

# AB AMBER GRID

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014  
PREPARED ACCORDING TO  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION  
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT



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Juridinio asmens kodas 110878442  
PVM mokėtojo kodas LT108784411  
Juridinių asmenų registras

Code of legal entity 110878442  
VAT payer code LT108784411  
Register of Legal Entities

## Independent auditor's report to the shareholders of AB Amber Grid

### Report on Financial Statements

We have audited the accompanying financial statements of Amber Grid AB, a public limited liability company registered in the Republic of Lithuania (hereinafter “the Company”), which comprise the statement of financial position as of 31 December 2014, the statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

### *Management's Responsibility for the Financial Statements*

The Company's management is responsible for the preparation and fair presentation of these 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Basis for Qualified Opinion*

On 5 March 2014 we expressed a modified opinion on the financial statements of the Company for the year 2013 due to the fact that we were not able to quantify impairment needed for property, plant and equipment due to significant assumptions involved related to changes in the gas sector and regulatory environment in coming years. The Company performed an assessment of recoverable value of its property plant and equipment as of 31 December 2014 and as a result accounted for an impairment charge of LTL 490 million in the income statement for the year 2014. The Company did not re-perform an impairment test of its property, plant and equipment for prior period. Therefore we were unable to assess what part of this impairment should be accounted for in the prior period and the possible impact on results and changes in equity for the year 2014 and the comparability of the figures of the current period and the year 2013.

### *Qualified Opinion*

In our opinion, except for the effects of the matter described in section *Basis for Qualified Opinion* above, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2014 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2014.

UAB ERNST & YOUNG BALTIC  
Audit company's license No. 001335

A handwritten signature in blue ink, appearing to read 'Asta Štreimikienė', with a horizontal line extending to the right.

Asta Štreimikienė  
Auditor's licence  
No. 000382

The audit was completed on 17 March 2015.

**AB AMBER GRID, company code 303090867, Savanorių pr. 28, Vilnius, Lithuania**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**  
(all amounts are in LTL thousand unless otherwise stated)

## Statement of financial position

		Notes	As at 31 December 2014	As at 31 December 2013
<b>ASSETS</b>				
<b>A.</b>	<b>Non-current assets</b>		<b>1,102,410</b>	<b>1,583,740</b>
I.	Intangible assets	5	2,253	1,679
II.	Property, plant and equipment	6	1,099,733	1,581,582
II.1.	Land		389	387
II.2.	Buildings and structures		802,670	1,320,544
II.2.1.	Buildings		23,045	27,898
II.2.2.	Transmission networks and related installations		760,401	1,271,669
II.2.3.	Distribution networks and related installations		370	379
II.2.4.	Other buildings and structures		18,854	20,598
II.3.	Machinery and equipment		218,961	230,417
II.4.	Vehicles		4,713	5,172
II.5.	Other equipment, tools and devices		12,945	13,845
II.6.	Other property, plant and equipment		758	886
II.7.	Construction in progress		59,297	10,331
III.	Non-current financial assets		424	479
III.1.	Investment into joint venture	1	424	479
<b>B.</b>	<b>Current assets</b>		<b>186,535</b>	<b>165,187</b>
I.	Inventories and prepayments		24,674	26,862
I.1.	Inventories	7	24,434	26,714
I.1.1.	Raw materials, spare parts and other inventories		4,469	4,541
I.1.2.	Natural gas		19,947	22,173
I.1.3.	Assets held for sale		18	-
I.2.	Prepayments		240	148
II.	Accounts receivable	8	105,475	73,302
II.1.	Trade receivables		23,676	16,169
II.2.	Other receivables		81,799	57,133
III.	Prepaid income tax		-	-
IV.	Other current assets	9	50,466	45,305
V.	Cash and cash equivalents	10	5,920	19,718
<b>Total assets</b>			<b>1,288,945</b>	<b>1,748,927</b>

*(cont'd on the next page)*

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





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Statement of financial position (cont'd)

		Notes	As at 31 December 2014	As at 31 December 2013
<b>EQUITY AND LIABILITIES</b>				
<b>C.</b>	<b>Equity</b>		<b>816,986</b>	<b>1,208,560</b>
I.	Share capital	1	178,382	178,382
II.	Reserves	11	1,015,111	1,015,111
II.1.	Legal reserve		17,838	17,838
II.2.	Other reserves		997,273	997,273
III.	Retained earnings		(376,507)	15,067
<b>D.</b>	<b>Liabilities</b>		<b>471,959</b>	<b>540,367</b>
I.	Non-current liabilities		268,126	374,872
I.1.	Non-current borrowings	12	90,035	135,118
I.2.	Grants (deferred revenue)	13	151,356	131,072
I.3.	Non-current employee benefits	14	1,572	1,131
I.4.	Deferred income tax liability	19	25,163	107,551
II.	Current liabilities		203,833	165,495
II.1.	Current financial liabilities	12	-	-
II.2.	Current portion of non-current borrowings	12	45,083	45,083
II.3.	Current portion of employee benefits	14	296	260
II.4.	Trade payables	15	40,020	12,673
II.5.	Income tax payable		3,566	1,388
II.6.	Payroll related liabilities		2,525	2,224
II.7.	Other payables and current liabilities	16	112,343	103,867
<b>Total equity and liabilities</b>			<b>1,288,945</b>	<b>1,748,927</b>

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



General Manager	Saulius Bilys		17 March 2015
Chief Accountant	Dzintra Tamulienė		17 March 2015

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**Income statement**

			Period of 5 months ended on 31 December 2013	
		Notes	2014	December 2013
<b>I.</b>	<b>Revenue</b>	17	<b>178,823</b>	<b>74,101</b>
<b>II.</b>	<b>Expenses</b>		<b>(646,365)</b>	<b>(70,574)</b>
II.1.	Cost of natural gas		(22,189)	(8,012)
II.2.	Depreciation and amortization	5, 6	(75,914)	(32,221)
II.3.	Payroll and related social security tax expenses		(24,943)	(10,314)
II.4.	Repair and technical maintenance expenses		(21,573)	(14,860)
II.5.	Taxes, other than income tax		(5,047)	(1,959)
II.6.	Impairment of property, plant and equipment	4	(490,079)	-
II.7.	Other expenses		(6,620)	(3,208)
<b>III.</b>	<b>Profit (loss) from operations</b>		<b>(467,542)</b>	<b>3,527</b>
<b>IV.</b>	<b>Financial activity</b>	18	<b>(2,051)</b>	<b>(1,102)</b>
IV.1.	Income		168	63
IV.2.	Expense		(2,219)	(1,165)
<b>V.</b>	<b>Profit (loss) before income tax</b>		<b>(469,593)</b>	<b>2,425</b>
<b>VI.</b>	<b>Income tax</b>	19	<b>78,019</b>	<b>2,646</b>
VI.1.	Current period income tax		(4,370)	(1,388)
VII.2.	Deferred income tax		82,389	4,034
<b>VII.</b>	<b>Net profit (loss)</b>		<b>(391,574)</b>	<b>5,071</b>
	Basic and diluted earnings per share (LTL)	20	(2.20)	0.03

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

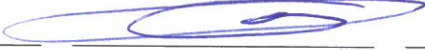

General Manager	Saulius Bilys		17 March 2015
Chief Accountant	Dzintra Tamulienė		17 March 2015

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## Statement of comprehensive income

	2014	Period of 5 months ended on 31 December 2013
<b>I. Net profit (loss)</b>	<b>(391,574)</b>	<b>5,071</b>
<b>II. Other comprehensive income</b>	-	-
II.I. Income to be transferred to income statement	-	-
II.II. Income not to be transferred to income statement	-	-
<b>III. Total comprehensive income (loss)</b>	<b>(391,574)</b>	<b>5,071</b>

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



General Manager	Saulius Bilys		17 March 2015
Chief Accountant	Dzintra Tamulienė		17 March 2015

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## Statement of changes in equity

	Share capital	Legal reserve	Other reserves	Retained earnings	Total
<b>As at 31 July 2013</b>	<b>178,382</b>	<b>17,838</b>	<b>997,273</b>	<b>9,996</b>	<b>1,203,489</b>
Total comprehensive income	-	-	-	5,071	5,071
<i>Net profit for the year</i>	-	-	-	5,071	5,071
<b>As at 31 December 2013</b>	<b>178,382</b>	<b>17,838</b>	<b>997,273</b>	<b>15,067</b>	<b>1,208,560</b>
Total comprehensive income	-	-	-	(391,574)	(391,574)
<i>Loss for the year</i>	-	-	-	(391,574)	(391,574)
<b>As at 31 December 2014</b>	<b>178,382</b>	<b>17,838</b>	<b>997,273</b>	<b>(376,507)</b>	<b>816,986</b>

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

General Manager	Saulius Bilys		17 March 2015
Chief Accountant	Dzintra Tamulienė		17 March 2015

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**Statement of cash flows**

	Notes	2014	Period of 5 months ended on 31 December 2013
<b>I. Cash flows from (to) operating activities</b>			
I.1. Net profit (loss)		(391,574)	5,071
<b>Adjustments of non-cash items and other corrections:</b>			
I.2. Depreciation and amortisation	5, 6	80,413	32,221
I.3. Loss from disposal of property, plant and equipment, and write-off of doubtful trade accounts receivable and inventories		(7)	1
I.4. Impairment losses for property, plant and equipment, financial assets, allowance for doubtful trade accounts receivable and inventories	4	490,116	(59)
I.5. Income tax (benefit)	19	(78,019)	(2,646)
I.6. Interest (income)	18	(78)	(12)
I.7. Interest expenses	18	2,162	1,172
I.8. (Amortisation) of grants (deferred revenue)		(4,623)	(1, 428)
I.9. Elimination of other non-cash items		533	223
		<b>98,923</b>	<b>34,543</b>
<b>Changes in working capital:</b>			
I.10. Decrease in inventories	7	2,324	243
I.11. (Increase) in trade accounts receivable	8	(7,500)	(7,792)
I.12. (Increase) in other accounts receivable and prepayments		(4,506)	(17,930)
I.13. (Decrease) increase in trade accounts payable		(17)	4,004
I.14. Increase in other accounts payable and other current liabilities		8,777	38,155
I.15. (Increase) in other financial assets		(5,162)	(18,002)
I.16. Income tax (paid)		(1,370)	-
<b>Total changes in working capital</b>		<b>(7,454)</b>	<b>(1,322)</b>
<b>Net cash flows from operating activities</b>		<b>91,469</b>	<b>33,221</b>
<b>II. Cash flows from (to) investing activities</b>			
II.1. (Acquisition) of property, plant and equipment and intangible assets	5, 6, 21	(60,449)	(39,038)
II.2. Receipts from disposal of property, plant and equipment and intangible assets		12	-
II.3. Interest received		78	12
<b>Net cash flows (to) investing activities</b>		<b>(60,359)</b>	<b>(39,026)</b>

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

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Statement of cash flows (cont'd)

	Notes	2014	Period of 5 months ended on 31 December 2013
<b>III. Cash flows from (to) financing activities</b>			
III.1. Loans (repaid)	12	(45,083)	(1,072)
III.2. Grants received	13, 21	2,701	15,625
III.3. Interest (paid)		(2,526)	(1,172)
<b>Net cash flows from (to) financing activities</b>		<b>(44,908)</b>	<b>13,381</b>
<b>IV. Net increase (decrease) in cash and cash equivalents</b>		<b>(13,798)</b>	<b>7,576</b>
<b>V. Cash and cash equivalents at the beginning of the year</b>		<b>19,718</b>	<b>12,142</b>
<b>VI. Cash and cash equivalents at the end of the year</b>		<b>5,920</b>	<b>19,718</b>

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

General Manager	Saulius Bilys		17 March 2015
Chief Accountant	Dzintra Tamulienė		17 March 2015



## Notes to the financial statements

### 1 General information

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

Savanorių pr. 28  
LT- 03116, Vilnius  
Lithuania

AB Amber Grid was incorporated by a decision of the General Meeting of Shareholders of AB Lietuvos Dujos on 11 June 2013 following the requirements of the legal acts of the Republic of Lithuania to unbundle natural gas transmission activities. The unbundling conditions of AB Lietuvos Dujos were approved and it was decided to unbundle natural gas transmission activities with the assets, rights and obligations attributed thereto from AB Lietuvos Dujos, which continue operations.

The Company was registered on 25 June 2013 after unbundling natural gas transmission activities with the assets, rights and obligations attributed thereto from AB Lietuvos Dujos. The Company has actually been operating since 1 August 2013 as the National Commission for Energy Control and Prices (hereinafter, NCC) granted a license to the Company to engage in natural gas transmission. As unbundling is treated as transaction under common control and the Company's operations is a continuation of the same activities as within AB Lietuvos Dujos, all assets and liabilities so transferred were initially recognised by the Company at the carrying amounts accounted for by the transferor (i.e. AB Lietuvos Dujos) at the time of transfer.

The establishment of AB Amber Grid was implemented as legal, organizational and functional natural gas transmission unbundling. In order to fully comply with the requirements of Chapter 8 of the Law on Natural Gas of the Republic of Lithuania, AB Amber Grid control separation had to be implemented by 1 August 2014. The decision to implement separation of the Company's control was adopted by the Company's shareholders, as described below.

Natural gas transmission is licensed activity. the National Commission for Energy Control and Prices (hereinafter, NCC) issued a licence to the Company to operate natural gas transmission system from 1 August 2013. The natural gas transmission service pricing system is subject to regulation. Regulated price caps are set by NCC

According to the Law on Natural Gas of the Republic of Lithuania and implementing regulations, in 20 October in 2014 the Company applied to NCC for a conclusion about the loss of the Law on Natural Gas prohibition control. On 13 January 2015 NCC stated that AB Amber Grid transmission activity is consistent with the provisions of the Law on Natural Gas and AB Amber Grid can be appointed as the transmission system operator. Subject to receipt of a positive decision from the European Commission, NCC will decide on the Company's certification and issuing a termless license to carry out the activities of the transmission system operator.

The Company has been operating since 1 August 2013. The financial statements reflect the 5 month period ended on 31 December 2013. Activities until 1 August 2013 were immaterial.

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

- natural gas transmission and transit via trunk gas pipelines in Lithuania;
- balancing natural gas transmission system;
- administration of funds for the compensation of liquefied natural gas terminal (hereinafter, LNGT), its infrastructure and connector installation and operation costs.

Clients of the Company are large (electricity, central heating, industrial) and medium Lithuanian business enterprises, natural gas supply companies that are provided with natural gas transmission services.

**1 General information (cont'd)**

At the end of 2014 the Company had entered into 59 (87 in 2013) natural gas transmission service agreements with the natural gas transmission system users (consumers of natural gas, natural gas distribution system operators, natural gas companies, which supply gas to downstream systems). The Company also signed 12 natural gas balancing contracts with natural gas supply companies that trade in natural gas but not transport it through the transmission system.

The share capital of the Company is LTL 178,382,514. All the shares of the Company are ordinary registered shares with the par value of LTL 1 each and were fully paid as at 31 December 2014 and 2013. The Company did not hold its own shares. Starting from 1 August 2013 the Company's shares are traded at the stock exchange and are listed on the secondary list of NASDAQ OMX Vilnius Stock Exchange (ISIN code LT0000128696, instruments AMG1L).

As at 31 December 2014 the shareholders of the Company were as follows:

	Number of shares held	Percentage of ownership (%)
UAB EPSO – G (code 302826889 A. Juozapavičiaus 13, Vilnius)	172,279,125	96.58
Other shareholders	6,103,389	3.42
	<u>178,382,514</u>	<u>100.00</u>

In the 2nd quarter of 2014 two former major shareholders of the Company sold their shares and lost their voting rights in the Company:

- On 21 May 2014 E.ON Ruhrgas International GmbH sold and UAB EPSO-G acquired 69,416,233 ordinary registered uncertificated shares of AB Amber Grid;
- On 19 June 2014 after mandatory official offer OAO Gazprom sold and UAB EPSO-G acquired 66,112,761 ordinary registered uncertificated shares of AB Amber Grid.
- On 21 February 2014 Ministry of Energy of the Republic of Lithuania, has transferred 31.575.724 ordinary registered uncertificated shares of Amber Grid to UAB EPSO-G by increasing UAB EPSO-G share capital.

100 % of UAB EPSO-G shares that all belong to the Republic of Lithuania, are controlled by the Ministry of Energy of the Republic of Lithuania.

As at 31 December 2013 the shareholders of the Company were as follows:

	Number of shares held	Percentage of ownership (%)
E.ON Ruhrgas International GmbH	69,416,233	38.9
OAO Gazprom	66,112,761	37.1
Ministry of Energy of the Republic of Lithuania	31,575,724	17.7
Other shareholders	11,277,796	6.3
	<u>178,382,514</u>	<u>100.0</u>

After UAB EPSO-G acquired the control of AB Amber Grid, based on the decisions of the Company's Extraordinary General Meeting of Shareholders of 30 June 2014 and pursuant to a change in the composition of Company's Board, the Company's operations and property were separated from companies engaged in the production and supply of natural gas.

## 1 General information (cont'd)

The Company's investment into the company UAB GET Baltic jointly controlled with AB Lietuvos Dujos and the Finnish gas company Gasum Oy is accounted for in the Company's financial statements based on the equity method. The financial statements of UAB GET Baltic for the year ended 31 December 2014 and 2013 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter the EU). During 2014 and 2013 the operating result of joint arrangement was insignificant and was included in the financial activities.

UAB GET Baltic data as at 31 December 2013 and 2014:

Year	Address of registered office	Part of shares controlled by the Company (%)	Share capital	Current year (loss) attributable to the Company	Current year equity attributable to the Company	Main activity
2014	Aguonų g. 24, Vilnius	32	2,000	(56)	399	Licensed natural gas market operator – arranges trading on the Natural Gas Exchange
2013	Aguonų g. 24, Vilnius	32	2,000	(161)	455	Licensed natural gas market operator – arranges trading on the Natural Gas Exchange

UAB Get Baltic in 31 December in 2013 and 2014 condensed statement of financial position:

	2014	Period of 5 months ended on 31 December 2013
<b>ASSETS</b>		
<b>A. Non-current assets</b>	<b>653</b>	<b>740</b>
I. Intangible assets	650	735
II. Property, plant and equipment	3	5
<b>B. Current assets</b>	<b>13,147</b>	<b>59,605</b>
I. Prepayment	-	1
II. Accounts receivable	5,743	57,080
III. Cash and cash equivalents	7,404	2,524
<b>Total Assets</b>	<b>13,800</b>	<b>60,345</b>
<b>EQUITY AND LIABILITIES</b>		
<b>C. Equity</b>	<b>1,248</b>	<b>1,422</b>
I. Share capital	2,000	2,000
II. Reserves	-	-
III. Cumulative loss	(752)	(578)
<b>D. Liabilities</b>	<b>12,552</b>	<b>58,923</b>
I. Non-current liabilities	-	-
II. Current liabilities	12,552	58,923
<b>Total Equity and Liabilities</b>	<b>13,800</b>	<b>60,345</b>

## 1 General information (cont'd)

UAB Get Baltic income statement for 2013 and 2014:

	2014	2013
I. Total income	520	346
II. Total expenses	(694)	(848)
III. Profit (loss) before tax	(174)	(502)
IV. Income tax	-	-
V. Net profit (loss)	(174)	(502)

UAB Get Baltic statement of comprehensive income for 2013 and 2014:

	2014	2013
I. Net profit (loss)	(174)	(502)
II. Other comprehensive income	-	-
II.I. Income to be transferred to income statement	-	-
II.II. Income not to be transferred to income statement	-	-
III. Total comprehensive income (loss)	(174)	(502)

The average number of employees of the Company was 352 in 2014 (in 2013 – 347).

The management of the Company approved these financial statements on the 17 of March 2015. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

## 2 Accounting principles

The basic principles of accounting policies adopted in preparing the Company's financial statements for the year 2014 are as follows:

### 2.1. Basis of preparation

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

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

The following new and/or amended IFRSs have been adopted by the Company as of 1 January 2014:

- IAS 27 Separate Financial Statements (Amended);
- IAS 28 Investments in Associates and Joint Ventures (Amended);
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities;
- IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets;
- IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting;
- IFRS 12 Disclosures of Interests in Other Entities;
- IFRS 10, IFRS 12 and IAS 27 - Investment Entities (Amended).

## 2 Accounting principles (cont'd)

### 2.1. Basis of preparation (cont'd)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

- **Amendment to IAS 27 *Separate Financial Statements*** - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The amendment did not have any impact on the financial statements of the Company.
- **Amendment to IAS 28 *Investments in Associates and Joint Ventures*** - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The amendment did not have any impact on the financial statements of the Company.
- **Amendment to IAS 32 *Financial Instruments: Presentation*** - Offsetting Financial Assets and Financial Liabilities - This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment did not have any impact on the financial statements of the Company.
- **Amendment to IAS 36 *Impairment of Assets*** - This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial statements of the Company.
- **Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*** - The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The amendment did not have any impact on the financial statements of the Company.
- **IFRS 10 *Consolidated Financial Statements*** - IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The amendment did not have any impact on the financial position or operating results of the Company, because the Company does not have other investments, than investments in jointly controlled entities.
- **IFRS 12 *Disclosures of Interests in Other Entities*** - IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial statements of the Company because there was no significant judgment involved.

**Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities*** - The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment did not have any impact on the financial statement of the Company.

## 2 Accounting principles (cont'd)

### 2.1. Basis of preparation (cont'd)

#### *Standards issued but not yet effective*

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

**Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative*** (effective for financial years beginning on or after 1 July 2016, once endorsed by the EU)

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Company has not yet evaluated the impact of the implementation of this standard.

**Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization*** (effective for financial years beginning on or after 1 July 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial position or performance of the Company, as the Company does not use revenue-based depreciation and amortisation methods.

**Amendments to IAS 19 *Employee Benefits*** (effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Company's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Company.

**Amendments to IAS 27 *Equity method in separate financial statements*** (effective for financial years beginning on or after 1 June 2016, once endorsed by the EU)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Company has not yet evaluated the impact of the implementation of this standard.

**IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. The Company has not yet evaluated the impact of the implementation of this standard.

**Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception*** (effective for financial years beginning on or after 1 June 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The implementation of this amendment will have no impact on the financial statement of the Company, as the Company is not an investment entity.



## 2 Accounting principles (cont'd)

### 2.1. Basis of preparation (cont'd)

**Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (effective for financial years beginning on or after 1 June 2016, once endorsed by the EU)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Company has not yet evaluated the impact of the implementation of this standard.

**Amendment to IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations** (effective for financial years beginning on or after 1 June 2016, once endorsed by the EU)

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Company has not yet evaluated the impact of the implementation of this standard.

**IFRS 14 Regulatory Deferral Accounts** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The implementation of this standard will not have any impact on the financial statements of the Company.

**IFRS 15 Revenue from Contracts with Customers** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The management of the Company has not yet evaluated the impact of the implementation of this standard.

### Improvements to IFRSs

In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015):

- IFRS 1 *First-time adoption of IFRS*;
- IFRS 3 *Business Combinations*;
- IFRS 13 *Fair value Measurement*;
- IAS 40 *Investment property*.

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments*;
- IFRS 13 *Fair value Measurement*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures*;
- IAS 38 *Intangible Assets*.

## 2 Accounting principles (cont'd)

### 2.1. Basis of preparation (cont'd)

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting*.

The adoption of these amendments may result in changes to accounting policies or disclosures of the Company but will not have any impact on the financial position or performance of the Company.

**IFRIC Interpretation 21 Levies** (effective for financial years beginning on or after 17 June 2014)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Company has not yet evaluated the impact of the implementation of this interpretation.

The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

### 2.2. Measurement and presentation currency

The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, litas (LTL).

Starting from 2 February 2002, Lithuanian litas is pegged to EUR at the rate of 3.4528 LTL for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

These financial statements are prepared under the historical cost basis.

Due to rounding of particular amounts to LTL thousands, figures in tables may not coincide. Such rounding deviations in these financial statements are immaterial.

### 2.3. Investment in a joint venture

The Company has an interest in a joint venture UAB GET Baltic, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Company recognizes its interest in the joint venture using the equity method. Applying the equity method an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the jointly controlled entity. The profit or loss of the Company includes the Company's share of the profit or loss of the jointly controlled entity. The unrealized Company's gain or loss which originate due to transactions between the Company and joint venture is eliminated.

### 2.4. Intangible assets

Intangible assets of the Company are measured initially at cost. 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 useful lives of intangible assets are assessed to be either finite or indefinite.

## 2 Accounting principles (cont'd)

### 2.4 Intangible assets (cont'd)

After initial recognition, intangible assets with finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives (4 years). 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 licenses used in main activities of the Company.

The Company does not have any intangible assets with indefinite useful live.

### 2.5. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Borrowing costs are capitalized on qualifying assets, which creation lasts for more than three months and value is greater than LTL 500 000. While determining the amount of borrowing costs eligible for capitalization of costs incurred in the acquisition of qualifying assets, capitalization rate is applied. Borrowing costs consist of interest and other loan-related borrowing incurred costs. Regarding the choice of the Company, loans for specific purposes shall not become general loans as the specific construction / acquisition is completed. Therefore, related borrowing costs shall not be capitalized further.

Likewise, when a major repair is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised as profit or loss as incurred.

When assets are sold or retired, their cost, accumulated depreciation and impairment losses are eliminated from the accounting, and any gain or loss resulting from their disposal is included in the income statement.

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

Buildings	25 - 60 years.
Transmission networks and related installations	55 years.
Distribution networks and related installations	55 years.
Machinery and equipment	5 - 20 years.
Other buildings and structures	15 - 19 years.
Vehicles	6 years.
Other equipment, tools and devices	4 - 9 years.
Other property, plant and equipment	4 - 9 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 as property, plant and equipment with unlimited useful life; therefore it is not depreciated.

Construction in progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

The Company assesses the value of property, plant and equipment whenever there is an indication that the property, plant and equipment may be impaired. An impairment loss is recognised in the income statement, whenever estimated.

## 2 Accounting principles (cont'd)

### 2.6. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" the Company's financial assets are classified as financial assets at fair value through 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 trade date. When financial assets are recognised initially, they are measured at fair value, plus (except for the financial assets at fair value through profit or loss) transaction costs.

#### 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 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 income 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 initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivables are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts and accounts receivable are derecognised (written-off) when they are assessed as uncollectible.

### 2.7. Derecognition of financial assets and liabilities

#### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a 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 Accounting principles (cont'd)

### 2.8. Inventories

Inventories of the Company, consisting of natural gas in pipelines and storage at the year-end and other inventories, are valued at the lower of cost or net realisable value. Cost of natural gas is determined on the basis of weighted average cost, and the cost of the remaining inventories is determined on the basis of the first-in, first-out (FIFO) method. Inventories that cannot be realised are written off.

### 2.9. Cash and cash equivalents

Cash includes cash 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.

### 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 capitalized interest (Note 2.11).

### 2.11. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Based on the decision of the Company specific borrowings do not become general borrowings after the construction/acquisition of the qualifying assets financed from the specific borrowing is completed and therefore related borrowing costs are not capitalised further.

### 2.12. Grants (deferred revenue)

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants.

Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognised as income in the financial statements over the period of depreciation of the assets associated with this grant and is included under the caption of income in the income statement, offset the depreciation of the related asset to grant income.

Payments received from customers for the connection to the Company's gas systems are accounted for as deferred revenue and recognised as income over the expected useful life of the related capitalised assets.

Until 1 July 2009 payments made by system users for connecting to the Company's gas system were accounted as deferred revenue and they were recognised as income during the depreciation period of the related capitalized asset. Since 1 July 2009 payments made by the system users are recognised as revenue at once.

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 grants related to income. 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.

The balance of unutilised grants is shown under caption of "Grants (deferred revenue)" in the statement of financial position.

## 2 Accounting principles (cont'd)

### 2.13. Non-current 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. The actuarial gains and losses are recognized in other comprehensive income in the period when incurred. They will not be reclassified to profit or loss in future periods.

The past service costs are recognized in the income statement immediately.

#### Other long-term employee benefits

The Company is paying benefits to its employees for the long work experience in the Company. Non-current obligation for employment benefit is recognised in the statement of financial position as the present value of defined benefit obligation at the date of the statement of financial position. Present value of defined benefit obligation 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 the similar maturity as the employment benefits.

### 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.

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

Starting from 1 January 2014 deductible tax losses carried forward can be used to reduce the taxable income 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 Accounting principles (cont'd)

### 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.

#### Financial lease

Finance leases that transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease. The Company recognises financial 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 financial lease is the interest rate implicit in the financial 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.

The depreciation is accounted for financial lease assets. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot be depreciated over a period longer than 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 benefits 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. Sales are recognised net of VAT and discounts.

Revenues from customers for the natural gas transmission service are recognised once a month based on the data presented by the Distribution System Operator on the natural gas quantities distributed to the system users connected to the distribution system and on the statements of transmitted natural gas signed by the Company with system users who are directly connected to the transmission system.

On 12 June 2012 the Seimas of the Republic of Lithuania adopted the Law on the Liquefied Natural Gas Terminal (hereinafter, LNGT) with its subsequent amendments (27/06/2013 amendments to articles 5, 10 and 11 No. XII-426 of the Law on Liquefied Natural Gas Terminal), which set forth that LNGT, its infrastructure and connector installation and operation may be financed by including its expenses in the price for the natural gas transmission service. Accordingly, on 9 October 2012 the National Commission for Energy Control and Prices (hereinafter, NCC) passed a Resolution No O3-294 on the Approval of the Procedure for the Administration of the Funds Allocated to the Installation and Operation Expenses of the Liquefied Natural Gas Terminal with its subsequent amendments (28/07/2014 NCC Resolution No O3-353; 2015/01/15 NCC Resolution No O3-4), its infrastructure and connector, which set forth the procedure for the administration of the above expenses. With its Resolution No O3-209 of 11 July 2014 Amending the Resolution No O3-106 of 8 August 2008 of NCC on the Approval of the Methodology for the Calculation of Price Caps on Natural Gas Transmission and Distribution, NCC set forth that funds allocated for the compensation of the expenses or a part thereof from natural gas terminal, its infrastructure and connector

## 2 Accounting principles (cont'd)

### 2.16. Revenue recognition (cont'd)

installation may be established as a secondary and integral component of the natural gas transmission price cap – LNGT supplement. NCC Resolution No O3-367 of 13 September 2013 on the Approval of State-regulated Prices for Natural Gas Determination Methodology with its subsequent amendments (13/10/2014 NCC Resolution No O3-839) set forth that in order to cover the costs of LNGT infrastructure and its installation costs, or partly compensate and cover fixed operating costs necessary to ensure LNGT activities, additional security price of natural gas supply added to the natural gas transmission price cap has to be established. With its Resolution No O3-330 of 26 October 2012, NCC approved the LNGT supplement for 2013 – 37.53 LTL/1000 m<sup>3</sup>, whereas with the Resolution No O3-445 of 11 October 2013, instead of the LNGT supplement, it approved a secondary gas supply security component of 39.36 LTL/1000 m<sup>3</sup> for the period of 3–31 December 2014. According to the Resolution ratified on 20 November 2014 No O3-895, in 2015 NCC approved the additional security price of natural gas supply for internal exit point (for the Republic of Lithuania LNG payers, except the cases when additional security price of gas supply was paid at Klaipėda entry point) – 2,15 EUR/MWh (7,41 LT/MWh).

Following the requirements of the legal acts of the Republic of Lithuania, the Company collects and administrates LNGT funds. In the collection and administration of the LNGT funds, the Company acts as an intermediary on behalf of the state, and this activity does not generate operating income/profit for the Company, except for the share of the LNGT funds allocated to cover the administration expenses of LNGT funds, which is considered as the Company's income (Note 17). LNGT funds collected from the payers of LNGT funds and transferred to the recipients of LNGT funds (LNGT project implementing company or LNGT operator) are not considered as the Company's income/expenses, but are accounted for as other receivables/other payables and other financial assets.

### 2.17. Foreign currencies

Foreign currency transactions are accounted for at the 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 income statement. Such balances are translated at period-end exchange rates.

### 2.18. Impairment of assets

#### Financial assets

Financial assets are reviewed for impairment at each date of the statements of financial position.

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 income 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 write-down. Such reversal is recorded in the income statement in 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 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 income 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 in the same caption of the income statement as the impairment loss.

## **2 Accounting principles (cont'd)**

### **2.19. Fair value measurements**

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.

### **2.20. Use of estimates in the preparation of 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 of property, plant and equipment (Note 2.5 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.

If indications of impairment of property, plant and equipment exist, the non-current asset's value based on the discounted cash flows of the Company is performed. Assessing the discounted cash flows using a discount rate, the presumption is broadly in line with the NCC price regulation applicable to the assessment rate of return assumptions. Mostly, the change of discount rate and volume of transferable gas quantity affect the change of the Company's recoverable value of fixed assets.

The Company performed an impairment test based on value in use method (Note 4)

### **2.21. Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed in 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**

Post-balance sheet 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. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

### **2.23. Offsetting**

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except in those cases where certain IFRS specifically permit or require such set-off.

### 3 Segment information

The Company is engaged in the natural gas transmission activity and operates as one segment. Due to that it can be stated that Company acts as one segment.

All the Company's non-current assets are located in Lithuania where the Company performs its operations.

In 2014 the Company generated over 78.39% (in 2013 – 72.19%) of its revenue from the Lithuanian customers, 21.61% (in 2013 – 27.81%) - revenues from transit services, i.e. transported gas to the Kaliningrad region of the Russian Federation.

As at 31 December 2014, there were four customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to LTL 112,374 thousand. They are as follows:

Customer A - LTL 39,612 thousand;  
Customer B - LTL 27,629 thousand;  
Customer C - LTL 22,898 thousand;  
Customer D - LTL 22,235 thousand.

As at 31 December 2013, there were four customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to LTL 47,385 thousand. They are as follows:

Customer A - LTL 20,166 thousand;  
Customer B - LTL 9,661 thousand;  
Customer C - LTL 9,314 thousand;  
Customer D - LTL 8,243 thousand.

### 4 Impairment of Property, plant and equipment

If there are indications that property, plant and equipment may be impaired, measurement of the recoverable value of property, plant and equipment is carried out based on the method of value in use (discounted cash flows). The recoverable value of a cash generating unit, i.e. total non-current assets of the Company, was established. A discount rate of 7.51% before taxation was used for the measurement of discounted cash flows; the rate establishment basis is in compliance with the rate of return measurement assumptions applied in the NCC price regulation. Changes in the discount rate and the value of regulated assets as well as changes in the regulatory environment have the most impact on the recoverable value of the Company's non-current assets.

Sensitivity analysis shows that if the discount rate increases by 1%, the established recoverable value of assets would decrease by LTL 143,710 thousand, whereas if the discount rate drops 1%, the established recoverable value of assets would increase by LTL 207,910 thousand.

When preparing the financial statements for 2013, the Company performed an impairment test based on the value-in-use method and did not identify any impairment at the time; however, there were material contingencies in the assumptions used for the preparation of cash flow forecasts. The contingencies of forecasts were related to estimated changes in gas market upon implementation of major gas system infrastructure projects subsequent to the start of operation of the liquefied natural gas terminal in Klaipėda and to the expected changes in the regulatory environment from 1 January 2015.

In the impairment test performed at the end of 2014 the following changes in the gas markets and regulatory environment were considered:

- Operation of the liquefied natural gas terminal in Klaipėda started in December 2014 as an alternative to gas import from Russia; a part of imported gas was purchased by the consumers in other Baltic States;
- Construction of the second line of the gas transmission pipeline Klaipėda – Kuršėnai started in 2014 and will be completed at the end of 2015; it is mainly financed from EU funds and will enable further increase in the amount of gas transported via the system to the other Baltic States;

#### 4 Impairment of Property, plant and equipment (cont'd)

- Starting from 1 January 2015, due to implementation of EU legislation requirements, transmission service price establishment based on “stamp” principle is discontinued and replaced with the transmission system entry-exit point capacity distribution and pricing model, according to which transmission service prices are established and adjusted separately at each transmission system entry and exit point;
- The service of natural gas transmission from a third country to a third country via the territory of Lithuania (transit to the Kaliningrad district of the Russian Federation) becomes a part of regulated transmission activity. Pursuant to an NCC decision, this service is subject to a transition period to determine the annual income collected through the entry and exit points used to provide this service. The transition period is established upon assessment of the duration of the price regulation period and assurance of the payback in the period from the distribution of capacity at entry-exit points and the start of pricing model implementation to the investments made prior to the implementation of this model.

The above changes were considered in the assumptions used to prepare cash flow forecasts for 2015 and subsequent periods. After discounting of cash flows a non-current assets impairment of LTL 490,000 thousand was established as at 31 December 2014.

In the opinion of the Company, impairment of non-current assets should be reflected in the financial statements for 2014 and subsequent periods, and not retrospectively. Only material accounting errors may be corrected retrospectively, by adjustment of the comparative financial statements information. As stated above, the Company did not establish any impairment at the preparation of the financial statements for 2013.

#### 5 Intangible assets

Movement of intangible assets for the current and prior periods:

	Patents, licenses	Software	Other intangible assets	Total
<b>Cost:</b>				
As at 31 July 2013	1,087	1,451	145	2,683
Additions during the period of 5 months ended 31 December 2013	9	351	-	360
As at 31 December 2013	<b>1,096</b>	<b>1,802</b>	<b>145</b>	<b>3,043</b>
Additions	165	959	-	1,124
As at 31 December 2014	<b>1,261</b>	<b>2,761</b>	<b>145</b>	<b>4,167</b>
<b>Accumulated amortisation:</b>				
As at 31 July 2013	232	804	118	1,154
Amortization for period of 5 months ended 31 December 2013	109	86	15	210
As at 31 December 2013	<b>341</b>	<b>890</b>	<b>133</b>	<b>1,364</b>
Amortization	256	282	12	550
As at 31 December 2014	<b>597</b>	<b>1,172</b>	<b>145</b>	<b>1,914</b>
<b>Net book value as at 31 July 2013</b>	<b>855</b>	<b>647</b>	<b>27</b>	<b>1,529</b>
<b>Net book value as at 31 December 2013</b>	<b>755</b>	<b>912</b>	<b>12</b>	<b>1,679</b>
<b>Net book value As at 31 December 2014</b>	<b>664</b>	<b>1,589</b>	<b>-</b>	<b>2,253</b>

Part of intangible assets with the acquisition value of LTL 386 thousand as at 31 December 2014 (in 2013 – LTL 793 thousand) was fully amortised but still in use.

**AB AMBER GRID**  
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(all amounts are in LTL thousand unless otherwise stated)

**6 Property, plant and equipment**

Movement of property, plant and equipment for the current and prior periods:

	Land	Buildings	Transmission networks and related installations	Distribution networks and related installations	Other buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Other property, plant and equipment	Construction in progress	Total
<b>Cost:</b>											
<b>As at 31 July 2013</b>	387	34,312	1,572,534	412	27,526	316,639	16,018	51,822	1,435	107,486	2,128,571
Additions during the period of 5 months ended 31 December 2013	-	-	-	-	21	9	866	397	266	37,461	39,020
Reclassification during the period of 5 months ended 31 December 2013	-	1,173	116,775	-	624	11,968	-	3,977	-	(134,517)	-
<b>As at 31 December 2013</b>	387	35,485	1,689,309	412	28,171	328,616	16,884	56,196	1,701	10,430	2,167,591
Additions	2	-	-	-	100	396	1,072	1,451	82	85,093	88,196
Disposals and write-offs	-	-	(43)	-	(22)	(546)	(798)	(489)	(64)	-	(1,962)
Written off to inventory	-	-	-	-	(133)	-	-	-	-	-	(133)
Reclassification	-	603	24,837	-	360	7,403	-	2,924	-	(36,127)	-
<b>As at 31 December 2014</b>	389	36,088	1,714,103	412	28,476	335,869	17,158	60,082	1,719	59,396	2,253,692
<b>Accumulated depreciation:</b>											
<b>As at 31 July 2013</b>	-	7,110	396,826	29	6,957	90,757	11,022	40,463	735	-	553,899
Charge for period of 5 months ended 31 December 2013	-	467	20,814	4	626	7,442	690	1,888	80	-	32,011
Reclassification during the period of 5 months ended 31 December 2013	-	10	-	-	(10)	-	-	-	-	-	-
<b>As at 31 December 2013</b>	-	7,587	417,640	33	7,573	98,199	11,712	42,351	815	-	585,910
Amortization	-	1,186	51,950	9	1,598	18,096	1,531	5,275	208	-	79,863
Disposals and write-offs	-	-	(31)	-	(9)	(546)	(798)	(489)	(62)	-	(1,935)
Written off to inventory	-	-	-	-	(57)	-	-	-	-	-	(57)
Reclassification	-	-	-	-	-	-	-	-	-	-	-
<b>As at 31 December 2014</b>	-	8,773	469,569	42	9,105	115,749	12,445	47,137	961	-	663,781
<b>Impairment:</b>											
Balance as at 31 July 2013	-	-	-	-	-	-	-	-	-	-	-
Impairment formed during 5 months period ended 31 December 2013	-	-	-	-	-	-	-	-	-	99	99
<b>As at 31 December 2013</b>	-	-	-	-	-	-	-	-	-	99	99
Impairment as at 31 December 2014	-	4,270	484,133	-	517	1,159	-	-	-	99	490,178
<b>Net book value as at 31 July 2013</b>	387	27,202	1,175,708	383	20,569	225,882	4,996	11,359	700	107,486	1,574,672
<b>Net book value as at 31 December 2013</b>	387	27,898	1,271,669	379	20,598	230,417	5,172	13,845	886	10,331	1,581,582
<b>Net book value as at 31 December 2014</b>	389	23,045	760,401	370	18,854	218,961	4,713	12,945	758	59,297	1,099,733

Part of property, plant and equipment with historical cost of LTL 40,318 thousand as at 31 December 2014 (in 2013 – LTL 37,125 thousand) was fully depreciated but still in use.



## 6 Property, plant and equipment (cont'd)

As at 31 December 2014 the Company had property, plant and equipment (office equipment) with the value of LTL 201 thousand (in 2013 – LTL 243 thousand), which was acquired under financial lease agreements.

During 2014 the Company classified (capitalized) part of costs (interests) amounting to LTL 364 thousand associated with borrowings as property, plant and equipment.

In the preparation of the financial statements for 2014, the Company measured the recoverable value of the non-current assets based on value in use (discounted cash flows) and, as a result, an impairment of LTL 490,000 thousand (Note 4) of property, plant and equipment was established, which was recognized as expenses in the income statement. Moreover, the Company reduced the liability of deferred income tax (Note 19) and reduced the net value of property, plant and equipment by attributing the impairment to the group of gas transmission pipelines and equipment.

Major objects of construction in progress of the Company as at 31 December 2014 and 2013 were as follows:

Object	31 December 2014	31 December 2013
Construction of gas transmission pipeline to Alytus GDS, acquisition of intelligent pig launcher and receiver chambers and replacement works of line block valves with bypasses No. 2; 3	-	1,742
Construction of gas transmission pipeline to Marijampolė GDS, acquisition of intelligent pig launcher and receiver chambers and replacement works of line block valves with bypass No. 3	-	1,598
Acquisition of pollution reduction equipment	-	1,395
Replacement works of line block valves in gas transmission pipelines to Pajiešmeniai and Biržai GDS and integration into SCADA system	-	941
Acquisition of intelligent pig launcher chambers for Panevėžys-Šiauliai-Klaipėda gas transmission pipeline	-	762
Reconstruction of odorant warehouse	-	967
Construction of Klaipėda-Kuršėnai DN800 gas transmission pipeline (capacity development for Klaipėda-Kiemėnai gas transmission pipeline)	55,135	-
Reconstruction of Panevėžys DSS-1	2,510	-
Other	1,652	2,926
	<b>59,297</b>	<b>10,331</b>

## 7 Inventories

	31 December 2014	31 December 2013
Raw materials, spare parts and other inventories	4,471	4,559
Natural gas	19,947	22,173
Assets held for sale	77	-
Inventories, gross	24,495	26,732
Less: allowance for inventories	(61)	(18)
	<b>24,434</b>	<b>26,714</b>

The Company's cost of inventories accounted for at net realisable value amounted to LTL 4,471 thousand as at 31 December 2014 (LTL 4,559 thousand as at 31 December 2013). Changes in the allowance for inventories were included into other expenses.

8 **Accounts receivable**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Receivables for transmission and distribution of natural gas from customers	23,715	16,225
Other trade receivables	18	8
Less: allowance for accounts receivable	(57)	(64)
Total trade accounts receivable	<u>23,676</u>	<u>16,169</u>
Administrated LNGT receivables (Note 2.16)	59,981	56,500
Other accounts receivable	<u>21,818</u>	<u>633</u>
	<b><u>105,475</u></b>	<b><u>73,302</u></b>

As at 31 December 2014 accounts receivable from the system users of natural gas transmission increased due to higher prices and increased natural gas transmission volume.

Trade accounts receivable are interest-free and usually have to be paid within 15 calendar days. Majority of the accounts receivable were paid at the beginning of January in 2015.

LNGT receivables include LTL 49,243 thousand payable by AB Achema for the year 2013. LNGT fund raising started on 3 December 2014.

As at 31 December 2014 other accounts receivable increased by LTL 21,400 thousands due to construction of gas transmission pipeline Klaipėda-Kuršėnai project financed by the Connecting Europe Facility (CEF) of the European Union structural funds.

Movements in the allowance for impairment of the Company's receivables were as follows:

	<b>Individually impaired</b>
<b>Balance as of 31 July 2013</b>	<b><u>139</u></b>
Utilised during the period of 5 months ended 31 December 2013	(45)
Unused amounts reversed during the period of 5 months ended 31 December 2013	<u>(30)</u>
<b>Balance as at 31 December 2013</b>	<b><u>64</u></b>
Unused amounts reversed	<u>(7)</u>
<b>Balance as at 31 December 2014</b>	<b><u>57</u></b>

Changes in the allowance for accounts receivable were included into other expenses.

## 8 Accounts receivable (cont'd)

The ageing analysis of the Company's trade and other accounts receivable as at 31 December 2014 and 2013 is as follows:

	Trade and other receivables neither past due nor impaired	Trade and other receivables past due but not impaired					Total
		Less than 30 days	31 – 90 days	91 – 180 days	181 – 360 days	More than 360 days	
31 December 2014	55,281	951	-	-	-	49,243*	105,475
31 December 2013	26,251	3,149	5,523	5,347	33,032*	-	73,302

\*Administrated LNGT receivables from Achema AB (Note 23)

## 9 Other financial assets

As at 31 December 2014 and 2013 the Company's other financial assets consisted of cash to be paid to LNGT fund recipients and are kept in line with the requirements of legal acts in a separate bank account for LNGT funds (Note 16).

## 10 Cash and cash equivalents

	31 December 2014	31 December 2013
Cash at bank	5,920	19,718
	<b>5,920</b>	<b>19,718</b>

Cash at bank is invested (if possible) into shortest-term (overnight) deposits. Overnight deposits have floating interest rate. Floating rate depends upon VILIBOR interbank interest rate announced by the Bank of Lithuania.

As at 31 December 2014 and 2013, the Company had no deposits with other maturity.

## 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 LTL 17,838 thousand and constitutes 10% of the share capital.

### Other reserves

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

## 12 Borrowings

In December 2014 Company officially informed AB Swedbank that according to a long-term loan agreement signed between the Company and the bank AB Swedbank on 22 October 2012, the loan amount of LTL 135,000 thousand (EUR 39,099 thousand) will be repaid prior to the loan maturity, date of 22 January 2015. As at 31 December 2013 the unpaid loan balance was LTL 180,000 thousand (EUR 52,132 thousand).

On 14 May 2014 the Company signed an agreement with Danske Bank A/S Lithuania branch regarding the overdraft facility for up to EUR 5,783 thousand (LTL 20,000 thousand) to balance the working capital. The overdraft was not used as at 31 December 2014. At the end of 2013 Company had no overdraft agreement.

On 30 December 2014 a new long-term loan agreement for EUR 113,000 thousand (LTL 390,166 thousand) with AB Swedbank was signed. The agreed term to use the loan was 30 June 2015. The loan was not used as at 31 December 2014.

The Company's management has received a confirmation from Swedbank, AB that the loss incurred by the Company during the year 2014 does not violate the terms of a loan agreement and it will not be included in calculating financial indicators according to the conditions of the aforementioned agreement.

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Non-current borrowings</b>		
Borrowings from Lithuanian credit institutions	90,000	135,000
Lease	35	118
<b>Current borrowings</b>		
Borrowings from Lithuanian credit institutions	45,000	45,000
Lease	83	83
	<b>135,118</b>	<b>180,201</b>

Current interest rates are close to effective interest rates. As at 31 December 2014 the Company's existing loan floating annual interest rate was equal to 1.374 %, as at 31 December 2013 – 1.513 % floating interest rate tied to 3 months EURIBOR.

The agreed repayment terms of the long-term borrowings are as follows:

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>Borrowings with a fixed interest rate</b>	<b>Borrowings with a fixed interest rate</b>	<b>Borrowings with a floating interest rate</b>	<b>Borrowings with a floating interest rate</b>
2014	-	-		45,000
2015	-	-	45,000	45,000
2016	-	-	45,000	45,000
2017	-	-	45,000	45,000
	-	-	<b>135,000</b>	<b>180,000</b>

## 12 Borrowings (cont'd)

Borrowings as at 31 December 2014 and 2013 in national and foreign currencies expressed in LTL were as follows:

Borrowings denominated in:	31 December 2014	31 December 2013
EUR (equivalent in litas)	135,000	180,000
	<b>135,000</b>	<b>180,000</b>

None of the Company's loans are secured by pledging assets owned by the Company or by third parties guarantees.

## 13 Grants (deferred revenue)

	Deferred revenue	Grants	Total
<b>Balance as at 31 July 2013</b>	<b>5,705</b>	<b>116,348</b>	<b>122,053</b>
Received during the period of 5 months ended 31 December 2013	-	10,446	10,446
Amortisation during the period of 5 months ended 31 December 2013	(49)	(1,378)	(1,427)
<b>Balance as at 31 December 2013</b>	<b>5,656</b>	<b>125,416</b>	<b>131,072</b>
Received/receivable	-	24,907	24,907
Amortisation	(119)	(4,504)	(4,623)
<b>Balance as at 31 December 2014</b>	<b>5,537</b>	<b>145,819</b>	<b>151,356</b>

Increase in grants receivable in 2014 was influenced by non-current asset grants, out of which LTL 21,400 thousand comprised construction of gas transmission pipeline Klaipėda-Kuršėnai financed by EU structural funds.

Gas transmission pipeline Klaipėda-Kuršėnai was constructed in order to diversify the sources of gas supply in the Baltic region, receive maximum benefit from LNGT in Klaipėda, ensure the safety and reliability of natural gas system. As part of the project, a gas transmission pipeline (length of 100 km and diameter of 800 millimetres) will be built from the transmission system intersection point at LNGT in Klaipėda to Kuršėnai. The expected value of the project is about LTL 220,000 thousand. The support from EU structural funds for the construction of the gas transmission pipeline equals LTL 95,271 thousand.

The average amortisation period of the grants is 19,6 years (in 2013 – 18,5 years).

## 14 Non-current employee benefits

As at 31 December 2014 the Company's employee benefits resulting from one-time payments to employees leaving the Company at the retirement age were equal to LTL 1,531 thousand (LTL 1,106 thousand as at 31 December 2013), other non-current employee benefits resulting from bonuses for long employment record at the Company were equal to LTL 337 thousand (LTL 285 thousand as at 31 July 2013).

The major assumptions applied in the measurement of the Company's liabilities of non-current employee benefits are the following:

	31 December 2014	31 December 2013
Discount rate	3 %	5.66 %
Annual employee turnover rate	2 %	2 %
Annual salary increase	2 %	2 %
Average time to retirement (years)	20.15	19.72

**15 Trade payables**

	31 December 2014	31 December 2013
Suppliers according to construction programme	31,428	31
Suppliers according to reconstruction programme	3,916	7,949
Service providers	1,307	1,244
Providers of maintenance services of non-current assets	1,415	1,688
Other	1,954	1,761
	<b>40,020</b>	<b>12,673</b>

Liability to suppliers increased due to the acquisitions of pipes for the project to build Klaipėda-Kuršėnai gas transmission pipeline: construction work – LTL 14,293 thousand, and work of a company responsible for the gas pipeline installation – LTL 17,046 thousand.

The above mentioned trade payables are non-interest bearing and the majority of them are normally settled between 30 to 60 days.

**16 Other payables and current liabilities**

	31 December 2014	31 December 2013
Administrated LNGT payables (Note 2.16)	50,466	45,270
Accrued administrated LNGT funds*	60,074	54,644
Real estate tax (RET) payable	1,145	1,838
Value added tax (VAT) payable	-	1,452
Other payables	658	663
	<b>112,343</b>	<b>103,867</b>

\*Accrued administrated LNGT funds are accounted under caption LNGT payables only when paid by the users of natural gas transmission system to the Company.

**17 Revenue**

The Company's revenue consists of the following:

	31 December 2014	Period of 5 months ended 31 December 2013
Natural gas transmission and transit	171,938	70,006
Sales of natural gas	6,138	2,508
Grants recognized as income	124	1,428
LNGT administration income	327	126
Other income	296	33
	<b>178,823</b>	<b>74,101</b>



**18 Financial activity**

	Period of 5 months ended 31 December	
	31 December 2014	2013
Interest income	78	13
Fines and penalties income	90	50
Total income from financial activities	168	63
Interest expenses on borrowings	2,162	1,165
Other financial expenses	57	-
Total expenses from financial activities	2,219	1,165
<b>Result from financial activities, net</b>	<b>(2,051)</b>	<b>(1,102)</b>

**19 Income tax**

	Period of 5 months ended 31 December	
	31 December 2014	2013
<b>Income tax:</b>		
Profit (loss) before tax	(469,593)	2,425
Changes in temporary differences	527,931	15,810
Permanent differences	308	277
Taxable income for the year	58,646	18,512
Current year income tax	8,797	2,776
Current year income tax incentive	(4,398)	(1,388)
Current year income tax after applying income tax incentive	4,399	1,388
Income tax adjustments for previous year	(29)	
Change in deferred income tax during the year	(82,389)	(4,034)
<b>Income tax expense (income) charged to the income statement</b>	<b>(78,019)</b>	<b>(2,646)</b>

According to the provisions of the Law on Corporate Income Tax (hereinafter, the Law), which came into effect on 1 January 2009, the income tax incentive may be used for investments into property, plant and equipment eligible under this Law. When calculating current income tax for the year 2014 the Company used the benefit of the above incentive and reduced income tax expenses for the year 2014 by a total amount of LTL 4,398 thousand (LTL 1,388 thousand in 2013).

19 Income tax (cont'd)

	31 December 2014	Period of 5 months ended 31 December 2013
<b>Deferred tax asset:</b>		
Property, plant and equipment impairment losses	73,500	-
Vacation accrual	152	160
Accrual for non-current employee benefit	280	208
Unused income tax incentive	7,480	4,271
<b>Deferred tax asset before valuation allowance</b>	<b>81,412</b>	<b>4,639</b>
Less: valuation allowance	-	-
Less: deferred tax asset netted with deferred tax liability	(81,412)	(4,639)
<b>Deferred tax asset, net</b>	<b>-</b>	<b>-</b>
<b>Deferred tax liability:</b>		
Difference in tax base of property, plant and equipment	(106,575)	(112,190)
<b>Deferred tax liability, net</b>	<b>(25,163)</b>	<b>(107,551)</b>

Deferred tax asset was formed from the impairment of LTL 73,500 thousand in property, plant and equipment. Deferred income tax asset and deferred income tax liability are set off in the statement of financial position of the Company, as they both relate to the same tax authority.

In the measurement of deferred income tax asset and liability components in 2014 and 2013 the Company has used income tax rate of 15%.

The reported amount of income tax expense for the year can be reconciled to the amount of income tax expense that would result from applying the statutory income tax rate of 15%:

	31 December 2014	Period of 5 months ended 31 December 2013
Profit (loss) before tax	(469,593)	2,425
Profit tax (expense) at the applicable standard tax rate	70,439	(364)
Non-deductible items	(46)	(42)
Income tax incentive	7,607	3,034
Other	48	18
Income tax adjustments for previous year	(29)	-
<b>Income tax gain (expense)</b>	<b>78,019</b>	<b>2,646</b>

## 20 Earnings per share

Basic earnings per share reflect the Company's net income divided by the weighted average number of shares. There are no diluting instruments, therefore basic and diluted earnings per share are equal. Calculations of the basic earnings per share are presented below:

	31 December 2014	31 December 2013
Net profit (loss) attributable to the shareholders (in LTL thousand)	(391,574)	5,071
Weighted average number of shares (in thousands)	178,383	178,383
Basic earnings per share (in LTL)	(2.20)	0.03

There were no changes in the share capital of the Company during 2014 and 2013; therefore, the weighted average number of shares equals the total number of shares at the end of the year.

## 21 Cash flows from investing and financing activities

After calculating cash flows from investing activities in 2014, a change was assessed in accounts payable for non-current assets of the Company in the amount of LTL 27,363 thousand, pipeline relocation grants received as assets - in the amount of LTL 1,141 thousand, and LTL 364 thousand as capitalized interest (2013 - change in accounts payable for non-current assets of LTL 141 thousand and assets leased for LTL 201 thousand was taken into account).

When determining the grants received in cash flows from financing activities of 2014 the change was valued in grants received by the Company of LTL 21,064 thousand and pipeline relocation grants received as assets LTL 1,141 (2013 - change in grants receivable of LTL 5,179 thousand was assessed).

## 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 their commitments. Liquidity risk is managed by constantly forecasting the current and non-current cash flows of the Company. According to forecast, if necessary, the Company adopts decisions to ensure its solvency.

The Company's general liquidity ratio, eliminating the influence of funds for LNGT as at 31 December 2014 and 2013 respectively was 0.82 and 0.99. The index value lower than 1 indicates that the Company's current liabilities exceed current assets and the Company may face solvency problems. As at 31 December 2014 the Company had unused overdraft limit for EUR 5,783 thousand (LTL 20,000 thousand) which could be used in case of need. The quick ratio of the company was 0.55 and 0.57 at year end in 2014 and 2013 respectively.

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2014 and 2013 based on contractual undiscounted payments (scheduled payments including interest).

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	703	46,840	138,352		185,895
Other current liabilities	45,270*	346	-	-	-	45,616
Trade payables	-	12,673	-	-	-	12,673
<b>Balance as at 31 December 2013</b>	<b>45,270</b>	<b>13,722</b>	<b>46,840</b>	<b>138,352</b>	<b>-</b>	<b>244,184</b>
Interest bearing loans and borrowings	-	486	46,204	91,365	-	138,055
Other current liabilities	50,466*	1,426	-	-	-	51,892
Trade payables	-	27,730	12,290	-	-	40,020
<b>Balance as at 31 December 2014</b>	<b>50,466</b>	<b>29,642</b>	<b>58,494</b>	<b>91,365</b>	<b>-</b>	<b>229,967</b>

\*LNGT funds

## 22 Financial assets and liabilities and risk management (cont'd)

### Credit risk

The maximum credit risk is equal to the trade receivables, other receivables, cash and short term investments less impairment losses. Large amount of overdue receivables may interfere with the Company's everyday activity, and may force it to seek additional financial resources. Credit risk is managed through regular monitoring procedures (individual debtors' supervision, monitoring and analysis of customers in order to anticipate potential solvency problems in the future, etc.). The Company has approved the Regulation of customer debt management, which includes specific actions, deadlines, which must be followed in order to reduce customer liabilities.

The Company faces risk due to keeping the funds in bank accounts or investing it in short term instruments. The level of risk faced depends upon the reliability of the selected bank. To manage this risk the Company has approved the cash investment regulations. These regulations set (1) the reliability limits of the banks selected for cooperation (2) the limits of diversification for depositing or investing cash to investment products of banks or their subsidiaries, other securities etc. The partner reliability level is assessed based on the publicly available information.

The Company does not guarantee obligations of other parties.

### Interest rate risk

As at 31 December 2014 and 2013 the Company had one loan with non-fixed interest rate. The Company's loan subject to floating interest rate is related to EURIBOR and creates interest rate risk. Concerning the situation in the market of bank interest rates during reporting period of 2014, the Company did not enter into any transaction on financial instruments used for the management of interest rate risk.

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in EURIBOR interest rates, with all other variables held constant. Company estimates sensitivity using 100 basis points base, which is equal to 1%.

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

	<b>EURIBOR increase in basis points</b>	<b>Effect on the profit before the income tax, in thousand LTL</b>
31 December 2014	+100	(1,350)
31 December 2013	+100	(1,800)

### Gas import price fluctuation risk

Natural gas import price depends on heavy fuel oil and gasoline prices on the international market, the USD and EUR ratio fixed by the European Central Bank and actual natural gas calorific value. In 2014 and 2013 the Company did not take any action to reduce the risk of natural gas price fluctuation.

### Concentration risk

The Company is subject to a significant credit risk concentration, as credit risk is distributed among the Company's 10 major customers whose liabilities constitute more than 85 percent of the total trade receivables of the Company as at 31 December 2014 and 2013. However, if customers were lost and the volume of transmitted gas decreased, the gas transportation service prices would increase as regulated by the State Regulated Pricing Methodology for the Natural Gas Sector approved by NCC.

### Fair value of financial instruments

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 instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term lease.

## 22 Financial assets and liabilities and risk management (cont'd)

### Fair value of financial instruments (cont'd)

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

- (a) The carrying amount of current trade and other accounts receivable, current accounts payable and short-term borrowings approximates fair value (level 3);
- (b) The fair value of non-current borrowings is based on the current rates available for borrowing with the same maturity profile similar credit risk. The Company determined that the fair value of non-current borrowing with fixed interest rates approximates its carrying amounts (level 3).

## 23 Commitments and contingencies

### Legal disputes

In accordance with the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania and decisions adopted by NCC, users of the natural gas system that transport natural gas through the transmission system have to pay an integral natural gas transmission price constituent (LNGT supplement) at the settlement for natural gas transmission services.

Since AB Achema as a transmission system user has systematically failed to pay the LNGT supplement, AB Lietuvos Dujos, as the administrator of LNGT funds, applied to Kaunas County Court on 12 April 2013 with a claim regarding the LNGT supplement payment, adjudgement of penalties and obligation to fulfil the agreement. On 1 August 2013 AB Lietuvos Dujos transferred the above claim to AB Amber Grid based on a statement of transfer and acceptance.

On 17 September 2013 AB Amber Grid specified the amount of the claim. By a decision of 21 December 2013 of the court of first instance, the claim of AB Amber Grid was satisfied in part - the total claimed debt and procedural interest were adjudged, while the adjudged penalties were reduced from 0.04 to 0.02 percent. AB Achema filed an appeal, while AB Amber Grid filed an appeal regarding the adjudgement of penalties. The Court of Appeal decided to apply to the Constitutional Court of the Republic of Lithuania with a request to investigate whether individual provisions of the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania are not in conflict with the Constitution of the Republic of Lithuania; it also suspended the lawsuit until the Constitutional Court considers this request. The outcome of the lawsuit will have no financial impact on the Company, since, in the case the court satisfies the claim of AB Amber Grid, the adjudged amount will be transferred to the recipient of LNGT supplement; and in case of an unfavourable decision, the Company will not incur any loss, as it is not the recipient of the funds but just the administrator.

On 7 March 2014 AB Amber grid applied to Kaunas County Court with a request to adjudge the debt of LTL 11,009,062.23 from AB Achema for unpaid LNGT supplement for the period from 1 September 2013 to 31 December 2013, also to adjudge LTL 375,668.35 in penalties for the LNGT supplement amount not paid on time for the above period. On 9 September 2014 an adjusted claim was submitted with an additional request to adjudge penalties in the amount of LTL 779,441.61. On 2 February 2015 Kaunas County Court suspended the lawsuit until the Constitutional Court considers the request of the Court of Appeal of the Republic of Lithuania regarding compliance of paragraph 2 of article 5 of the Law on LNGT with the Constitution.

The outcome of the lawsuit will have no financial impact on the Company, since, in the case the court satisfies the claim of AB Amber Grid, the adjudged amount will be transferred to the recipient of LNGT supplement; and in case of an unfavourable decision, the Company will not incur any loss, as it is not the recipient of the funds but just the administrator.

On 19 November 2012 AB Achema applied to Vilnius County Administrative Court with a request to annul paragraphs 3.1 and 4 of NCC resolution No 03-317 of 19 October 2012 „Regarding establishment of funds allocated

## **23 Commitments and contingencies (cont'd)**

to cover the costs or their part from the liquefied natural gas terminal, its infrastructure and connection installation and operation for the year 2013" and to annul paragraph 2 of NCC resolution No O3-330 of 26 October 2012 „Regarding the establishment of AB Lietuvos Dujos natural gas transmission and distribution price cap adjustment and additional integral constituent within the natural gas transmission price cap (LNGT supplement) for the year 2013“. AB Amber Grid participates in the lawsuit as a third person. The lawsuit is heard at the court of first instance. On 13 October 2014 Vilnius County Administrative Court decided to apply to the Constitutional Court of the Republic of Lithuania with a request to investigate whether individual provisions of the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania are not in conflict with the Constitution of the Republic of Lithuania; it also suspended the lawsuit until the Constitutional Court considers this request. In the opinion of the management, the outcome of the lawsuit is uncertain and cannot be reasonably estimated.

In July 2013 Panevėžys City District Court received a lawsuit applicable to the courts of general competence or administrative court based on the claim of the plaintiff – prosecutor of Panevėžys District Prosecutor's Office Public Interest Protection Division - against the defendants – Ministry of Economy of the Republic of Lithuania, AB Lietuvos Dujos, third persons Lithuanian Road Administration under the Ministry of Transport and Communications, state enterprise Panevėžio Regiono Keliai – regarding annulment of the orders of the Minister of Economy in the part concerning transfer of a public highway, application of restitution. On 1 August 2013 AB Lietuvos Dujos transferred the above claim to AB Amber Grid based on a statement of transfer and acceptance. A part of AB Amber Grid owned road to Panevėžys gas compressor station is within a section of the public highway Piniava-Paliūniškis. Since public highways can only belong to the state by the exclusive property right, the prosecutor requests annulment of the order of the Minister of Economy and statements of transfer and acceptance, based on which this road was registered as property of AB Lietuvos Dujos and now AB Amber Grid. The lawsuit has been adjusted several times as the prosecutor specified the claims. On 19 November the court satisfied the claim in part: it recognised the registration of property right to the road with the state enterprise Centre of Registers as null and void. The outcome of the lawsuit may have a financial impact on the Company, as the Company seeks adjudgement of compensation if the court annuls AB Amber Grid property rights to their part to the road (6,534 sq. m). In the opinion of the management, outcome of the lawsuit is uncertain and cannot be reasonably estimated.

### Contingencies related to non-current assets acquisition obligations

As at 31 December 2014 the Company had agreements regarding acquisition of non-current assets that are not recognised in these financial statements in the amount of LTL 149,572 thousand (LTL 10,400 thousand as at 31 December 2013).

## **24 Related party transactions**

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

The related parties of the Company as at 31 December 2014 were as follows:

- UAB GET Baltic (joint venture with the Company as a member );
- UAB EPSO-G(the parent company);
- AB LITGRID (the same shareholders);
- UAB Baltpool (the subsidiary of AB LITGRID);
- UAB Tetas (the subsidiary of AB LITGRID);
- UAB Tinklo priežiūros centras (the subsidiary of AB LITGRID);
- UAB Duomenų logistikos centras (the associated group company of AB LITGRID);
- Lit Pol Link Sp.z.o.o. (the company controlled both by AB LITGRID and also by the operator of electric power systems in Poland - PSE S.A.
- Management



## 24 Related party transactions (cont'd)

The related parties of the Company as at 31 December 2013 were as follows:

- E.ON Ruhrgas International GmbH (a major shareholder of the Company);
- OAO Gazprom (a major shareholder of the Company);
- Lithuanian Ministry of Energy (a major shareholder of the Company);
- UAB GET Baltic (joint venture with the Company as a member);
- AB Lietuvos Dujos (the same shareholders);
- AS Latvijas Gaze (the same shareholders);
- Management

Outstanding balances and transactions with related parties as at 2014 till the transfer of shares:

	<b>Purchases</b>	<b>Sales</b>	<b>Accounts receivable</b>	<b>Accounts payable</b>
AB Lietuvos dujos as at 19 June 2014	5,713	13,356	-	1,779
OAO Gazprom as at 19 June 2014	-	15,121	2,153	-

Till 21 May 2014 the Company had no transactions with E.ON Ruhrgas.

The table below represents the Company's transactions and outstanding balances with related parties as at 31 December 2014 and 31 December 2013.

<b>31 December 2014</b>	<b>Purchases</b>	<b>Sales</b>	<b>Accounts receivable</b>	<b>Accounts payable</b>
UAB Tetas	9	-	-	7
UAB GET Baltic	1,037	-	-	-
	<b>1,046</b>	<b>-</b>	<b>-</b>	<b>7</b>

<b>2013</b>	<b>Purchases</b>	<b>Sales</b>	<b>Accounts receivable</b>	<b>Accounts payable</b>
OAO Gazprom	-	20,166	9,320	-
AB Lietuvos Dujos	5,590	14,137	1,523	1
Of which the LNGT funds	-	4,822	1,379	-
UAB GET Baltic	232	221	-	280
AS Latvijas Gaze	26	-	-	-
	<b>5,848</b>	<b>34,524</b>	<b>10,843</b>	<b>281</b>

On 1 August 2013 the Company took over all rights and responsibilities regarding matters of natural gas transmission, based on the agreement signed on 16 December 1999 No. 1Г Ли-2000 between Open Joint Stock Company Gazprom and Public Limited Liability Company Lietuvos Dujos for the quantities and terms of natural gas supply into the Republic of Lithuania in 2000-2015. The object of the agreement is import of a part of natural gas into the Republic of Lithuania and natural gas transit service through the Republic of Lithuania to the Kaliningrad Region of the Russian Federation. Natural gas import price depends on heavy fuel oil and gasoline prices on the international market, US dollar and EUR exchange rate set by the European Central Bank and actual natural gas caloric value. The agreement sets the natural gas quantities provided to the Company until 2016. The agreement is valid until 31 December 2015.

The Company does not treat the Government controlled companies as one client because there is no significant economic integration between these companies. The Company supplies gas to the Government controlled companies; the transactions with them are concluded on the arm's length basis.

## 24 Related party transactions (cont'd)

Outstanding balances at the year-end are not secured with pledges, they are interest free, and settlements in 2014 were performed in cash on a 15 days term. There have been no guarantees provided or received for any related party receivable or payable and no allowance has been made for the receivables from related parties by the Company.

### Management remuneration

During 2014, payments to the management of the Company amounted to LTL 1,167 thousand (LTL 441 thousand during the period of 5 months ended 31 December 2013). The Management consists of the administrative executive and the deputy administrative executive, and the chief accountant. During the period of 5 months ended 31 December 2013 and during the year 2014, the management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

## 25 Capital management

The Company is obliged to maintain its equity ratio at not less than 50 % of its share capital, as imposed by the Law on Companies of Republic of Lithuania. As at 31 December 2014 and 2013 the Company was in compliance with this requirement. There were no other internally or externally imposed capital requirements on the Company.

## 26 Subsequent events

1 January 2015 – the date of introduction of the euro in the Republic of Lithuania, accordingly the functional currency of the Company changed. The recalculation of the litas to the euro was performed at the exchange rate of 3.45280 litas for 1 euro, which was irrevocably set by the EU Council.

On 13 January 2015 NCC concluded that separation of AB Amber Grid transmission activity was consistent with the Law on Natural Gas (including the requirements of EU Third Energy Package transposed thereto) and issued a preliminary gas transmission system operator's certificate to the Company. The law stipulates that NCC shall inform the European Commission about the decision and provide supporting documentation. Upon receipt of a positive decision of the European Commission, NCC will decide on the AB Amber Grid irrevocable license for transmission system operator activities.

The Constitutional Court of the Republic of Lithuania decided to merge into one file all the cases accepted for hearing by the Constitutional Court concerning compliance of Article 5 Paragraph 2 of the Law on LNGT with the Constitution. On 25 February 2015 the Constitutional Court of the Republic of Lithuania decided to suspend the case until 17 March 2015.

Based on the minutes No. 5 of a meeting of the Government of the Republic of Lithuania, Ministries of Energy and of Finance were obligated to reach the required decisions in order to integrate UAB Baltpool – the market of energy sources and UAB GET Baltic – the market of natural gas.

In 2015 the Company transferred to AB Klaipėdos Nafta the natural gas security of supply additional component to the natural gas transmission rates for 2013, December 2014 and January 2015 in the amount of EUR 19,027 thousand.

On 22 January 2015 the Company refinanced Swedbank AB loan of EUR 39,099 thousand (LTL 135,000 thousand) using EUR 36,500 thousand (LTL 126,027 thousand) from the loan agreement concluded on 30 December 2014 with Swedbank AB.

On 16 March 2015 AB Amber Grid subsequent to trying all other legal measures has asked the court to adjudge EUR 5,001 thousand debt and EUR 68,4 thousand of overdue interest due from AB Achema, arising from non payment of secondary gas supply security component, that is being collected starting 3 December 2014 for LNGT operations. The outcome of the lawsuit will have no financial impact on the Company, since, in the case the court satisfies the claim of AB Amber Grid, the adjudged amount will be transferred to the recipient of LNGT supplement; and in case of an unfavourable decision, the Company will not incur any loss, as it is not the recipient of the funds but just the administrator.