13-15 November 2017, external supervisory audit of the integrated environmental and safety and health at work management system was carried out which identified no non-conformity. To ensure social cooperation and partnership all employees of the Company are continuously informed of and educated on the issues of environmental protection and safety and health at work.

### **PUBLIC RELATIONS: SPONSORSHIP**

By its decision of 22 August 2017, the Board of Amber Grid approved the Company's Sponsorship Procedure drawn up according to strategic goals of EPSO-G, UAB for 2017-2021, the Company's operational strategy goals for 2017-2022, EPSO-G Group Sponsorship policy and with the aim to ensure relevance, publicity and transparency of the process of sponsorship.

The aforementioned procedure stipulates that in conducting the development provided for in the strategy and running projects that are economically important for the state, the Company can affect life quality of communities and their environment. For this reason, the Company has the right to allocate support from its earnings for the needs of local regions and/or communities in which such projects are carried out, and to the areas of education, culture, sports, social services, health care and other areas of well-being of communities.



It can also sponsor students whose field of study is related to direct activities of the Company. The Company promotes its employees' voluntary gratuitous involvement in activities that are beneficial for the public or local community and can decide to allocate some financial support taking into consideration such activities. In 2017, no financial support was provided.

## SOCIAL INITIATIVES

- Blood donation – in 2017, a public-spirited campaign “Blood Donation Day” was organised in the Company; 42 employees participated in the campaign.
- Environmental campaign – in 2017, more than 70 employees of the Company and their family members participated in the public campaign “Darom” (*Let's Do it*).
- A performance for children – in 2017, a feast “Vaikų Žvaigždynas” (*Children's Constellation*) was organised in partnership with the Lithuanian National Drama Theatre as part of the national social security campaign “Už saugią Lietuvą” (*For Safe Lithuania*) initiated by the President of the Republic of Lithuania Dalia Grybauskaitė. Employees of the Company personally contributed to the implementation of this nice idea by buying 49 tickets to the performance “Kaulinis Senis Ant Geležinio Kalno”, which was awarded the *Golden Cross of Stage* (Auksinis Scenos Kryžius) to children in care.
- Schoolchildren to the Government – Amber Grid contributed to the project organised by the Ministry of Energy “Schoolchildren to the Government” (Moksleiviai į Vyriausybę). The children learned about the way gas transmission system is managed in the central controller room of Amber Grid and how Jauniūnai gas compressor station works.
- Children's dreams – employees of Amber Grid joined the project and made dreams of children who live under difficult conditions come true. During this project, clothes, footwear and toys were bought to children for Christmas.
- Book Christmas – employees of Amber Grid joined the social campaign initiated by the President of the Republic of Lithuania Dalia Grybauskaitė. As many as 280 books were given to the support fund Mamų Unija.
- Mažoji Guboja – in cooperation with young people of the special creative association Guboja, a campaign was organised during which young people from Guboja organisation sold the works they made themselves in the premises of the Company.
- Day without a car – campaign Day Without a Car was organised the purpose of which is to reduce greenhouse gas emissions.

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

## 10. MATERIAL EVENTS IN THE REPORTING PERIOD

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

Main events in the report period 2017:

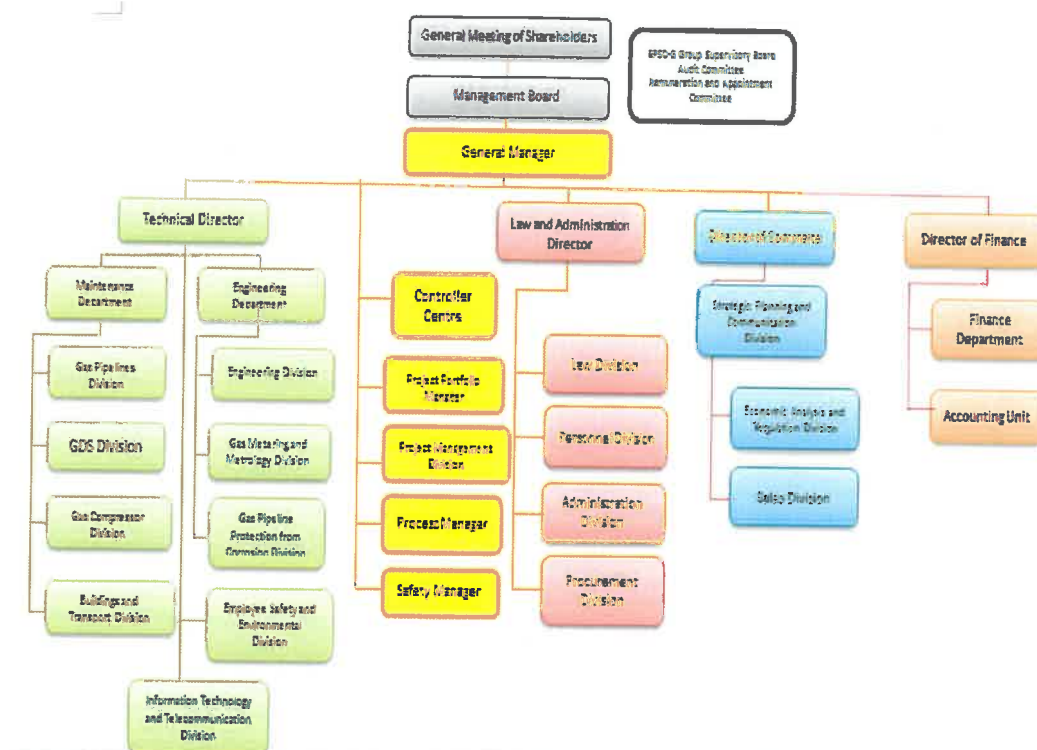
Date	Main events in the reporting period
18-01-2017	Introduction of amendments to agreements on the European Union's financial assistance to preparatory works and construction works of the Gas Interconnection Poland-Lithuania (GIPL) project
23-02-2017	AB Amber Grid operating results and unaudited condensed financial statements for the year 2016
23-02-2017	Correction: AB Amber Grid operating results and unaudited condensed financial statements for the year 2016
07-03-2017	EPSO-G Group's Strategy: Strategic Projects, Regional Development and Efficiency
24-03-2017	On Convening and Annual General Meeting of Shareholders of AB Amber Grid
03-04-2017	Notice on Convening an Annual General Meeting of Shareholders of AB Amber Grid
05-04-2017	The Supervisory Board of UAB EPSO-G presented its response and proposals to the Annual General Meeting of Shareholders of AB Amber Grid
25-04-2017	On Convening an Ordinary General Meeting of Shareholders of AB Amber Grid
25-04-2017	Annual information of AB Amber Grid for 2016
09-05-2017	Notice on Convening an Extraordinary General Meeting of Shareholders of AB Amber Grid
25-05-2017	AB Amber Grid operating results and unaudited condensed financial statements for the 1 <sup>st</sup> quarter of 2017
31-05-2017	On decisions of the Extraordinary General Meeting of Shareholders of AB Amber Grid
14-07-2017	Regarding decision of the Board of the parent company
22-08-2017	Dividend policy of AB Amber Grid
24-08-2017	AB Amber Grid operating results, interim report and unaudited condensed financial statements for the first half of 2017
09-10-2017	Signing of an Energy Savings Agreement with the Ministry of Energy
31-10-2017	On Natural Gas Transmission Price Caps for 2018
15-11-2017	New Prices for Natural Gas Transmission Services
21-11-2017	New Prices for Natural Gas Transmission Services Are Set
23-11-2017	AB Amber Grid operating results and unaudited condensed financial statements for nine months of 2017
01-12-2017	Regarding the publication of AB Amber Grid interim information and Investor's Calendar for 2018

All public reports that are to be published according to the law are made available in an electronic publication of the Manager of the Register of Legal Entities. All notices on convening the Company's General Meeting of Shareholders and other material events are announced in accordance with the procedure established in the Law on Securities on the Central Storage Facility at [www.crib.lt](http://www.crib.lt) and on the Company's website



[www.ambergrid.it](http://www.ambergrid.it). The shareholders whose shares entitle them to at least 10% of total voting rights receive notices on convocation of the General Meetings of Shareholders in accordance with the procedure established in the Company's Articles of Association.

## AMBER GRID ORGANISATIONAL STRUCTURE



## 11. CORPORATE GOVERNANCE REPORT

AB Amber Grid, a public company (hereinafter referred to as the 'Company'), acting in accordance with Article 22(3) of the Republic of Lithuania Law on Securities and Clause 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ OMX Vilnius (hereinafter referred to as the 'Governance Code') as well as its specific provisions or recommendations. In case of non-compliance with the Governance Code or some of its provisions or recommendations, such specific provisions or recommendations must be indicated together with the reasons for such non-compliance.

### CORPORATE GOVERNANCE REPORT SUMMARY:

#### CHARACTERISTICS OF THE COMPANY

The Company is a Lithuanian natural gas transmission system operator responsible for the transmission of natural gas (its transportation through high-pressure pipelines) to system users and for the operation, maintenance and development of the natural gas infrastructure. The Company was registered on 25 June 2013. The Company has been performing the functions of a transmission system operator since 1 August 2013 upon separation of the natural gas transmission operations, together with all the allocated assets, rights and obligations, from AB Lietuvos Dujos.

The Company provides the following services to the system users and other gas market participants:

- Transmission of natural gas in the territory of Lithuania;
- Natural gas flows' balancing in the transmission system;
- Administration of funds intended for the compensation for the costs of installation of the liquefied natural gas (LNG) terminal, its infrastructure and connection as well as the relevant fixed operating costs as well as reasonable costs of the designated supplier of the requisite quantity of LNG.

The gas transmission system operated by the Company consists of main gas transmission pipelines, a dispatch control centre, gas compressor stations, gas distribution stations, gas pipeline anti-corrosion protection equipment, data transmission and communication systems, and other assets allocated to the transmission system. The Company's gas transmission system is interconnected with the systems of the Republic of Latvia, Republic of Belarus, the Kaliningrad Region of the Russian Federation, and the Klaipėda LNG terminal. The length of the pipelines is 2,113 km, with the diameter varying between 100 mm and 1,220 mm. The design pressure of the larger part of the transmission system is 54 bar. There are 69 gas distribution stations and gas metering stations.

The authorised capital of the Company amounts to EUR 51,730,929.06. The authorised capital has been divided into 178,382,514 ordinary registered shares of EUR 0.29 par value.

For more detailed information about the Company please visit its website [www.ambergrid.lt](http://www.ambergrid.lt).

#### OWNERSHIP STRUCTURE

As of 31 December 2017, 1,525 Lithuanian and foreign natural and legal persons were shareholders of the Company, one of them - UAB EPSO-G holding the controlling (96.58 %) block of shares (hereinafter referred to as the 'Parent Company' or 'UAB EPSO-G'). The remaining shares (3.42 %) are listed on the Secondary List of NASDAQ Vilnius Baltic (ticker symbol: AMG1L).

UAB EPSO-G, the majority shareholder of the Company, is wholly owned (100%) by the Ministry of Energy of the Republic of Lithuania (Figure 1). UAB EPSO-G holds the controlling block of shares of AB Litgrid, the Lithuanian electricity transmission system operator, as well.

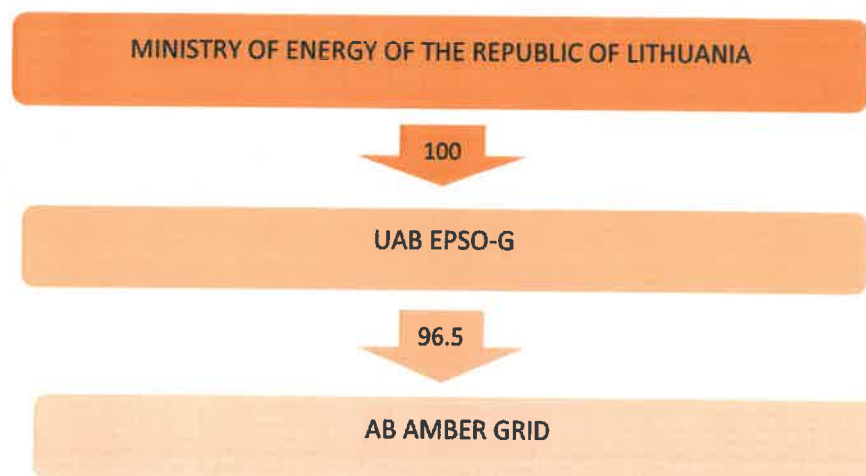


Figure 1. Legal entities controlling shares of AB Amber Grid.

#### MANAGEMENT BODIES OF THE COMPANY

The structure of corporate management bodies (Figure 2) has been set in the Articles of Association of the Company and consists of the general meeting of shareholders, the Board, and the head of the Company (Director General) as the single-handed management body. The Company has not formed a Supervisory Council.

According to the Articles of Association of the Company, having regard to the fact that the Company forms part of a Group and the Supervisory Council of the Parent Company exercises supervision over the internal control system and risks on a Group level, the general meeting of shareholders and the Board of the Company may take proposals and opinions of the Parent Company's Supervisory Council into consideration. The remit of the Audit Committee formed in the Parent Company covers all companies of the Group including the Company.

According to the Articles of Association of the Company, the Board consists of 5 (five) members elected for the term of office of three years according to a procedure laid down in the Republic of Lithuania Law on Companies (the 'Law on Companies'). The members of the Board elect the chairperson from among themselves. The Board Members may be re-elected for another term of office. The Director General is elected, recalled and dismissed by the Board.

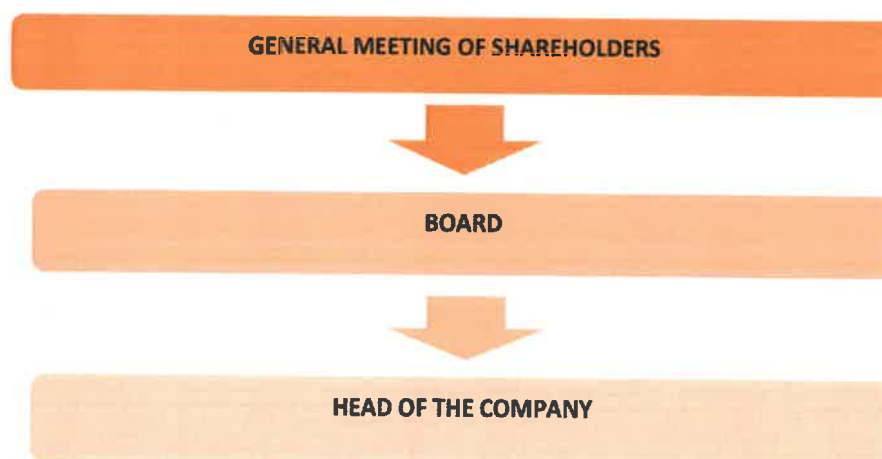


Figure 2. Management Bodies of Amber Grid AB

## Corporate management principles

The main principles of management of the Company are set out in the Civil Code of the Republic of Lithuania, the Law on Companies and the Articles of Association of the Company. The general meeting of shareholders decides on matters related to amendments to the Articles of Association, increase/decrease in the authorised capital, share conversion etc., elects the Board and the auditor, approves annual financial statements, allocates profit, decides on key transactions etc. The Director General is a single-handed management body of the Company who organises the Company's activities and concludes transactions for the Company. The remit of the management bodies is described in detail in the Articles of Association.

Requirements for the Company's management are also set in resolutions of the Government of the Republic of Lithuania dealing with the governance of state-owned or state-controlled companies, to the extent to which such resolutions apply to companies of EPSO-G group, and in the Governance Code, to the extent to which the Company's Articles of Association do not state otherwise.

Following the policy of integral planning and monitoring by companies' group UAB EPSO-G that is applied in full in the company, the Corporate Strategy of the Company has been prepared for the period of 5-10 years, and the period of the s Strategy has to be the same as the period of the strategy of the parent company. Currently, the Corporate Strategy of the Company has been prepared for the period of 5 years until 2022. . The attainment of the strategic objectives set in this document is ensured by the operations, control and risk management systems in place at the Company. The corporate strategy is approved and its implementation is monitored by the Board. By the end of current year, the Board prepares (updates) and approves an operating plan for the period of 3 years. The Company has a system of monthly supervision for the implementation of the strategy, linked to the system of remuneration to the Company's administration.

Activities of the gas transmission system operator are regulated by a national regulatory authority - the National Commission on Energy Control and Prices, from which the Company has to obtain agreements on the Ten-Year Transmission System Network Development Plan, the service provision rules, and the service price ceilings.

The strategy and the operating plan of the Company are implemented and the activities of its administration are organised by the Director General of the Company. Top management of the Company consists of the Director General, Finance Director, Technical Director, Sales Director, and Legal and Administration Director. The Company's management structure is published on the Company's website. The work of the administration is governed by the Regulations of the Administration, the job description of the Director General, and the Operations Management Guidelines approved by the Board.

The principles of good management practice, the policy of the management of the state-owned companies have been established in the corporate management. The Board of the Company approves the guidelines of the activity, the implementation of the latter has to be assured by the Administration of the Company: the guidelines of corporate management, transparency, social responsibility, remuneration, evaluation of activity, accounting, dividends, internal audit, risk management, interests management, security of information, planning and monitoring, project management, technological asset, transport, support, hiring of personnel. Corruption prevention policy, purchase, insurance, security, etc.

The Company's internal control systems are supported by its organisational structure, governance culture, and best governance practices adopted, together with the process management being implemented. Notably, the Company's activities are supervised by the UAB EPSO-G's Supervisory Council, with the Remuneration and Nomination Committee and the Audit Committee providing recommendations, proposals and conclusions concerning important issues of the Company's activities. The internal control system is initiated by the Board of the Company and implemented by the administration, supported by UAB EPSO-G's Audit Committee, external independent auditors, divisions servicing the core activities, the Safety Manager, and heads of all divisions.

Procedures and policies in place at the Company ensure the reliability of financial accounting and reporting, compliance of the Company's operations, efficiency of activities, and attainment of operating objectives.

The Company has completed implementation of the risk management system comprising the risk identification, analysis and assessment, planning of control measures, drawing up and implementation of a risk management action plan, and monitoring and supervision of the risk management process. A risk management methodology has been formulated in accordance with ISO 31000:2009 and based on internal documents of the Company. The methodology also includes the management of security risks according to ISO/IEC 27005:2011 'Information technology - Security techniques - Information security risk' and NIST Special Publication 800-30 Revision 1 'Guide for Conducting Risk Assessments'.

The Company has the environmental protection management system in place in accordance with ISO 14001:2015 as well as the occupational health and safety management system in accordance with OHSAS 18001:2007.

By Order No 1-212 of 7 September 2015, the Minister of Energy of the Republic of Lithuania approved the Corporate Governance Guidelines for the Group of State-Owned Energy Sector Companies (the 'Guidelines'). They establish the uniform principles of corporate governance applied to EPSO-G Group, define the purpose, operating objectives, governance organisation model and governance structure of the Group, and describe the system of accountability, supervision and control. The Guidelines are aimed at supporting and further improving the procedures and policies of the best governance practices applied in the Company's governance.

#### **Best Governance Practices of EPSO-G Group**

Upon approval of the Guidelines by the Minister of Energy, the Parent Company controlling EPSO-G Group is improving governance practices on both company and Group level having regard to the recommendations set out in the Governance Code and implementing recommendations for the improvement of state-controlled companies governance issued by international organisations such as OECD.

The foundations for the practical implementation of these Guidelines were laid when the Ministry of Energy as an EPSO-G UAB's shareholder approved, on 17 December 2015, EPSO-G UAB as a parent company controlling the Group as well as the amended Articles of Association of the company (the 'EPSO-G Articles of Association'). This has led to the formation of new bodies of EPSO-G UAB: the Supervisory Council, the Audit Committee, and the Remuneration and Nomination Committee, which also perform certain supervision and control functions on the Group level. It should be noted that EPSO-G Articles of Association provide for a change in the governance model on the Group level. The Articles of Association of the Company have been amended accordingly, with the new version registered on 26 April 2016.

#### **Rights of the Company's shareholders**

Rights of the shareholders of the Company are defined in the Law on Companies and other legal acts.

#### **Structured Disclosure Table:**

PRINCIPLES/ RECOMMENDATIONS	YES /NO /NOT APPLICA BLE	COMMENTS
<b>Principle I: Basic Provisions</b>  The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		



<p>1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.</p>	<p>Yes</p>	<p>According to the need the Board of the Company might review (update) and and approve the Corporate Strategy of the Company (the Corporate Strategy has been prepared for the period of 5-10 years; currently it has been prepared for 5 year period). On an annual basis the Company updates the implementation plan of the Corporate Strategy, the plan is being prepared for the period of 3 years. Apart from that the Corporate Strategy and implementation plan approved by the Board of the Company, the Company prepares and publishes, in accordance with the Republic of Lithuania Law on Natural Gas, a ten-year network development plan of a natural gas transmission system operator. The Company updates its operating strategy and development plans depending on market situation and changes in the regulatory environment. The corporate strategy sets out the targets of augmenting shareholders' equity and measures to achieve them. The operating strategy and the ten-year network development plan are published on the Company's website <a href="http://www.ambergrid.lt">www.ambergrid.lt</a>.</p>
<p>1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.</p>	<p>Yes</p>	<p>The activities of the governing bodies of the Company are focused on the implementation of the strategic objectives provided for by the Company's strategy and the compliance with the regulatory environment in view of the need to increase shareholders' equity.</p>
<p>1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.</p>	<p>Yes</p>	<p>This recommendation is implemented by the Board and the Director General of the Company. No Supervisory Council is formed at the Company; the shareholders' interests are represented by the Board of the Company and at its meetings, which are regularly convened, information on the Company's operations is provided. The Parent Company has formed the Supervisory Council the activities of which cover the whole Group and which may submit proposals and feedback to the Company's Board and the general meeting of shareholders.</p>

<p>1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.</p>	<p>Yes</p>	<p>The Company seeks to secure the interests of all persons related to the Company's operations. The publicity of the Company's operations and the regulatory environment provide conditions for stakeholders to participate in the governance of the Company in the manner prescribed by law and in accordance with the Company's Articles of Association and internal regulations. Interests of all persons related to the Company's operations are also secured by the operating strategy, guidelines and procedures approved by management bodies of the Company.</p>
<p><b>Principle II: The corporate governance framework</b></p> <p>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</p>		
<p>2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – the general meeting of shareholders and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.</p>	<p>No</p>	<p>The governing bodies of the Company include the general meeting of shareholders, the Board, and the Director General. A Supervisory Council is not formed at the Company. However, a supervisory council is formed by the Parent Company – UAB EPSO-G, which performs the functions of a body exercising supervision over all the companies in the Group.</p> <p>The Director General of the Company is accountable to the Board.</p> <p>The allocation of competences and responsibilities among the management bodies of the Company is set forth in the Articles of Association of the Company, the regulations of the Board, the Director General's employment contract as well as the Republic of Lithuania Law on Companies.</p>
<p>2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance.</p> <p>A collegial supervisory body is responsible for the effective supervision of the company's management bodies.</p>	<p>Yes</p> <p>No</p>	<p>The Board of the Company is responsible for strategic management of the Company and adopts key decisions with regard to Company management as provided for in the Articles of Association of the Company, appoints the Director General of the Company, analyses and assesses information on the Company's operations. The remit of the Board is defined in the Articles of Association of the Company.</p> <p>A Supervisory Council is not formed at the Company. However, a supervisory council is formed by the Parent Company – UAB EPSO-G, which performs the functions of a body exercising supervision over all the companies in the Group.</p>



2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i. e. the supervisory council. In such a case, the supervisory council is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Board is the collegial body of the Company, and a Supervisory Council is not formed at the Company. However, a supervisory council is formed by the Parent Company – UAB EPSO-G, which performs the functions of a body exercising supervision over all the companies in the Group.
2.4. The collegial supervisory body to be elected by the general meeting of shareholders should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i. e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. <sup>10</sup>	No	The Board - the collegial body of the Company is formed and operates seeking to comply, to the largest extent possible, with the provisions set out in Principles III and IV of the Code (the implementation of these principles is described below).
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. <sup>11</sup>	Yes	The Board of the Company consists of 5 members. It is ensured, in the election of the Board Members, that at least one of them is an independent member, with the independence determined according to the criteria set out in the Code and in applicable legal acts. Two Board Members are delegated from among the Company's management and two by the Parent Company.
2.6. Non-executive directors or members of the supervisory council should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Board of the Company is elected by the general meeting of shareholders for the term of office of 4 (four) years. A Board Member may serve for no longer than 2 (two) uninterrupted terms of office in succession, i. e. no more than 8 (eight) years in succession. A Board Member may be recalled according to a procedure prescribed by the Law on Companies.

<sup>10</sup> Provisions of Principles III and IV are more applicable to those instances when the general meeting of shareholders elects the supervisory council, i. e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case if the company forms the board and not the supervisory council, most of the recommendations set out in Principles III and IV become relevant and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory council (e. g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, Item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; Item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; Item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

<sup>11</sup> The terms *Executive Director* and *Non-Executive Director* are used in cases when a company has only one collegial body.

<p>2.7. Chairman of the collegial body elected by the general meeting of shareholders may be a person whose current or past office is not an obstacle to exercise independent and impartial supervision. Should a company decide to form the board rather than a supervisory council, it is recommended that the chairman of the board and chief executive officer of the company should be different persons. A former chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general meeting of shareholders. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>According to the Articles of Association of the Company, the Board Members elect the chairperson from among themselves. The Chairperson of the Board may serve for no longer than 4 (four) years in succession, i. e. one term of office. The Chairperson of the Board may not be one of the Company's representatives delegated to the Board.</p> <p>The Chairperson of the Board and the Director General is not the same person; and the Chairperson of the Board had not worked as the Director General before.</p>
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general meeting of shareholders</b></p> <p>The order of the formation a collegial body to be elected by a general meeting of shareholders should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies<sup>12</sup>.</p>		

<sup>12</sup> It should be noted that in the case where the board is a collegiate body elected by the general meeting of shareholders, the board should oversee the work of the single-handed management body (the chief executive officer) only, and not all the management bodies of the company. This also applies to item 3.1.

<p>3.1. The mechanism of the formation of a collegial body to be elected by a general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>In accordance with the Company's Articles of Association, a collegial governing body of the Company – the Board – shall be elected by the General Meeting of Shareholders. Out of five members of the Board, one is an independent member and two are delegated by the Parent Company.</p> <p>The Board is supervised by the Supervisory Council of the Parent Company consisting of 5 (five) members – natural persons, out of whom 2 (two) must be independent members, with their independence determined according to the criteria set out in the Procedure for the Exercise of Property and Non-Property Rights of the State in State-Owned Enterprises, the Code and other applicable legal acts.</p>
<p>3.2. First names and surnames of the candidates to become members of a collegial body, information about their education, qualifications, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general meeting of shareholders so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this Item 3.2. on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>In accordance with the Company's Articles of Association, the general meeting of shareholders must be furnished with the Declaration of Interests of each candidate for the position of a Board Member as well as with information on his/her qualifications and suitability for the office. Should any new circumstances occur that could potentially give rise to a conflict of interests between a Board Member and the Company, the Board Member must notify the Company and the Board in writing immediately.</p> <p>Information about the members of the Board is posted on the Company's website <a href="http://www.ambergrid.lt">www.ambergrid.lt</a>.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	<p>The Company posts information on the composition of the Board and the positions held by the Board Members in the Company's annual report and on the Company's website. Information on the members of the Board was also presented at the General Meeting of Shareholders.</p>

<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>The composition of the Company's Board was determined with a view to maintaining a proper balance of qualifications possessed by its members, having regard to the Company's structure and nature of its activities; the composition of the Board is subject to periodical evaluations having regard to procedures applicable to state-owned enterprises.</p> <p>Parent Company has formed an Audit Committee which, according to the Articles of Association of the Company, operates also as the Company's Audit Committee, and the Remuneration and Nominations Committee, which assists the Board and the General Meeting of Shareholders to select candidates for the positions of the Board Members and the Director General. Both committees have been formed according to the recommendations of the Code and in accordance with the Company's Articles of Association.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organisation and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p>	<p>At least once in a year, the Board carries out a self-assessment and a needs analysis in order to identify competences required for the attainment of the Company's aims, and reports the results to the General Meeting of Shareholders and the Company.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient<sup>13</sup> number of independent<sup>14</sup> members.</p>	<p>No</p>	<p>Please refer to Comment under Item 2.5.</p>

<sup>13</sup> The Code does not provide for a specific of independent members in a collegial body. In governance codes of many other countries, a fixed rate is set (e. g. at least 1/3 or 1/2 of the members of the collegial body must be independent members). However, having regard to the novelty of the institution of an independent member in Lithuania and potential issues in finding and electing a specific number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

<sup>14</sup> Notably, in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few majority shareholders. However, even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory council) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li> <li>4) He/she is not a controlling shareholder or representative of such shareholder</li> </ol>	<p>Yes</p>	<p>The Board has one independent member who meets the criteria for independence set in the Governance Code.</p>
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<p>(control as defined in the Council Directive 83/349/EEC Article 1(1));</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organisation receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the past three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory council) is non-executive director or member of the supervisory council, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for more than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general meeting of shareholders is the supervisory council) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
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3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Not applicable	Please refer to Comment under Item 3.7.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	An independent member of the Board was elected by decision of the General Meeting of Shareholders. Information on the independence of the member of the Board is publicly disclosed.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	Please refer to Comment under Item 3.7. The Board Member submits the Declaration of Independence and updates it as necessary.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds <sup>15</sup> . The general meeting of shareholders should approve the amount of such remuneration.	Yes	For the work in the Board, the independent member of the Board is remunerated from the Company's funds, with the amount of the remuneration approved by the General Meeting of Shareholders.
<b>Principle IV: The duties and liabilities of a collegial body elected by the general meeting of shareholders</b>		

<sup>15</sup> Notably, currently it is not yet completely clear in what form members of the supervisory council or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory council or the board may be remunerated for their work in the supervisory council or the board by payment of annual bonuses (*tantiemes*) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. So it seems that the Law does not prohibit remuneration to members of the supervisory council and the board work in other forms, besides *tantiemes*, although this possibility is not expressly stated either.

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general meeting of shareholders, and the powers granted to the collegial body should ensure effective monitoring <sup>16</sup> of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. <sup>17</sup>	Yes	According to the Articles of Association of the Company, the Board of the Company approves the Annual Report and analyses and evaluates the annual financial statements and a draft profit allocation statements and submits them, together with the approved Annual Report, to the General Meeting of Shareholders. The Board analyses and evaluates the reports on the results of the Company's economic activities and key financial and operating indicators, submitted by the Director General on an annual basis.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body pass a decision the independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information available to the Company, all the Board Members act in good faith for the benefit of the Company, and are guided by the interests of the Company and not by their private interests or by interests of any third parties, and are seeking to maintain independence in decision-making.

<sup>16</sup> See Footnote 3.

<sup>17</sup> See Footnote 3. In the event the collegial body elected by the general meeting of shareholders is the board, it should provide recommendations to the company's single-handed management body, i.e. the chief executive officer.



<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half<sup>18</sup> of the meetings of the collegial body in the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>Agreements on the functions of the Board Member are concluded with all Members of the Board, under which they all, including the independent member, undertake to devote sufficient time for the performance of such functions.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The principle of appropriate exercise of the shareholders' rights is binding upon the Board of the Company: the Group's governance system must enable appropriate exercise of property and non-property rights and securing legitimate interests of all the shareholders (majority and minority, domestic and foreign) in terms of both securing the rights and legitimate interests of the State of Lithuania as a shareholder in the Parent Company and subsidiaries and ensuring an equally effective representation of minority shareholders' rights and legitimate interests in those companies of the Group which have minority shareholders.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>The Board of the Company considers and approves agreements/contracts concluded with the Company's shareholder/shareholders holding more than 1% of the shares of the Company except for employment contracts and other agreements related to work in the Company as well as agreements containing standard terms and conditions (such as agreements on connection to the gas system, agreements on the natural gas transmission service, capacity bookings and other regulated activity transactions) approved by competent authorities.</p>

<sup>18</sup> Notably, companies can make this requirement more stringent by establishing that shareholders should be informed about a failure to participate in the meetings of the collegial body if, for instance, a member of the collegial body attended less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies<sup>19</sup>. Members of the collegial body should act and pass decisions without an external influence of persons who have elected them.</p> <p>Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned.</p>	<p>Yes</p>	<p>According to the Articles of Association of the Company, management bodies adopt decisions independently and within their remit conferred on them under the Lithuanian law and the Articles of Association. The bodies of the Company are fully liable for their decisions. In the decision-adoption process, the Company's management bodies must act for the benefit of the Company and its shareholders. The Guidelines establish the principle of the management and supervisory bodies' liability and accountability to the shareholders: the corporate governance system of the Group as well as the governance model selected are aimed at ensuring that management, supervisory and other bodies of all companies in the Group duly and timely perform their duties and functions and use their rights pro-actively while remaining fully accountable to the shareholders and acting in their legitimate interests, and maintaining an appropriate balance between the supervisory and management bodies of the Group.</p> <p>Agreements on the functions of the Board Member are concluded with all Members of the Board, under which they all, including the independent member, are provided with any means required for the performance of the functions.</p> <p>Provision of the Board Members with technical and organisational means required for the work at the Company is also established in the Articles of Association of the Company.</p>
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<sup>19</sup> In case if the board is a collegial body elected by the general meeting of shareholders, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees<sup>20</sup>. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	Yes	<p>Please refer to Comments under Items 2.5 and 3.4.</p> <p>The Supervisory Council of the Parent Company forms the Audit Committee and the Remuneration and Nomination Committee under the council.</p> <p>The Audit Committee is formed of at least 3 (three) members ensuring that at least two of them are independent members, and at least one of these is a certified auditor, and the other one appointed from among independent members of the Supervisory Council.</p> <p>The Remuneration and Nomination Committee is formed of at least 3 (three) members ensuring that at least 1 (one) of them is an independent member, and the other 2 (two) members are appointed from among the members of the Supervisory Council, and one of these is an independent member.</p>
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<sup>20</sup>The Law of the Republic of Lithuania on Audit (*Official Gazette*, 2008, No 82-53233) establishes that an Audit Committee shall be formed in each public interest entity (including but not limited to public companies the securities of which are traded in the regulated market of the Republic of Lithuania and/or any other Member State).

<p>4.8. The key objective of the committees is to increase the efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>Yes</p>	<p>The Audit Committee of the Parent Company performs the functions of the Company's Audit Committee.</p> <p>The Remuneration and Nomination Committee of the Parent Company acts as an advisory body of the Company, the main function of which is to assist in the selection of candidates for the members of the Group's management and supervisory bodies and to formulate the remuneration guidelines for the Group.</p> <p>It should be noted, however, that the Company's bodies adopt decisions independently, within their remit established in the Lithuanian law and the Articles of Association of the Company. In adopting decisions, the Company's bodies must act for the benefit of the Company and its shareholders.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory council, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.7.</p>

<p>4.10. Powers of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Powers of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.7.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.7.</p>

<p><b>4.12. Nomination Committee.</b></p> <p><b>4.12.1. Key functions of the nomination committee should be the following:</b></p> <p>1) Select and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. The nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</p> <p>2) Assess, on a regular basis, the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</p> <p>3) Assess, on a regular basis, the skills, knowledge and experience of individual directors and report on this to the collegial body;</p> <p>4) Devote sufficient attention to succession planning;</p> <p>5) Review the policy of the management bodies for selection and appointment of senior management.</p> <p><b>4.12.2. The nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general meeting of shareholders is the supervisory council) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</b></p>	<p><b>Not applica- ble</b></p>	<p><b>Please refer to Comment under Item 4.8.</b></p>
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<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <p>1) Make proposals to the collegial body for the policy of remuneration to members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</p> <p>2) Make proposals to the collegial body for remuneration to individual executive directors and members of management bodies in order to ensure that the remuneration is in line with the company's remuneration policy and the individuals' performance assessment. In doing so, the committee should be well informed about the total remuneration received by the executive directors and members of the management bodies from the affiliated companies;</p> <p>3) Ensure that the remuneration to individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;</p> <p>4) Review, on a regular basis, the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</p> <p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 4.8.</p>
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<p>disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider the general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as its consequences.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and attend the annual general meeting for this purpose.</p>		
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <p>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</p> <p>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</p> <p>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</p> <p>4) Make to the collegial body recommendations on the selection, appointment, reappointment and removal of the external auditor (to be done by the general meeting of shareholders) and on the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required action in such situations;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principles and guidelines established in Commission Recommendation 2002/590/EC of 16 May 2002, the committee</p>	<p>Yes</p>	<p>Please refer to Comment under Item 4.8.</p>
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<p>should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review the efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organisations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only an effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's working programme and furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the working programme of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished</p>		
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<p>information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should check whether the company complies with the applicable provisions regarding the possibility for employees to report any alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should carry out a self-assessment. The self-assessment should include evaluation of collegial body's structure, work organisation and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organisation and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	Yes	Please refer to Comment under Item 3.5.
<p><b>Principle V: The working procedures of the company's collegial bodies</b></p> <p>The working procedures of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</p>		

<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle V the collegial bodies of supervision and the collegial bodies of management collectively referred to as the 'collegial bodies') should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	Yes	<p>Activities of the Board are governed by the Regulations of the Board. The meetings of the Board are chaired by the Chairman of the Board. The Company provides all the resources necessary for proper organisation of meetings of the Board.</p>
<p>5.2. It is recommended that meetings of the company's collegial bodies should be convened at appropriate intervals according to the schedule approved in advance. A company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory council should be convened at least once in a quarter, and the company's board should meet at least once a month.<sup>21</sup></p>	Yes	<p>To secure the uninterrupted resolution of the essential Company's governance issues, the meetings of the Board are convened on a regular basis. The Board holds meetings according to a pre-approved schedule of the meetings Board, normally once in a month.</p>
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	Yes	<p>The members of the Board receive information about the meeting being convened, the agenda of the meeting and all materials relevant to the agenda items well in advance in order to leave enough time for a proper preparation for the meeting on all the agenda items and ensure a fruitful discussion, with a view to adopting appropriate decisions.</p>

<sup>21</sup> The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory council. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory council, i. e. at least once in a quarter.

<p>5.4. In order to co-ordinate activities of the company's collegial bodies and ensure an effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory council, especially where issues concerning removal of the board members, their liability or remuneration are considered.</p>	<p>Not applicable</p>	<p>A Supervisory Council is not formed in the Company.</p>
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b></p> <p>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</p>		

6.1. It is recommended that the company's capital should consist only of the shares that grant equal rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's authorised capital consists of ordinary registered shares which grant equal rights to all the shareholders of the Company.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general meeting of shareholders <sup>22</sup> . All shareholders should have equal opportunities for familiarizing themselves with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	The remit of the Company's General Meeting of Shareholders and Board of Directors is governed by the Law on Companies and the Articles of Association of the Company. In accordance with the Company's Articles of Association, decisions on concluding important transactions are taken by the General Meeting of Shareholders.
6.4. Procedures for convening and conducting a general meeting of shareholders should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	Procedures for the convening and conducting the General Meetings of Shareholders are governed by the Law on Companies and the Articles of Association of the Company. Shareholders have equal rights to attend the meeting and exercise their property and non-property rights.

<sup>22</sup> The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-term assets accounting for more than 1/20 of the company's authorised capital to the competence of the general meeting of shareholders. However, transactions that are important and material for the company's activity should be considered and approved by the general meeting of shareholders. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of Article 34(4) of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

<p>6.5. Where possible, in order to ensure that shareholders living abroad have access to information, it is recommended that documents on the course of the general meeting of shareholders should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to secure the right of foreigners to familiarise with the information, where feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's trade secrets are not revealed.</p>	<p>Yes</p>	<p>The right of shareholders living abroad to access to information is ensured on the Company's website <a href="http://www.ambergrid.lt">www.ambergrid.lt</a> and through the informational system of the NASDAQ Vilnius Stock Exchange, by publishing in advance, in Lithuanian and English, the date and venue of the General Meeting of Shareholders, the record date of the meeting, the agenda of the meeting and draft resolutions. After the meeting, the resolutions adopted are published in the same manner.</p>
<p>6.6. Shareholders should be provided with the opportunity to vote in the general meeting of shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>The shareholders of the Company may exercise their right to participate in the General Meeting of Shareholders either in person or through a proxy, provided that the proxy holds an appropriate power of attorney or is a party to the agreement on the cession of the voting right. The Company also provides its shareholders with an opportunity to vote in writing in advance.</p>
<p>6.7. With a view to increasing the shareholders' opportunities for attending shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>Not applicable</p>	<p>Considering the ownership structure of the Company and the valid Regulations for Organising the General Meetings of Shareholders, there is no need to implement any additional expensive IT system.</p>
<p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b></p> <p>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</p>		



7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Board follow the provisions of this recommendation. The Company is not aware of any cases when any personal interests of the Board Members were in conflict with the interests of the Company.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general meeting of shareholders or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The Regulations of the Board state that the member of the Board or his/her proxy shall abstain from voting when decisions concerning his/her activity in the Board or his/her liability is voted at the meeting of the Board.
<b>Principle VIII: Company's remuneration policy</b>  Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		



<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p>	<p>No</p>	<p>For the year 2017, the Company has not prepared the Company's remuneration statement in full compliance with the recommendations of this Code. Following the decision of the Company's Board of 31 October 2017, the Company joined the Transparency and Communication Policy of the companies' group EPSO-G, and starting from 2018 it will publish its report for remuneration policy corresponding to the recommendation of this Code. The system of remuneration of the Board Members – Executive Directors including the Director General has been set having regard to the regulation of pay to CEOs of state-controlled companies and in accordance with the Management Remuneration Policy of the Company.</p> <p>Remuneration to an independent member of the Board is fixed by the General Meeting of Shareholders and disclosed in the Annual Report. The amount is set according to the guidelines of the Parent Company.</p>
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	<p>No</p>	<p>Please refer to Comment under Item 8.1.</p>

<p>8.3. A remuneration statement should include at least the following information:</p> <ol style="list-style-type: none"> <li>1) Explanation of the ration between the variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>4) An explanation of the methods applied in order to determine whether performance criteria have been fulfilled;</li> <li>5) Sufficient information on the periods of deferral of payment of the variable components of remuneration;</li> <li>6) Sufficient information on the link between the remuneration and performance;</li> <li>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>8) Sufficient information on the policy regarding termination payments/service benefits;</li> <li>9) Sufficient information with regard to vesting periods for share-based remuneration under point 8.15 of this Code;</li> <li>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</li> <li>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>13) The remuneration statement should not include commercially sensitive information.</li> </ol>	<p>No</p>	<p>Please refer to Comment under Item 8.1.</p>
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<p>8.4. The remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>Ne</p>	<p>Please refer to Comment under Item 8.1.</p>
<p>8.5. The remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general meeting of shareholders;</li> <li>• The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>• The 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;</li> <li>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li> <li>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation</li> </ul>	<p>Ne</p>	<p>Please refer to Comment under Item 8.1.</p>

<p>from the office during the previous financial year;</p> <ul style="list-style-type: none"> <li>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ul> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</li> <li>• 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;</li> <li>• All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ul> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</li> </ul> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the</p>		
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company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	The fixed component is sufficient for the fact that the Company might be able not to pay variable component of remuneration in case the results of the evaluation criteria are not satisfied
8.7. Assigning of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	The assignment of the variable component of remuneration to the Executive Directors of the Company depends on the achievement of the measurable targets set in the Annual Operating Plan of the Company.

8.8. Where a variable component of remuneration is assigned, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	Payment of the variable component of the remuneration is deferred until the results are approved.
8.9. Contractual arrangements with executive or Director Generals should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	Please refer to Comment under Item 8.1.
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	
8.11. Termination payments/service benefits should not be paid if the office was terminated due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Not applicable	Please refer to Comment under Item 8.1.
8.13. In the case of share-based remuneration, shares should not be vested for at least three years after their award.	Not applicable	The Company does not apply share-based remuneration.

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 of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	Please refer to Comment under Item 8.13.
8.15. After vesting, directors should retain a number of shares, until the end of their term of office, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (non-variable plus the variable components).	Not applicable	Please refer to Comment under Item 8.13.
8.16. Remuneration of non-executive directors and members of the supervisory council should not include share options.	Not applicable	Please refer to Comment under Item 8.1.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and vote on matters regarding directors' remuneration.	Yes  No	The amount of remuneration to the independent member of the Board is determined by the General Meeting of Shareholders.  In accordance with the Articles of Association of the Company, matters related to the setting of remuneration to the Director General are decided by the Board.
8.18. Without prejudice to the role and organisation of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. The remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	Please refer to Comment under Item 8.1.

<p>8.19. Schemes for share-based remuneration to directors, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made at the annual general meeting of shareholders. In such case shareholders should be informed about all terms of suggested changes and get an explanation about the impact of the suggested changes.</p>	<p>Not applicable</p>	<p>At present the Company does not use such remuneration schemes.</p>
<p>8.20. The following issues should be subject to approval by the annual general meeting of shareholders:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permitted by law;</li> <li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.</li> </ol> <p>The annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this point to individual directors.</p>		<p>Such issues were not considered by the General Meeting of Shareholders as this is not provided for by the Articles of Association of the Company. At present the Company does not use such remuneration schemes. Please refer to Comment under Item 8.1 as well.</p>



<p>8.21. If permitted by the national law or the Articles of Association of the 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 prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	<p>Not applicable</p>	
<p>8.22. Provisions of points 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	<p>Not applicable</p>	
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Item 8.19, the shareholders must be provided an opportunity to familiarise with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the</p>	<p>Not applicable</p>	<p>Please refer to Comment under Item 8.19.</p>

participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information provided in this item must be posted on the company's website.		
<b>Principle IX: The role of stakeholders in corporate governance</b>		
The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the term "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having a certain interest in the company concerned.		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The compliance with this recommendation is ensured by the meticulous supervision and control of the Company's business activities by the state regulatory authorities and associated consumer organisations. The publicity of the Company's business activities enables the stakeholders' participation in the corporate governance in accordance with the procedure established by law and the Company's Articles of Association and internal regulations. The governing bodies consult the employees on the issues of corporate governance and other important issues; the employees' participation in the Company's share capital is not restricted.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
<b>Principle X: Information disclosure and transparency</b>		
The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		

<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> <li>1) Financial and operating results of the company;</li> <li>2) Objectives of the company;</li> <li>3) Persons owning or controlling a shareholding in the company;</li> <li>4) Members of the company's supervisory and management bodies and the chief executive officer of the company and their remuneration;</li> <li>5) Material foreseeable risks;</li> <li>6) The company's transactions with related parties as well as transactions concluded not as usual business of the company;</li> <li>7) Material issues regarding employees and other stakeholders;</li> <li>8) Governance structures and strategy.</li> </ol> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to the disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in 1) of Item 10.1 is under disclosure.</p>	<p>Yes</p>	<p>The information contained in the recommendation is published on the Company's website <a href="http://www.ambergrid.lt">www.ambergrid.lt</a>, and through the informational system of the NASDAQ Vilnius Stock Exchange and press releases.</p>
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<p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in 4) of Item 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p>		
<p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in 7) of Item 10.1 is under disclosure.</p>		
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	<p>The Company discloses information through the information disclosure system applied by the NASDAQ Vilnius Stock Exchange, in Lithuanian and English thus ensuring the provision of information to all stakeholders. Information that may affect the price of securities issued by Company is treated as strictly confidential, therefore, it is not disclosed until it published through the information system according to a procedure prescribed by law.</p>

10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company discloses all the information designated to shareholders and investors simultaneously and in the same scope in Lithuanian and English through the information system of the NASDAQ Vilnius Stock Exchange, and publishes the information in full on the Company's website <a href="http://www.ambergrid.lt">www.ambergrid.lt</a> . In this way, an unbiased and inexpensive access to information is ensured.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be posted on the company's website. It is also recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website.	Yes	The Company follows this recommendation and information has been placed on the Company's website <a href="http://www.ambergrid.lt">www.ambergrid.lt</a>
<b>Principle XI: The selection of the company's auditor</b>		
<b>The mechanism of the selection of the company's auditor should ensure independence of the audit firm's conclusion and opinion.</b>		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent audit firm in order to provide an external and objective opinion on the company's financial statements.	Yes	An independent audit firm conducts the audit of the Company and its annual financial statements and assesses the conformity of the Annual Report with the financial statements.
11.2. It is recommended that the company's supervisory council and, if it has not been formed, the company's board should propose a candidate audit firm to the general meeting of shareholders.	Yes	A candidate audit firm is proposed to the general meeting of shareholders by the Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the audit firm for non-audit services rendered to the company. This information should be also known to the company's supervisory council and, if it has not been formed, the company's board upon their consideration which audit firm to propose for the general meeting of shareholders.	Yes	The audit firm informs the Audit Committee, on an annual basis, about non-audit services provided to the company. Such information is also provided to the Board.